

<Translation>

*Note: This English translation of the Japanese original version of the notice has been prepared for the sole purpose of the convenience of non-Japanese shareholders and shall by no means constitute an official or binding version of the notice.*

(Securities Code: 8601)  
May 30, 2014

To Our Shareholders

Daiwa Securities Group Inc.  
9-1, Marunouchi 1-chome,  
Chiyoda-ku, Tokyo  
President and CEO  
Takashi Hibino

**Notice of Convocation of**  
**The 77<sup>th</sup> Ordinary General Meeting of Shareholders**

The Daiwa Securities Group Inc. (“Company”) would like to express its gratitude for your courtesies.

You are hereby notified that the 77<sup>th</sup> Ordinary General Meeting of Shareholders will be held as stated below. You are respectfully requested to attend the Meeting.

As you may exercise your voting rights in writing, if you are unable to attend the Meeting, please examine the “Reference Documents for the General Meeting of Shareholders” provided below, and indicate on the “Voting Rights Exercise Form” enclosed herewith your approval or disapproval of the bills on the agenda and return the form to the Company.

You may also exercise your voting rights for the Meeting via electronic devices (via the Internet, etc.). If you choose to exercise your voting rights via the Internet, please access the web site of the Company, <http://www.web54.net/>, using the “Voting Rights Exercise Code” and password indicated in the “Voting Rights Exercise Form” enclosed herewith. Please examine the “Reference Documents for the General Meeting of Shareholders” provided below and vote for approval or disapproval of respective bills in accordance with the guidance on the web site.

**Particulars**

**1. Date and time of the Meeting**

10:00 a.m., Wednesday, June 26, 2014 (Entry from 9:00 a.m.)

**2. Place of the Meeting**

Convention Hall, B2., The Prince Park Tower Tokyo  
8-1, Shiba-koen 4-chome, Minato-ku, Tokyo

### **3. Matters to be dealt with at the Meeting**

Matters to be reported:

1. Report on the contents of the Business Report, the Consolidated Statutory Report, and the outcome of an audit of the Consolidated Statutory Report conducted by Independent Auditors and the Audit Committee, with respect to the 77<sup>th</sup> fiscal year (from April 1, 2013 to March 31, 2014).
2. Report on the contents of the Non-consolidated Statutory Report of the 77<sup>th</sup> fiscal year (from April 1, 2013 to March 31, 2014).

Matters to be resolved:

Bill 1: Partial Amendments to the Articles of Incorporation

Bill 2: Election of Thirteen (13) Directors (Members of the Board)

Bill 3: Granting Stock Options Utilizing Stock Acquisition Rights

### **4. Matters Regarding the Exercise of Voting Rights**

- (1) If you are unable to attend the Meeting, you may exercise your voting rights in writing or via electronic device (via the Internet, etc.).
- (2) The time limit for exercising voting rights in writing or via electronic device shall be 17:00 (5:00 p.m.) on Wednesday, June 25, 2014, the day before the Meeting (Tokyo time).
- (3) If you exercise your voting rights twice, in writing and via electronic device, the one via electronic device shall be deemed to be your vote.
- (4) If you exercise your voting rights multiple times via electronic device or you exercise your voting rights redundantly by PC or cellular phone, the latest one shall be deemed as the valid vote.
- (5) If you exercise your voting rights in writing and submit the “Voting Rights Exercise Form” without any indication in the space for approval or disapproval of respective bills, it shall be deemed as an intention of approval.
- (6) If you exercise your voting rights by proxy, you must delegate your voting rights to a proxy who is a shareholder of the Company entitled to vote. In such case, in addition to the letter of proxy to prove the proxy, the proxy’s own “Voting Rights Exercise Form” would be required. Furthermore, delegation of your voting rights is limited to only one proxy.
- (7) If you choose to exercise your voting rights in a non-uniform manner, please inform the Company, in writing, of your intention to exercise your voting rights in a non-uniform manner and the reason for it three days in advance of the Meeting.

## 5. Method of Notice to Shareholders

If any modification to the contents of the Reference Documents for the General Meeting of Shareholders, the Business Report, the Consolidated Statutory Report and/or the Non-consolidated Statutory Report is needed before the date of the Meeting, the Company will post such modification on the web site of the Company ([http://www.daiwa-grp.jp/ir/shareholders/shareholders\\_04.cfm](http://www.daiwa-grp.jp/ir/shareholders/shareholders_04.cfm)).

- 
- Please note that any proxy or person accompanying a shareholder, who is not a shareholder of the Company, may not attend the Meeting.
  - When you attend the Meeting, please submit the enclosed “Voting Rights Exercise Form” to the receptionist at the venue of the Meeting.
  - If you are a nominee shareholder of a custodian bank, etc. (including a standing proxy), and if you have applied in advance for utilization of a web-based platform to exercise voting rights for institutional investors that is managed by Investor Communications Japan, Inc. (ICJ), you may use that platform as a method, instead of the Internet, of exercising your voting rights via electronic device.

# Reference Documents for the General Meeting of Shareholders

## Bills and reference matters

### Bill 1. Partial Amendments to the Articles of Incorporation

#### 1. Reasons for Amendments

Based on the experience of the recent global financial crisis which began in September 2008, Deposit Insurance Act had been revised and came into effect on March 6, 2014 for the purpose of developing a framework to stabilize the market functions in the event of a financial crisis. By this revision, the concept of “Measures for Orderly Resolution of Financial Institutions” (hereinafter, the “Measures”) was introduced to deal with a sudden change of market environment, and the scope of Financial Institutions to which the Measures shall be applicable was expanded to the entire financial industry, including Daiwa Securities Group Inc. (the “Company”), in contrast with the former Act whose applicability was limited to deposit taking financial institutions.

On the other hand, the Basel Committee on Banking Supervision, a committee comprised of financial regulatory authorities of major countries, has set both higher and better-quality capital requirements applicable to global financial institutions, and its eligibility criteria for preferred shares and subordinated debt, among other things, to be included as regulatory capital has become stricter (i.e., Basel III). Specifically, under Basel III, in order for preferred shares to be included as regulatory capital, the terms and conditions of the preferred shares are required to include the following provision: (i) a write-off of the relevant preferred shares or (ii) a conversion of the relevant preferred shares into common shares shall be effected (a loss-absorption clause) in the event the Company is recognized by the regulatory authority as non-viable. This recognition trigger and its criteria in Japan are now clarified in the revised Deposit Insurance Act.

In response to recent changes of global financial regulations and newly developed framework for “Measures for Orderly Resolution of Financial Institutions”, the Company intends to add provisions into the Company’s Articles of Incorporation that make it possible to issue preferred shares in compliance with Basel III requirements and the Measures.

The Company has no plan to issue any particular series of the preferred shares at this time.

#### 2. Contents of Amendment

( Underlined sections designate amendments )

Current Articles of Incorporation	Proposed Amendments
CHAPTER SHARES (Total Authorized Shares) Article 5. The total shares of the Company authorized to be issued by the Company shall be four billion (4,000,000,000) shares.	CHAPTER SHARES (Total Authorized Shares) Article 5. The total shares of the Company authorized to be issued by the Company shall be four billion (4,000,000,000) shares <u>and the total number of shares of each class of share which the Company is authorized to issue shall be as set forth below:</u>

Current Articles of Incorporation	Proposed Amendments
<p>(Number of Shares Constituting One Unit of Shares)</p> <p>Article 6. One unit of shares of the Company shall consist of one thousand (1,000) shares .</p> <p>Article 7. – Article 10. [Text Omitted]</p> <p>[New]</p> <p>[New]</p>	<p><u>Common shares: 4,000,000,000 shares</u>  <u>Class 1 preferred shares: 100,000,000 shares</u>  <u>Class 2 preferred shares: 100,000,000 shares</u>  <u>Class 3 preferred shares: 100,000,000 shares</u></p> <p>(Number of Shares Constituting One Unit of Shares)</p> <p>Article 6. One unit of shares of the Company shall consist of one thousand (1,000) shares <u>with respect to the common shares and each class of preferred share, respectively.</u></p> <p>Article 7. – Article 10. [Not amended]</p> <p><u>CHAPTER PREFERRED SHARES</u>  <u>(Preferred Dividends)</u></p> <p><u>Article 11. The Company shall, fixing March 31 as the record date pursuant to Article 53, Paragraph 1 herein, distribute cash dividends from surplus on preferred shares (“Preferred Dividends”) in such respective amount as prescribed below to holders of preferred shares (“Preferred Shareholders”) or registered pledgees of preferred shares (“Registered Pledgees of Preferred Shares”), in priority to holders of common shares (“Common Shareholders”) and registered pledgees of common shares (“Registered Pledgees of Common Shares”); provided, however, that in the case that Preferred Interim Dividends defined in Article 12 herein have been paid, fully or partially, during the business year to which that record date belongs, the amount of Preferred Interim Dividends shall be deducted from the total amount of Preferred Dividends.</u></p> <p><u>Amount per preferred share calculated by multiplying the amount equivalent to subscription money per share by the annual dividend rate specified in a resolution of the Board of Directors or a determination by Executive Officer(s) under authorities delegated by a resolution of the Board of Directors (“Resolution of the Board of Directors etc.”) prior to the issuance of each class of preferred share, which rate shall not exceed ten (10) percent.</u></p>

Current Articles of Incorporation	Proposed Amendments
	<p><u>2 If the aggregate amount paid to Preferred Shareholders or Registered Pledgees of Preferred Shares as cash dividends from surplus in any particular business year is less than the relevant Preferred Dividends, the unpaid amount shall not be accumulated in subsequent business year.</u></p> <p><u>3 The Company shall not distribute any dividend from surplus to any Preferred Shareholder or Registered Pledgee of Preferred Shares in excess of the relevant Preferred Dividends; provided, however, that this shall not apply to distributions from surplus in the process of an Absorption-type Company Split (<i>kyushu-bunkatsu</i>) pursuant to Article 758, Item 8(b) or Article 760, Item 7(b) of the Companies Act, or the distribution from surplus in the process of a Incorporation-type Company Split (<i>shinsetsu-bunkatsu</i>) pursuant to Article 763, Item 12(b) or Article 765, Paragraph 1, Item 8(b) of that Act.</u></p> <p><u>(Preferred Interim Dividends)</u></p> <p><u>Article 12. In relation to the interim dividends of the Company as of the record date of September 30 of each year as specified in Article 53, Paragraph 2 herein, the Company shall distribute cash dividends from surplus to Preferred Shareholders or Registered Pledgees of Preferred Shares in priority to Common Shareholders and Registered Pledgees of Common Shares in the amount specified in a Resolution of the Board of Directors etc. prior to the issuance of each class of preferred share (“Preferred Interim Dividends”), which amount shall not exceed half of the amount specified in Article 11, Paragraph 1 herein.</u></p> <p><u>(Distribution of Residual Assets)</u></p> <p><u>Article 13. In the case that the Company distributes its residual assets, the Company shall pay cash to the Preferred Shareholders or Registered Pledgees of Preferred Shares in priority to the Common Shareholders and Registered Pledgees of Common Shares in the amount as prescribed below.</u></p>

[New]

[New]

Current Articles of Incorporation	Proposed Amendments
<p data-bbox="453 770 525 801">[New]</p> <p data-bbox="453 1917 525 1948">[New]</p>	<p data-bbox="868 282 1423 472"><u>Amount per share specified in a Resolution of the Board of Directors etc. prior to the issuance of each class of preferred share, given the amount equivalent to subscription money per share.</u></p> <p data-bbox="815 495 1423 685">2 <u>The Company shall not make distribution of residual assets to the Preferred Shareholders or Registered Pledgees of Preferred Shares other than as provided for in the preceding paragraph.</u></p> <p data-bbox="815 730 995 761"><u>(Voting Rights)</u></p> <p data-bbox="815 770 1423 1749"><u>Article 14. No Preferred Shareholder may exercise voting rights on any matters at General Meetings of Shareholders; provided, however, that (i) in the case that Article 52 herein is effective and the Board of Directors under Article 436, Paragraph 3 of the Companies Act did not resolve the distribution of Preferred Dividends in full, from that time, (ii) in the case that Article 52 is not effective and a Bill that the Company would distribute Preferred Dividends in full was not submitted to an Ordinary General Meeting of Shareholders, from the commencement of the Ordinary General Meeting of Shareholders, (iii) in the case that a Bill that the Company would distribute Preferred Dividends in full was not resolved by an Ordinary General Meeting of Shareholders, from the end of that Ordinary General Meeting of Shareholders, Preferred Shareholders will be able to exercise voting rights until the resolution of the Board of Directors specified in Article 52 herein or an Ordinary General Meeting of Shareholders which approve the distribution of Preferred Dividends in full.</u></p> <p data-bbox="815 1800 1423 1910"><u>(Consolidation or Split of Preferred Shares, Allotment of Shares without Contribution, Rights for Allotment of Shares for Subscription, etc.)</u></p> <p data-bbox="815 1919 1423 2067"><u>Article 15 . The Company shall not consolidate or split any preferred shares and shall not allot any shares without contribution to the Preferred Shareholders.</u></p>

Current Articles of Incorporation	Proposed Amendments
<p data-bbox="453 792 525 824">[New]</p> <p data-bbox="453 1787 525 1818">[New]</p>	<p data-bbox="815 280 1417 667"><u>2 The Company shall not grant to the Preferred Shareholders any rights for allotment of shares for subscription, any share acquisition rights for subscription, any rights for allotment of bonds with share acquisition right or share acquisition rights for subscription which is able to be split and transferred and any rights for allotment of bonds, and the Company shall not allot any share acquisition rights without contribution to the Preferred Shareholders.</u></p> <p data-bbox="815 719 1417 786"><u>(Right to Demand Acquisition of Preferred Shares in Exchange for Common Shares)</u></p> <p data-bbox="815 792 1417 1379"><u>Article 16 . Any Class 1 Preferred Shareholder and Class 2 Preferred Shareholder may demand the Company, during the period that such Preferred Shareholder is entitled to demand the acquisition as specified in a Resolution of the Board of Directors etc. prior to the issuance of each class of preferred share (the “Period to Demand Acquisition”), to acquire his/her preferred shares in exchange for delivering common shares whose number of shares shall be determined by such Resolution of the Board of Directors etc. Other conditions of acquisition are specified in a Resolution of the Board of Directors etc. prior to the issuance of each class of preferred share.</u></p> <p data-bbox="815 1391 1417 1659"><u>2 In the case that the calculation of the number of common shares to be delivered in exchange for the Company's acquisition of such preferred shares includes a fraction less than one (1) share, that fraction shall be handled pursuant to Article 167, Paragraph 3 of the Companies Act.</u></p> <p data-bbox="815 1711 1417 1778"><u>(Provisions for Redemption of Preferred Shares in Exchange for Cash)</u></p> <p data-bbox="815 1787 1417 2051"><u>Article 17. With respect to Class 1 preferred shares and Class 3 preferred shares, the Company may redeem in whole or in part those preferred shares in exchange for cash acquiring price, which shall be determined by a Resolution of the Board of Directors etc. prior to the issuance of each class of preferred share.</u></p>



Current Articles of Incorporation	Proposed Amendments
<p>[New]</p>	<p><u>upon the arrival of the date which shall be after the time determined by a Resolution of the Board of Directors etc. prior to the issuance of each class of preferred share and which shall be separately specified in another Resolution of the Board of Directors etc.</u></p> <p>2 <u>In the case that the Company redeems a part of either class of preferred shares pursuant to the preceding paragraph, such redemption shall be made by means of a lottery or pro rata allocation.</u></p> <p><u>(Blanket Redemption)</u></p> <p><u>Article 18. On the day following the last day of the Period to Demand Acquisition, the Company shall redeem all Class 1 preferred shares and Class 2 preferred shares which have not been acquired by the Company during the Period to Demand Acquisition. In this case, the Company shall deliver its common shares to such Preferred Shareholder in exchange for the Company's redemption of such preferred shares. The number of common shares to be delivered shall be equivalent to the number of preferred shares held by each Preferred Shareholder multiplied by the amount equivalent to subscription money per share divided by the market price of the Company's common shares. The details of such redemption shall be specified in a Resolution of the Board of Directors etc. prior to the issuance of each class of preferred share. That resolution may specify the method to calculate an upper limit to the number of common shares to be delivered.</u></p> <p>2 <u>After the issuance of each preferred share, the Company shall redeem in whole such preferred shares as of the date indicated below in the case that certain events, which shall be specified in a Resolution of the Board of Directors etc. prior to the issuance of each class of preferred share, occur. Such events include the event in which a supervisory agency (or an equivalent body) determines that a write-down, conversion to common shares, capital injection by a public institution or other equivalent action is</u></p>

Current Articles of Incorporation	Proposed Amendments
<p>[New]</p>	<p><u>necessary for the Company to continue its business activity. The date that the Company redeems preferred shares is either of a date which a Resolution of the Board of Directors etc. separately specifies after such certain event occurs, or a certain date which is after such certain event occurs and which date is separately specified in a Resolution of the Board of Directors etc. prior to the issuance of each class of preferred share, considering, for instance, the regulation for capital adequacy ratio which is applied to the Company. The Company shall deliver its common shares to each relevant Preferred Shareholder in exchange for such preferred shares or shall redeem its preferred shares without contribution from each relevant Preferred Shareholder, and whether such redemption shall be made in exchange for common shares or without contribution shall be determined by a Resolution of the Board of Directors etc. prior to the issuance of each class of preferred share, considering, for instance, the market condition. In the case that the Company shall deliver its common shares to each relevant Preferred Shareholder, the calculation method of the number of common shares in exchange for such preferred shares is specified in a Resolution of the Board of Directors etc. prior to the issuance of each class of preferred share, considering the market value of the Company's common shares and the subscription price of the preferred shares etc.</u></p> <p><u>3 Pursuant to the preceding two paragraphs, in the case that the number of common shares includes a fraction less than one (1) share, that fraction shall be handled pursuant to Article 234 of the Companies Act.</u></p> <p><u>(Order of Priority)</u></p> <p><u>Article 19. All classes of preferred share issued by the Company shall be pari passu in respect of the payment of Preferred Dividends, Preferred Interim Dividends and the distribution of residual assets.</u></p>

Current Articles of Incorporation	Proposed Amendments
<p>CHAPTER __ GENERAL MEETINGS OF SHAREHOLDERS</p> <p>Article <u>11</u>. – Article <u>16</u>. [Text Omitted]</p> <p>[New]</p> <p>CHAPTER __ DIRECTORS AND BOARD OF DIRECTORS</p> <p>Article <u>17</u>. – Article <u>28</u>. [Text Omitted]</p> <p>CHAPTER __ EXECUTIVE OFFICERS</p> <p>Article <u>29</u>. – Article <u>36</u>. [Text Omitted]</p> <p>CHAPTER __ ACCOUNTING AUDITORS</p> <p>Article <u>37</u>. – Article <u>40</u>. [Text Omitted]</p> <p>CHAPTER __ ACCOUNTING</p> <p>Article <u>41</u>. – Article <u>44</u>. [Text Omitted]</p>	<p>CHAPTER __ GENERAL MEETINGS OF SHAREHOLDERS</p> <p>Article <u>20</u>. – Article <u>25</u>. [Not Amended]</p> <p><u>(General Meetings of Class Shareholders)</u></p> <p><u>Article 26. The provision of Article 21 herein shall apply mutatis mutandis to the General Meetings of Class Shareholders.</u></p> <p><u>2 The provisions of Articles 22, 23, Article 24, Paragraph 1 and Article 25 herein shall apply mutatis mutandis to the General Meetings of Class Shareholders.</u></p> <p><u>3. The provision of Article 24, Paragraph 2 herein shall apply mutatis mutandis to any resolution of the General Meetings of Class Shareholders under Article 324, Paragraph 2 of the Companies Act.</u></p> <p>CHAPTER __ DIRECTORS AND BOARD OF DIRECTORS</p> <p>Article <u>27</u>. – Article <u>38</u>. [Not Amended]</p> <p>CHAPTER __ EXECUTIVE OFFICERS</p> <p>Article <u>39</u>. – Article <u>46</u>. [Not Amended]</p> <p>CHAPTER __ ACCOUNTING AUDITORS</p> <p>Article <u>47</u>. – Article <u>50</u>. [Not Amended]</p> <p>CHAPTER __ ACCOUNTING</p> <p>Article <u>51</u>. – Article <u>54</u>. [Not Amended]</p>

## **Bill 2. Election of Thirteen (13) Directors (Members of the Board)**

The terms of office of all members of the Board of Directors are expiring as of the conclusion of this Ordinary General Meeting of Shareholders. Accordingly, it is requested to elect thirteen (13) Directors pursuant to the decisions of the Nominating Committee.

The nominees for Directors (Members of the Board) are as follows, and Mr. Ryuji Yasuda, Ms. Nobuko Matsubara, Mr. Keiichi Tadaki, Mr. Hiroki Tsuda and Mr. Tadashi Onodera are the nominees for Outside Directors as defined in Paragraph 3 of Article 2, Item 7 of the Ordinance for Enforcement of the Companies Act.

<b>Candidate Number</b>	<b>Name (Date of Birth)</b>	<b>Brief personal history, title and significant concurrent positions</b>		<b>Number of shares of the Company owned by the candidate</b>
1	Shigeharu Suzuki (Apr. 17, 1947)  Reappointment	<div>Apr. 1971 July 1991 May 1997 June 1997 May 1998 June 1998 Feb. 1999 Apr. 1999 July 2000 May 2001 June 2001 Apr. 2002 June 2002 July 2002 June 2003 June 2004 Apr. 2011</div>	<div> Joined the Company  Managing Director of Underwriting Dept. I of the Company  Head of Corporate Institution Sales Division of the Company  Member of the Board of the Company  Head of Investment Banking Division of the Company  Executive Managing Director of the Company  Head of Secretariat, Personnel Dept. , Employees' Consultation Dept., Total Planning Dept. and Corporate Communication Dept. of the Company  Head of Corporate Planning Group of the Company  Head of Corporate Planning, Investors Relations and Corporate Communications of the Company  Head of Corporate Planning (Corporate Planning Dept. I), Investors Relations and Corporate Communications of the Company  Senior Executive Managing Director of the Company  Head of Corporate Planning, Investors Relations and Corporate Communications of the Company  Senior Executive Managing Director and Head of Investment Banking Division of Daiwa Securities SMBC Co. Ltd.  Head of Investment Banking Division and Corporate Division Planning of the above company  Representative Director and Senior Executive Managing Director of the above company  Member of the Board, Representative Corporate Executive Officer and President of the Company and CEO, Head of Retail, and Representative Director and President of Daiwa Securities Co. Ltd.  Chairman of the Board and Senior Managing Director of the Company (to date); and Representative Director and Chairman of the Board of Daiwa Securities Co. Ltd. (to date) </div>	167,000 shares
		(Significant concurrent positions) Representative Director and Chairman of the Board of Daiwa Securities Co. Ltd.		

Candidate Number	Name (Date of Birth)	Brief personal history, title and significant concurrent positions		Number of shares of the Company owned by the candidate
2	Takashi Hibino (Sept. 27, 1955)  Reappointment	Apr. 1979 Apr. 2002  June 2002 May 2004  June 2004  July 2004  Apr. 2005 Apr. 2007  July 2008  Apr. 2009  Apr. 2011  Apr. 2013	<p>Joined the Company</p> <p>Managing Director of Corporate Planning Dept. of the Company</p> <p>Senior Managing Director of Daiwa Securities SMBC Co. Ltd., and Head of Equity</p> <p>Executive Managing Director of the Company, Head of Corporate Planning, Personnel, Legal and Secretariat, and General Manager of Personnel Dept.</p> <p>Member of the Board, and Executive Managing Director of the Company, Head of Planning, Personnel and Legal, and Managing Director of Personnel Dept.</p> <p>Head of Planning, Personnel and Legal of the Company</p> <p>Head of Planning and Personnel of the Company</p> <p>Member of the Board and Senior Executive Managing Director of the Company</p> <p>Head of Planning and Personnel, and Deputy Head of Wholesale of the Company; and Senior Executive Managing Director of Daiwa Securities SMBC Co. Ltd.</p> <p>Member of the Board and Deputy President of the Company and Deputy Head of Wholesale, and Representative Director and Deputy President of Daiwa Securities SMBC Co. Ltd.</p> <p>Member of the Board, Representative Corporate Executive Officer and President of the Company (to date), CEO and Head of Retail and Wholesale; Representative Director and President of Daiwa Securities Co. Ltd. (to date); and Representative Director and President of Daiwa Securities Capital Markets Co. Ltd.</p> <p>CEO of the Company (to date)</p> <p>(Significant concurrent positions) Representative Director and President of Daiwa Securities Co. Ltd.</p>	116,090 shares

Candidate Number	Name (Date of Birth)	Brief personal history, title and significant concurrent positions		Number of shares of the Company owned by the candidate
3	Nobuyuki Iwamoto (June 14, 1956)  Reappointment	Apr.1980 Apr.1999  Apr. 2001 Apr. 2005 June 2006 Apr. 2007 Apr. 2008 Apr. 2009  Apr. 2011  Jan. 2012 Apr. 2012  Apr. 2013 Apr. 2014	<p>Joined the Company</p> <p>Joined Daiwa Securities SB Capital Markets Co., Ltd.</p> <p>Managing Director of International Finance Dept. of the above company</p> <p>Senior Managing Director of the Company, and CFO and Deputy Head of Planning</p> <p>Member of the Board and Senior Managing Director of the Company</p> <p>CFO of the Company</p> <p>Member of the Board and Executive Managing Director of the Company</p> <p>Member of the Board and Senior Executive Managing Director of the Company, and CFO and Head of Planning and Personnel</p> <p>Member of the Board, Representative Corporate Executive Officer and Deputy President of the Company (to date); COO, CFO and Head of Planning and Personnel of the Company; and Representative Director and Deputy President of Daiwa Securities Capital Markets Co. Ltd.</p> <p>COO, CFO and Head of Planning, Personnel and Overseas of the Company</p> <p>COO, CFO and Head of Personnel and Overseas of the Company;</p> <p>Representative Director and Deputy President of Daiwa Securities Co. Ltd. (to date)</p> <p>COO, Head of Personnel and Overseas of the Company</p> <p>COO, Head of Overseas of the Company (to date)</p> <p>(Significant concurrent positions) Representative Director and Deputy President of Daiwa Securities Co. Ltd.</p>	62,000 shares

Candidate Number	Name (Date of Birth)	Brief personal history, title and significant concurrent positions		Number of shares of the Company owned by the candidate
4	Akio Takahashi (Mar. 15, 1956)  Reappointment	Apr.1978 Apr.1999  June 2003 May 2004 Apr. 2005 Apr. 2006 Apr. 2007 Aug. 2007 Apr. 2008 Sep. 2008  Apr. 2009 Sep. 2009 Jan. 2010  Apr. 2010 Oct. 2010 Apr. 2011  Apr. 2012 June 2012 Apr. 2013	<p>Joined the Company</p> <p>Joined Daiwa Securities SB Capital Markets Co., Ltd.</p> <p>Managing Director of Equity Capital Markets of the above company</p> <p>Senior Managing Director of the above company, Head of Corporate Finance</p> <p>Head of Initial Public Offering and Structured Finance of the above company</p> <p>Head of Initial Public Offering and Investment Program of the above company</p> <p>Executive Managing Director of the above company, Head of Planning</p> <p>Head of International Planning and Planning</p> <p>Executive Managing Director of the above company</p> <p>Senior Head of Principal Investments of Daiwa Securities SMBC Co. Ltd.;</p> <p>Representative Director and Chairman of the Board of Daiwa Securities SMBC Principal Investments Co. Ltd. (currently, Daiwa PI Partners Co. Ltd.)</p> <p>Senior Executive Managing Director of Daiwa Securities SMBC Co. Ltd.</p> <p>Senior Head of Investment Banking, Head of Structured Finance and Initial Public Offering and Investment Program and Investment Banking Strategic Planning of the above company</p> <p>Senior Head of Global Investment Banking and Head of Structured Finance and Initial Public Offering and Investment Program and Global Investment Banking Strategic Planning of the above company</p> <p>Senior Head of Global Investment Banking and Head of Corporate Finance and Global Investment Banking Strategic Planning of the above company</p> <p>Senior Head of Global Investment Banking and Head of Corporate Finance and Corporate Division Planning of the above company</p> <p>Deputy President of the Company, Deputy Head of Wholesale;</p> <p>Representative Director and Deputy President of Daiwa Securities Capital Markets Co. Ltd.</p> <p>Representative Director and Deputy President of Daiwa Securities Co. Ltd. (to date)</p> <p>Member of the Board, Deputy President of the Company (to date)</p> <p>Head of Wholesale of the Company (to date)</p> <p>(Significant concurrent positions)</p> <p>Representative Director and Deputy President of Daiwa Securities Co. Ltd.</p>	50,000 shares

Candidate Number	Name (Date of Birth)	Brief personal history, title and significant concurrent positions		Number of shares of the Company owned by the candidate
5	Yoriyuki Kusaki (Mar. 31, 1958)  Reappointment	Apr. 1980 Apr. 1999 July 1999  July 2002 May 2004 Apr. 2005 Apr. 2006 Oct. 2006 Apr. 2007 Apr. 2008  Apr. 2009 Apr. 2012  June 2012 Apr. 2013	Joined the Company Joined Daiwa Securities Co. Ltd. Joined Daiwa Securities SB Capital Markets Co., Ltd. Managing Director of Corporate Institution Sales Dept. III of the above company Senior Managing Director of the above company, Head of Corporate Institution Sales Head of Corporate Institution Sales Dept. III of the above company Head of Corporate Institution Sales Dept. II and III of the above company Head of Corporate Institution Sales Dept. III and IV of the above company Executive Managing Director of the above company Head of Corporate Institution Sales of the above company Senior Executive Managing Director of Daiwa Securities Co. Ltd. and Head of Sales Division Deputy President of the Company, Deputy Head of Retail; Representative Director and Deputy President of Daiwa Securities Co. Ltd. (to date) Member of the Board, Deputy President of the Company (to date) Head of Retail of the Company (to date)	64,000 shares
6	Masaru Shirataki (June 30, 1961)  Reappointment	Apr. 1985 Apr. 1999  Oct. 2009 Apr. 2011  Apr. 2013  June.2013 Apr. 2014	Joined the Company Joined Daiwa Securities SB Capital Markets Co., Ltd. Joined the Company Managing Director of Group Internal Audit Dept of the Company; Managing Director of Internal Audit Dept of Daiwa Securities Co. Ltd.; and Managing Director of Internal Audit Dept of Daiwa Securities Capital Markets Co. Ltd. Senior Managing Director of the Company; Audit & Supervisory Board Member of Daiwa Securities Co. Ltd. (to date); Audit & Supervisory Board Member of Daiwa SB Investments Ltd. (to date); Audit & Supervisory Board Member of Daiwa Property Co., Ltd. (to date) ;and Audit & Supervisory Board Member of Daiwa Real Estate Asset Management Co. Ltd. (to date) Member of the Board of the Company (to date) Audit & Supervisory Board Member of Daiwa Institute of Research Business Innovation Ltd. (to date)	25,000 shares
		(Significant concurrent positions) Audit & Supervisory Board Member of Daiwa Securities Co. Ltd.; Outside Audit & Supervisory Board Member of Daiwa SB Investments Ltd.; Audit & Supervisory Board Member of Daiwa Property Co., Ltd.; Audit & Supervisory Board Member of Daiwa Institute of Research Business Innovation Ltd.; and Audit & Supervisory Board Member of Daiwa Real Estate Asset Management Co. Ltd.		



Candidate Number	Name (Date of Birth)	Brief personal history, title and significant concurrent positions		Number of shares of the Company owned by the candidate
7	Ryuji Yasuda (Apr. 28, 1946)  Reappointment	<p>July 1976 Jan. 1979 July 1996 Apr. 2002 May 2002 May 2003 June 2003 Apr. 2004 Sept. 2006</p> <p>(Significant concurrent positions)</p>	<p>Joined Morgan Guarantee Trust Company of NY (currently, JP Morgan Chase &amp; Co.), Investment Research Officer Joined McKinsey &amp; Company Partner (1986), and Director (1991) A.T. Kearney, Managing Director of Asia and Member of the Board of Management Visiting Professor, Hitotsubashi University, Graduate School of International Business Strategy Chairman of A. T. Kearney, Far East Asia Resigned as Chairman of Far East Asia of the above company Member of the Board of the Company (to date); and Member of the Board and Chairman of J-Will Partners Co., Ltd. Professor of Hitotsubashi University, Graduate School of International Business Strategy (to date) Retired as Member of the Board and Chairman of J-Will Partners Co., Ltd.</p>	48,000 shares
8	Nobuko Matsubara (Jan. 9, 1941)  Reappointment	<p>Apr. 1964 Mar. 1987 Oct. 1991 July 1997 Apr. 1999 Sept. 2002 Nov. 2002 Jan. 2006 July 2006 June 2008 July 2012</p> <p>(Significant concurrent positions)</p>	<p>Entered Ministry of Labor Director of International Labor Division, Ministry of Labor Director-General of Women's Bureau, Ministry of Labor Administrative Vice Minister of Ministry of Labor President of Japan Association for Employment of Persons with Disabilities Ambassador Extraordinary and Plenipotentiary of Japan to Italy Ambassador Extraordinary and Plenipotentiary of Japan to Albania, to San Marino and to Malta Advisor to Japan Institute of Workers' Evolution Chairman of Japan Institute of Workers' Evolution Member of the Board of the Company (to date) Honorary Chairman of Japan Institute of Workers' Evolution (to date)</p>	36,000 shares

Candidate Number	Name (Date of Birth)	Brief personal history, title and significant concurrent positions		Number of shares of the Company owned by the candidate
9	Keiichi Tadaki (July 1, 1943)  Reappointment	Apr. 1969 Apr. 1996  July 1997  Dec. 1997 Jan. 2002 June 2004  June 2006 June 2008 July 2008 June 2009	Became Prosecutor Chief Prosecutor of the Oita District Public Prosecutors Office Prosecutor of the Supreme Public Prosecutors Office Deputy Vice-Minister of Justice Vice-Minister of Justice Superintending Prosecutor of the Tokyo High Public Prosecutors Office Prosecutor General Retired as Prosecutor General Attorney at law (operating to date) Member of the Board of the Company (to date)	0 shares
		(Significant concurrent positions) Special Counsel Attorney at law of Mori Hamada & Matsumoto; Outside Director of Aeon Co., Ltd.; Outside Audit & Supervisory Board Member of Nippon Life Insurance Company; and Outside Audit & Supervisory Board Member of Fujita Corporation		
10	Hiroki Tsuda (Aug. 11, 1948)  Reappointment	Apr. 1972 Aug. 2002  Jan. 2003  July 2004 July 2006  July 2007  Sept. 2008  June 2013 Aug. 2013	Entered Ministry of Finance Director - General of Tokyo Customs, Ministry of Finance Deputy Vice Minister for Policy Planning and Co-ordination, Ministry of Finance Deputy Vice Minister, Ministry of Finance Director - General of the Budget Bureau, Ministry of Finance Administrative Vice Minister, Ministry of Finance Professor of Waseda University, Graduate School of Faculty of Political Science and Economics; Member of the Board of the Company (to date) Retired as Professor of Waseda University, Graduate School of Faculty of Political Science and Economics;	2,000 shares
		(Significant concurrent positions) Outside Director of Mitsubishi Heavy Industries, Ltd. ;and Advisor to Mitsui Sumitomo Insurance Company, Limited		

Candidate Number	Name (Date of Birth)	Brief personal history, title and significant concurrent positions		Number of shares of the Company owned by the candidate
11	Hiroshi Nakamura (Dec. 3,1957)  New Candidate	Apr.1980 Apr. 1999 May 2001 Apr. 2005 Apr. 2007 Jan. 2008 Apr. 2008 Sep. 2008 Oct. 2008 Apr. 2009 Apr. 2010 Apr. 2011 Apr. 2012 Apr. 2013	Joined the Company Joined Daiwa Securities SB Capital Markets Co., Ltd. Managing Director of Fixed Income Dept. of Daiwa Securities SMBC Co. Ltd. Senior Managing Director, Daiwa Securities Co. Ltd, Unit I Officer Head of product and asset management of the above company Head of product , asset management and PTS of the above company Executive Managing Director of the above company, Head of Product Division Head of Product Division and Head of PTS of the above company Head of Product Division of the above company Executive Managing Director of the above company, Head of Product Division and Daiwa Direct Division Executive Managing Director of the above company Senior Executive Managing Director of the above company Senior Executive Managing Director of the Company, Head of Global Markets Division Senior Executive Managing Director of Daiwa Securities Co. Ltd., Head of Global Markets Division and Head of Product Solution Division Deputy President of the Company, Deputy Head of Wholesale of the Company (to date), Representative Director and Deputy President of Daiwa Securities Co. Ltd. (to date)	32,297 shares
		(Significant concurrent positions) Representative Director and Deputy President of Daiwa Securities Co. Ltd.		
12	Keiko Tashiro (Aug. 5, 1963)  New Candidate	Apr. 1986 Sep.2005 Apr. 2009 June 2009 Apr. 2011 Apr. 2012 Apr. 2013 Apr. 2014	Joined the Company Head of Daiwa Direct Planning Dept. of Daiwa Securities Co. Ltd. Head of PTS and Head of Daiwa Direct Business of the above company Senior Managing Director of the above company, Head of Online Product and Head of Daiwa Direct Business Senior Managing Director, Daiwa Securities Capital Markets Co. Ltd., Head of Fixed Income, Currency and Commodities Senior Managing Director of Daiwa Securities Co. Ltd., Head of Fixed Income, Currency and Commodities Executive Managing Director of the Company(in charge of America), Chairperson of the Board, Daiwa Capital Markets America Holdings Inc. (to date) Executive Managing Director of the Company, Deputy Head of Overseas of the Company(in charge of America) (to date)	22,000 shares
		(Significant concurrent positions) Chairperson of the Board, Daiwa Capital Markets America Holdings Inc.		

Candidate Number	Name (Date of Birth)	Brief personal history, title and significant concurrent positions		Number of shares of the Company owned by the candidate
13	Tadashi Onodera (Feb. 3, 1948)  New Candidate	June 1989 June 1995 June 1997 June 2001 June 2005 Dec. 2010	Director of DDI Corporation (currently known as KDDI Corporation) Associate senior Vice President, Director of the above company Executive Vice President, Director of the above company President of KDDI Corporation President and Chairman of the above company Chairman of the above company(to date)	1,000 shares
		(Significant concurrent positions) Chairman of KDDI Corporation; Outside Director of KYOCERA Corporation; and Director of Okinawa Cellular Telephone Company		

*(Notes)*

1. *The Company has been offering long-term loans to Daiwa Securities Co. Ltd.*
2. *The reasons for election of these five nominees as Outside Directors are as follows:*
  - (1) *Mr. Ryuji Yasuda was a partner of a distinguished consulting firm, etc., and currently is a Professor of Hitotsubashi University, Graduate School of International Corporate Strategy. The Company requests shareholders to elect him as an Outside Director since the Company believes that his accumulated ample experience and professional knowledge about management strategy would contribute to the management of the Company. He will have been in office as one of the Company's Outside Directors for eleven (11) years.*
  - (2) *Ms. Nobuko Matsubara was the Vice-Minister of the Ministry of Labor and Ambassador Extraordinary and Plenipotentiary of Japan to Italy, etc. and currently is an Honorary Chairman of the Japan Institute of Workers' Evolution. The Company requests shareholders to elect her as an Outside Director since the Company believes that her broad experience and knowledge accumulated through her career would contribute to the management of the Company. Based on the above-mentioned reasons, the Company made the decision that she could adequately carry out her assignment as one of the Company's Outside Directors, even though she has never been involved in corporate management. She will have been in office as one of the Company's Outside Directors for six (6) years.*
  - (3) *Mr. Keiichi Tadaki was the Vice-Minister of the Ministry of Justice, the Superintending Prosecutor of the Tokyo High Public Prosecutors Office and the Prosecutor General and is currently an attorney at law. The Company requests shareholders to elect him as an Outside Director since we believe that his accumulated ample experience and professional knowledge about law and compliance would contribute to the management of the Company. Based on the above-mentioned reasons, the Company made the decision that he could adequately carry out his assignment as one of the Company's Outside Directors, even though he has never been involved in corporate management. He will have been in office as one of the Company's Outside Directors for five (5) years.*
  - (4) *Mr. Hiroki Tsuda was the Director-General of the Budget Bureau, Ministry of Finance, the Administrative Vice Minister of Ministry of Finance. The Company requests shareholders to elect him as an Outside Director since the Company believes that his broad experience and knowledge accumulated through his career would contribute to the management of the Company. Based on the above-mentioned reasons, we made the decision that he could adequately carry out his assignment as one of the Company's Outside Directors, even though he has never been involved in corporate management. He will have been in office as one of the Company's Outside Directors for one (1) year.*
  - (5) *Mr. Tadashi Onodera held positions such as President of KDDI Corporation, etc. The Company requests shareholders to elect him as an Outside Director since the Company believes that his accumulated ample experience and knowledge about corporate management would contribute to the management of the Company.*
3. *The Independence of the nominees for Outside Director from the Company is as follows.*
  - \* *None of the nominees for Outside Director has done business with any entity that has a special relationship with the Company during the last five (5) years.*
  - \* *None of the nominees for Outside Director received a large sum of money or other financial benefits from the Company or any entity that has a special relationship with the Company in the past, and none of*

*them anticipates receiving them in the future.*

- \* None of the nominees for Outside Director has a spouse or any family within the third degree of kinship who has done business with the Company or any entity that has a special relationship with the Company.*
- \* All of the nominees for Outside Director fulfill the requirements for independent directors as defined by Tokyo Stock Exchange, Inc. and Nagoya Stock Exchange, Inc. The Company is scheduled to appoint all of the nominees for Outside Director as independent directors and submit to the companies mentioned above.*

- 4. The current Outside Directors, Mr. Ryuji Yasuda, Ms. Nobuko Matsubara, Mr. Keiichi Tadaki and Mr. Hiroki Tsuda have each executed an agreement to limit liability to the Company. Each agreement says that the maximum amount of liability is 10 million yen or the minimum amount of liability provided in Paragraph 1 of Article 425 of the Companies Act, whichever is higher. In case that the election of those nominees for Outside Director is duly approved, the Company will continue to engage such agreement with each Outside Director. Also, the Company is plans to enter into a similar agreement to limit the liability of Mr. Tadashi Onodera as outside director.*

*[References]*

*The Company is scheduled to appoint the following committee members of the Nominating Committee, the Audit Committee and the Compensation Committee respectively through resolutions of the Board of Directors to be held after the conclusion of the Ordinary General Meeting of Shareholders.*

*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*

### Bill 3. Granting Stock Options Utilizing Stock Acquisition Rights

The Company requests shareholders' approval to delegate the decision on the terms of issuance for stock acquisition rights, under the provisions of Articles 236, 238 and 239 of the Companies Act, to the Board of Directors of the Company, or to the corporate executive officers to whom the determination has been delegated by a resolution of the Board of Directors of the Company. The stock acquisition rights will be issued to directors, corporate executive officers and executive officers (hereinafter, "executives"), and employees of the Company and its subsidiaries and affiliates for the purpose of granting stock options.

#### 1. Reasons for Soliciting Candidates to Subscribe for Common Stock Acquisition Rights on Especially Favorable Terms

The Company will issue the following two types of stock acquisition rights stated in 2. and 3. below without consideration as stock options to executives and employees of the Company and its subsidiaries and affiliates as an incentive to contribute towards increasing consolidated performance and to enable recruitment of talented personnel.

The first type stated in 2. below is stock acquisition rights to be granted to executives of the Company and its subsidiaries, for which the amount to be paid in per share upon exercise shall be one (1) yen (hereinafter, "Common Stock Acquisition Rights I"). The Company and its subsidiaries revised their system of retirement bonuses for special service and modified a part of it to create a payment linked to stock price. Common Stock Acquisition Rights I equivalent to the value of a certain percentage of base remuneration of executives are allotted to relevant executives as the contents of payment linked to stock price. Because those who are subject to the new bonus system share the same interests with shareholders, the new bonus system contributes to maximizing the value of shareholders compared to a cash bonus system. The new bonus system enables shareholders to expect that this gives those executives an incentive for improving consolidated business results in the medium to long term due to constraints such as not being able to exercise the rights while they are in an executive position at certain group companies. The issuance of the Common Stock Acquisition Rights I to directors and executive officers of the Company will be subject to resolution of items pursuant to Paragraph 3 of Article 409 of the Companies Act as individual compensation of directors and executive officers at the Compensation Committee meeting.

The other type stated in 3. below is stock acquisition rights to be granted to employees of the Company and its subsidiaries and affiliates and to executives of the Company's subsidiaries and affiliates not subject to the Common Stock Acquisition Rights I above. The amount to be paid in per share upon exercise shall be determined based on the market price of shares of Common Stock on the allocation date of the stock acquisition rights (hereinafter, "Common Stock Acquisition Rights II"). The allocation date (hereinafter, "Allocation Date") means the date on which stock acquisition rights shall be allocated. In order to maintain competitive human resources and provide an effective incentive to improve business results, the Company puts conditions on Common Stock Acquisition Rights II such that those who are granted the rights will not be able to exercise the right until July 2019. Neither Common Stock Acquisition Rights I nor Common Stock Acquisition Rights II above will be granted to outside directors of the Company.

#### 2. Terms, Amount to be Paid In and Maximum Number of Common Stock Acquisition Rights I to be Resolved Pursuant to the Resolution of the Ordinary General Meeting of Shareholders

- (1) Maximum Number of Common Stock Acquisition Rights I to be Resolved Pursuant to the Delegation  
Not exceeding 900 common stock acquisition rights set according to (3) below.

The aggregate number of shares to be issued upon exercise of Common Stock Acquisition Rights I shall not exceed 900,000. If the number of granted shares is adjusted pursuant to (3) (a) below, the maximum number of Common Stock Acquisition Rights I to be issued shall be multiplied by the number of granted shares after adjustment.

- (2) Amount to be Paid In upon Issuance of Common Stock Acquisition Rights I to be Resolved Pursuant to the Delegation

Common Stock Acquisition Rights I shall be issued without consideration and require no payment.

- (3) Terms of Common Stock Acquisition Rights I to be Resolved Pursuant to the Delegation

- (a) Class and Number of Shares to be Issued upon Exercise of Common Stock Acquisition Rights I

The number of shares to be issued upon exercise of one (1) Common Stock Acquisition Right I (hereinafter, in 2, “Number of Granted Shares”) shall be 1,000 shares of Common Stock.

If the Company splits (including gratis issue of shares, same onwards) or consolidates the shares of Common Stock after the date of resolution of the Ordinary General Meeting of Shareholders (hereinafter, “Resolution Date”), the Number of Granted Shares shall be adjusted in accordance with the following formula. An adjustment shall be made only with respect to the Number of Granted Shares for the Common Stock Acquisition Rights I which have not been exercised at the time of the adjustment. Any fraction less than one (1) share resulting from the adjustment shall be disregarded.

$$\begin{array}{l} \text{Number of Granted Shares} \\ \text{after adjustment} \end{array} = \begin{array}{l} \text{Number of Granted Shares} \\ \text{before adjustment} \end{array} \times \text{Ratio of split or consolidation}$$

In addition, in the case of a merger with any other company, corporate split or capital reduction of the Company, or in any other case similar thereto where an adjustment of the Number of Granted Shares shall be required, in each case after the Resolution Date, the Number of Granted Shares shall be appropriately adjusted to the extent reasonable.

- (b) Amount to be Paid In upon Exercise of Common Stock Acquisition Rights I

The amount to be paid in upon exercise of Common Stock Acquisition Rights I shall be one (1) yen per share and shall be multiplied by the Number of Granted Shares.

- (c) Period during which Common Stock Acquisition Rights I may be Exercised

The period between the Allocation Date of Common Stock Acquisition Rights I and June 30, 2034.

- (d) Terms Regarding Increase in Capital Stock and Additional Paid-in Capital upon Exercise of Common Stock Acquisition Rights I

- 1) The amount of capital stock to increase upon issuance of Common Stock due to exercise of Common Stock Acquisition Rights I shall be half of the limit of the capital increase calculated according to Paragraph 1 of Article 17 of the Ordinance on Accounting of Companies. Any fraction less than one (1) yen resulting from the calculation shall be rounded up to the nearest one (1) yen.
- 2) The amount of additional paid-in capital to increase upon issuance of Common Stock due to exercise of Common Stock Acquisition Rights I shall be the difference between the limit of the capital increase and the increase in capital stock, both stated in 1) above.

- (e) Restriction on Transfer of Common Stock Acquisition Rights I

Common Stock Acquisition Rights I are non-transferable unless the Board of Directors of the Company approves such transfer.

- (f) Conditions for Exercise of Common Stock Acquisition Rights I

- 1) Common Stock Acquisition Rights I cannot be exercised in part.

- 2) Holders of Common Stock Acquisition Rights I may exercise the rights from the day after they leave from all positions of director or executive officer of the Company and its subsidiaries or affiliates as determined by the Board of Directors of the Company or the executive officers to whom the determination has been delegated by a resolution of the Board of Directors of the Company.
- 3) Notwithstanding 2) above, Common Stock Acquisition Rights I can be exercised from thirty (30) days prior to the last day of the period for exercise of the Common Stock Acquisition Rights I in accordance with other conditions for exercise.
- 4) Other conditions for exercise shall be set forth in a Stock Acquisition Rights Allocation Agreement between the Company and each holder of Common Stock Acquisition Rights I.

(g) Terms and Conditions of Acquisition of Common Stock Acquisition Rights I

The Company may acquire Common Stock Acquisition Rights I without consideration when a holder loses all qualifications for exercising Common Stock Acquisition Rights I or waives all or part of his/her Common Stock Acquisition Rights I.

(h) Treatment of Fractional Shares Less Than One Share

Any fraction less than one (1) share of Common Stock issued upon exercise of Common Stock Acquisition Rights I shall be disregarded.

3. Terms, Amount to be Paid In and Maximum Number of Common Stock Acquisition Rights II to be Resolved Pursuant to the Resolution of the Ordinary General Meeting of Shareholders

(1) Maximum Number of Common Stock Acquisition Rights II to be Resolved Pursuant to the Delegation

Not exceeding 5,500 common stock acquisition rights set according to (3) below.

The aggregate number of shares to be issued upon exercise of Common Stock Acquisition Rights II shall not exceed 5,500,000. If the number of granted shares is adjusted pursuant to (3) (a) below, the maximum number of Common Stock Acquisition Rights II to be issued shall be multiplied by the number of granted shares after adjustment.

(2) Amount to be Paid In upon Issuance of Common Stock Acquisition Rights II to be Resolved Pursuant to the Delegation

Common Stock Acquisition Rights II shall be issued without consideration and require no payment.

(3) Terms of Common Stock Acquisition Rights II to be Resolved Pursuant to the Delegation

(a) Class and Number of Shares to be Issued upon Exercise of Common Stock Acquisition Rights II

The number of shares to be issued upon exercise of one (1) Common Stock Acquisition Right II (hereinafter, in 3, "Number of Granted Shares") shall be 1,000 shares of Common Stock.

If the Company splits or consolidates the shares of Common Stock after the Resolution Date, the Number of Granted Shares shall be adjusted in accordance with the following formula. An adjustment shall be made only with respect to the Number of Granted Shares for the Common Stock Acquisition Rights II which have not been exercised at the time of the adjustment. Any fraction less than one (1) share resulting from the adjustment shall be disregarded.

$$\begin{array}{l} \text{Number of Granted Shares} \\ \text{after adjustment} \end{array} = \begin{array}{l} \text{Number of Granted Shares} \\ \text{before adjustment} \end{array} \times \text{Ratio of split or consolidation}$$

In addition, in the case of a merger with any other company, corporate split or capital reduction of the Company, or in any other case similar thereto where an adjustment of the Number of Granted Shares shall be required, in each case after the Resolution Date, the Number of Granted Shares shall be appropriately adjusted to the extent reasonable.



(b) Amount to be Paid In upon Exercise of Common Stock Acquisition Rights II

The amount to be paid in upon exercise of Common Stock Acquisition Rights II shall be the amount to be paid in per share (hereinafter, "Exercise Price") multiplied by the Number of Granted Shares.

The Exercise Price shall be 1.05 times the higher price of the following (i) or (ii). Any fraction less than one (1) yen resulting from the adjustment shall be rounded up to the nearest one (1) yen.

- (i) The average of the closing prices of Common Stock in the trading thereof on the Tokyo Stock Exchange (each, "Closing Price") for trading days (excluding days on which there is no Closing Price) during the month prior to the month of the Allocation Date of Common Stock Acquisition Rights II, or
- (ii) The Closing Price on the Allocation Date of Common Stock Acquisition Rights II (if there is no Closing Price on such date, the Closing Price for the immediately preceding trading day).

If the Company splits or consolidates the shares of Common Stock after the Allocation Date, the Exercise Price shall be adjusted in accordance with the following formula, and any fraction less than one (1) yen resulting from the adjustment shall be rounded up to the nearest one (1) yen.

$$\begin{array}{lcl} \text{Exercise Price} & & \\ \text{after adjustment} & = & \text{Exercise Price} \times \frac{1}{\text{Ratio of split or consolidation}} \\ & & \text{before adjustment} \end{array}$$

The Exercise Price shall be adjusted using the following formula, in the event the Company issues shares below the market price (except in the case of conversion of securities to be converted or that can be converted to Common Stock of the Company, or exercise of common stock acquisition rights (including those attached to bonds with common stock acquisition rights) which can claim issuance of Common Stock of the Company). Any fraction less than one (1) yen resulting from the adjustment shall be rounded up to the nearest one (1) yen.

$$\begin{array}{lcl} \text{Exercise price} & = & \text{Exercise price} \\ \text{after adjustment} & & \text{before adjustment} \end{array} \times \frac{\begin{array}{l} \text{Outstanding} \\ \text{number of shares} \end{array} + \frac{\text{Number of newly issued shares} \times \text{Payment for one share}}{\text{Market price of one share}}}{\text{Outstanding number of shares} + \text{Number of newly issued shares}}$$

"Outstanding number of shares" is the number of shares issued subtracting any treasury stocks of Common Stock.

Other than the above, in the case of a merger with any other company, corporate split or capital reduction of the Company, or in any other case similar thereto where an adjustment of the Exercise Price shall be required, in each case after the Allocation Date, the Exercise Price shall be appropriately adjusted to the extent reasonable.

(c) Period during which Common Stock Acquisition Rights II may be Exercised

The period between July 1, 2019 and June 25, 2024.

(d) Terms Regarding Increase in Capital Stock and Additional Paid-in Capital upon Exercise of Common Stock Acquisition Rights II

- 1) The amount of capital stock to increase upon issuance of Common Stock due to exercise of Common Stock Acquisition Rights II shall be half of the limit of the capital increase calculated according to Paragraph 1 of Article 17 of the Ordinance on Accounting of Companies. Any fraction less than one (1) yen resulting from the calculation shall be rounded up to the nearest one (1) yen.

- 2) The amount of additional paid-in capital to increase upon issuance of Common Stock due to exercise of Common Stock Acquisition Rights II shall be the difference between the limit of the capital increase and the increase in capital stock, both stated in 1) above.
- (e) Restriction on Transfer of Common Stock Acquisition Rights II
- Common Stock Acquisition Rights II are non-transferable unless the Board of Directors of the Company approves such transfer.
- (f) Conditions for Exercise of Common Stock Acquisition Rights II
- 1) Common Stock Acquisition Rights II cannot be exercised in part.
  - 2) Other conditions for exercise shall be set forth in a Stock Acquisition Rights Allocation Agreement between the Company and each holder of Common Stock Acquisition Rights II.
- (g) Terms and Conditions of Acquisition of Common Stock Acquisition Rights II
- The Company may acquire Common Stock Acquisition Rights II without consideration when a holder loses all qualifications for exercising Common Stock Acquisition Rights II or waives all or part of his/her Common Stock Acquisition Rights II.
- (h) Treatment of Fractional Shares Less Than One Share
- Any fraction less than one (1) share of Common Stock issued upon exercise of Common Stock Acquisition Rights II shall be disregarded.

<Translation>

*[Note: This English translation of the Japanese original version of the notice has been prepared for the sole purpose of the convenience of non-Japanese shareholders and shall by no means constitute an official or binding version of the notice.]*

## Business Report

(From April 1, 2013 to March 31, 2014)

### I. Status of the Group's Business Activities

The Daiwa Securities Group strives to improve the corporate value of the Group through its core business, the securities business. The outline of the Group's performance in the current fiscal year (FY2013) is as follows.

*Note: In this report, the "Group" means the corporate group consisting of Daiwa Securities Group Inc. (the "Company"), its subsidiaries and affiliates.*

#### 1. Economic and Market Environment and Outcome of the Group's Business Activities

##### (1) Economic and Market Environment

Our country's economy during FY2013 continued to pick up mainly due to recovery of the domestic demand. Consumer spending continued to advance as the sentiment of consumers improved and earnings environment recovered. Furthermore, consumer spending strengthened its trend towards the end of FY2013 with the last minute surge in demand before the increase of consumption tax in April 2014. Investment in houses also dramatically increased as its recovery trend continued with improved earnings environment of household accounts and low interest rates as well as the last minute surge in demand encouraged the investment. And public investments maintained their solid trend as the government intensely started to execute its economic measures. Pulled by stable domestic demand as described above, corporate production continued to improve. Although the quantity of export almost leveled off, corporate earnings, mainly manufacturing industry relating to exports, sharply rallied with depreciation of the Yen. And corporate investments indicated to recover with the growth of corporate earnings.

Regarding the Japanese stock market, share prices tended to rally with recovery of global economy, improved corporate earnings and depreciation of the Yen. Global economy overall gradually expanded mainly in developed countries as the economy of the United States continued to recover and the real economy in Europe improved with fiscal difficulties overcome. These were the factor to increase share prices but caused the United States to promote the discussion regarding curtail of monetary easing. During the period when the curtail of monetary easing in the United States became more likely, Japanese shares fluctuated with risk averse momentum stretched. Nevertheless there was some fluctuation, share prices inclined to rally with the Yen depreciating further and the Nikkei 225 index rose to 14,827.83 at the end of FY2013. Furthermore, the average trading volume (total of domestic and foreign stocks) per day on the Tokyo Stock Exchange during FY2013 was 2 trillion 877.3 billion, up 92.5% from the previous year.

In the bond market, the yield for the 10-year Japanese government bond fell down to 0.315%, the lowest level in history, at the beginning of April 2013 as Bank of Japan introduced "Quantitative and Qualitative Monetary Easing" in April 2013 and extended the average remaining maturity of its Japanese government bond purchases. The yield of Japanese government bond abruptly soared to the 0.9% level with the curtail of monetary easing in the United States anticipated in May, but afterwards, continued to decrease on average. From the end of November to year end when the curtail of monetary easing in the United States became more likely again, the yield of Japanese government bond rose from time to time influenced by the increase of interest rates in the U.S. market. However, it almost stayed at the lower level throughout the fiscal year, with the massive monetary easing by Bank of Japan, and reached 0.64% at the end of FY2013.

## **(2) Outcome of the Group's Business Activities**

### **Performance by the Operating Segment**

#### **1) Retail Business**

Daiwa Securities Co. Ltd. provides broad types of products and services to meet customers' various needs through the two transaction packages, namely the "Daiwa Consulting" course, which provides high-value-added services through sales representatives, and the "Daiwa Direct" course, which provides high-convenience services on the Internet and through call centers.

In FY2013, Daiwa Securities Co. Ltd. concentrated on distribution of foreign equities, stock investment trusts and fund wraps and established nine new business offices to enhance its clients' convenience and to expand its client base in areas where it has no branches. Equity revenue increased through the expansion in Japanese stock transactions with the vigorous stock market and strengthening distribution of foreign equities and it strived to increase its assets under custody of investment trusts with a satisfactory result in this business.

Regarding "Daiwa Fund Wrap," which provides diversification based on each customer's investment policy by combining investment trusts that are established especially for this service, it made an effort to expand its customers' assets under its custody. We maintained No.1 position in the industry of wrap account services (Note) in terms of the amount of assets under management as at the end of 2013.

As Daiwa Securities Co. Ltd. deals in yen deposit accounts and foreign currency deposit accounts as the agent of Daiwa Next Bank Co. Ltd., the deposit balance (including foreign currency deposits) as of the end of FY2013 has been approximately 2 trillion 400 billion yen. It began to provide two services from April 2013 which includes "premium service" which gives superior yen fixed rate deposit interests depending upon asset amounts managed by Daiwa Securities Co. Ltd. and "family plus" which applies the privilege of "premium service" to the family of the relevant client as well. Daiwa Securities Co. Ltd. extensively provides its customers with favorable interest rates on their deposits through its network of branch offices.

Japan's new tax exemption scheme for investment by individuals ("NISA" or Nippon (Japan) Individual Savings Account) was introduced in January 2014. In relation to this, Daiwa Securities Co. Ltd. has arranged "Daiwa NISA exclusive funds" by which no distribution fee is charged and also it provides "funds installment plan" which purchases a certain amount of investment trusts per month. Daiwa Securities Co. Ltd. promotes the transition from "savings to investments" and endeavors to expand its client base with these services.

*(Note)The account services which provide operating and management of assets as property management service for customers, and for which customers need to pay the management fee, transaction fee and custody fee etc. in one lump sum depending on the balance of assets contracted.*

#### **2) Wholesale Business**

Wholesale business comprised of Global Markets business and Investment Banking business.

In Global Markets business, Daiwa Securities Co. Ltd. conducts sales and trading of equities, bonds, forex and financial derivative products to institutional investors and corporate clients and also provides products to retail businesses.

In the Japanese market, Daiwa Securities Co. Ltd. significantly boosted its trading profits with revenues from brokerage commissions of Japanese shares by share prices and trade volume being stable during FY2013 and swift and flexible operation of trading positions depending upon market condition contributed to the considerable increase of trading profits. Also, it has achieved stable profit mainly from bonds by providing its clients the products which suits their needs and the fluctuation of market environment in timely manner with the collaboration between retail and wholesale business.

In Global Investment Banking business, it conducts underwriting, M&A advisory and structured finance etc.

Corporate investments expanded as share prices rallied and corporate earnings improved. Accordingly, Daiwa Securities Co. Ltd. was able to increase its underwritings and to materially expand its profits.

In the domestic underwriting business, it was appointed as the book runner (Note 1) for the issuance of corporate bonds of Softbank Corp. which was the largest domestic offering in FY2013. In foreign markets, it was appointed as the book runner for many issues such as United States Dollar denominated benchmark bonds (Note 2) of International Bank for Reconstruction and Development and Japan Bank for International Corporation.

Myanmar Securities Exchange Centre Co., Ltd., a joint venture company between Daiwa Securities Group and Myanma Economic Bank, entered into an Engagement Letter concerning the provision of advisory services with Asia Green Development Bank Limited, a subsidiary of the major conglomerates in Myanmar, in relation to a listing on the stock exchange to be established in Republic of the Union of Myanmar in December 2013.

Following the business alliance with Tanachart Securities Plc., Daiwa Securities Group entered into other business alliance agreements with PT. Bahana Securities in Indonesia, Affin Investment Bank Berhad in Malaysia and Australia and New Zealand Banking Group Limited, respectively, and steadily promoted the strategy to enhance its presence in the markets where future growth is anticipated.

*(Note 1) The firm which mainly manages and encourages the distribution in the public offering of shares*

*(Note 2) US Dollar denominated bonds issued and subscribed to in two or more countries that include the United States.*

### **3) Asset Management Business**

Daiwa Asset Management Co. Ltd. and Daiwa SB Investments Ltd. strived to increase their assets under management by providing products through broad distribution channels and strengthening their asset management expertise.

Daiwa Asset Management Co. Ltd. successfully manages “Daiwa U.S. Shares Strategy Alpha Fund (a currency selection type) – triple returns – Brazilian Real course (a monthly dividend type)” (increase of assets under management in FY2013: 91.1 billion yen) distributed through Daiwa Securities Co. Ltd. and “Daiwa High Graded Canadian Bonds Fund (a monthly dividend type)” ( increase of assets under management in FY2013: 448.6 billion yen ) distributed through commercial banks. It also launched “Daiwa High Dividend Yield Swiss Shares Twin Alfa (a monthly dividend type)” in December 2014 and the assets under management reached 60.1 billion yen. Its assets under management of publicly offered investment trust as of the end of FY2013 increased by 1 trillion 82.7 billion yen, which is the largest amount amongst domestic asset management companies, and reached 8 trillion 958.4 billion yen, which is its historical record.

Daiwa SB Investments Ltd. tried to enhance its skill in investment advising relating to domestic and foreign pension funds and continued to be No. 1 for five consecutive years in the rankings of the investigation of pension funds conducted by the “Newsletter on Pensions & Investment” published by Rating and Investment Information, Inc. (R&I). Concerning its investment trusts business, “High Dividend Yield Canadian Shares Twin Alpha (a monthly dividend type)”, which was launched in April 2013, steadily increased its assets under management and it reached 190.4 billion as of the end of FY2013.

Concerning the real estate asset management business, Daiwa Real Estate Asset Management Co., Ltd. launched the first healthcare facility (Note 1) dedicated investment corporation (REIT (Note 2)), Nippon Healthcare Investment Corporation in January, 2014. And Daiwa Office Investment Corporation was assigned AA- / Stable from Long-term Issuer Rating from Japan Credit Rating Agency, Ltd. with stable growth of its portfolio value by continuously acquiring properties such as office buildings, high turnover ratio of its tenants and its financial operation worked on stable basis.

*(Note 1) elderly facilities (private nursing homes, elderly housing with supportive services, etc.), medical facilities (hospitals, medical malls etc.) and others*

*(Note 2) Real Estate Investment Trust*

#### 4) Investment Business

Daiwa Corporate Investment Co., Ltd. continued making exits from existing investments such as selling the shares of ReproCELL Incorporated.

Daiwa Securities SMBC Principal Investments Co. Ltd. concentrates on the management of and exit from existing investments. It proceeded with the sale of Sumitomo Mitsui Construction Co., Ltd.

Daiwa PI Partners Co. Ltd. steadily built up investments in non-performing loans as financial institutions' needs for disposal of non-performing loans expanded and executed investment and loan for corporations. Also, it continued making swift exits from existing investments in non-performing loans and contributed to profits.

#### 5) Others

Daiwa Institute of Research Ltd. in Japan and ACE Data Systems Ltd. in Myanmar established DIR-ACE Technology Ltd. providing IT services in April, 2013 in Myanmar. The first data center in Myanmar was constructed in Yangon and started its operation in July 2014. In May, 2013, Daiwa Institute of Research Ltd. signed a "Memorandum of Understanding on Providing and Development of IT System" with Central Bank of Myanmar, the central bank of Republic of the Union of Myanmar, which aimed to support further development of IT system of Central Bank of Myanmar.

Daiwa Myanmar-Japan Foundation signed a Memorandum of Understanding with Myanmar Institute of Certified Public Accountants concerning mutually cooperating to establish a framework for enhancing the knowledge, professional skills and intellectual of certified accountants in Myanmar in December 2014.

#### [CSR (Note)]

The Group positively worked in the development and provision of innovative Socially Responsible Investment (SRI) financial instruments to contribute towards the shaping of a sustainable society by making efficient use of financial functions. The Group underwrote and distributed the nation's first bond program helping women entrepreneurs in emerging markets to increase access to finance and opportunity. And it continued to underwrite and distribute "Agri Bonds" that support to enhance the sustainability of agribusiness in developing countries, "Environmental Bonds" that support projects for improving the environment and "Water Bonds" that provide assistance to water-related projects in developing countries.

As for the continuous support to the area struck by the East Japan Earthquake, the Group donated a part of the trust fees of the Daiwa Nippon Ouen Fund Vol. 3 (Phoenix Japan) and helps nine NPOs in that area. Furthermore, the Group continuously works in supporting a pragmatic education program including economics and finance concerning life plan and engages in several volunteer activities.

*(Note) Corporate Social Responsibility*

## 2. Outline of the Consolidated Performances

The following is the outcome of our consolidated earnings results for the current fiscal year. The consolidated subsidiaries of the current fiscal year are 49 companies, and the affiliates included under the equity method are 8.

*(Note) The consolidated financial statements of the Company for the fiscal year ending March 31, 2014 are prepared in accordance with the "Accounting Regulation Ordinance" (Ministry of Justice Ordinance No. 13, 2006); in addition, these consolidated financial statements are prepared in accordance with the "Cabinet Office Ordinance on Financial Instruments Business, etc." (Cabinet Office Ordinance, No. 52, 2007), and the "Uniform Accounting Standards for Securities Companies" (set by the board of directors of the Japan Securities Dealers' Association, November 14, 1974), which are applied to the balance sheet and the statement of income of the company that engages in Securities-Related Business, the main business of the Company, based on Article 118 of the "Accounting Regulation Ordinance."*

# **(1) Status of Profits and Losses of the Group**

The consolidated operating revenues of the current fiscal year were 642.8 billion yen, up 22.3% from the previous fiscal year, and the net operating revenues were 541.9 billion yen, up 29.9% from the previous fiscal year. General and administrative expense increased by 7.2% to 357.3 billion yen and ordinary income was 197.0 billion yen up 107.0% from the previous fiscal year. After 9.6 billion yen as an extraordinary income mainly of gain on sales of investment securities, 11.1 billion yen as an extra ordinary loss and income taxes and minority interests in income were added to the ordinary income, net income was 169.4 billion yen up 132.4% from the previous year.

(Millions of yen)

	Net Operating Revenues			Ordinary Income		
	Fiscal 2012 (76 <sup>th</sup> term)	Fiscal 2013 (77 <sup>th</sup> term)	Change (%) from previous term	Fiscal 2012 (76 <sup>th</sup> term)	Fiscal 2013 (77 <sup>th</sup> term)	Change (%) from previous term
Retail	184,415	253,093	37.2%	49,251	102,120	107.3%
Wholesale	133,109	175,338	31.7%	12,034	47,428	294.1%
Asset Management	43,591	48,714	11.8%	19,089	25,328	32.7%
Investment	17,495	19,989	14.3%	14,161	17,171	21.3%
Others	38,696	44,815	15.8%	639	4,996	681.6%
Total	417,308	541,951	29.9%	95,176	197,045	107.0%

#### **[Retail]**

In addition to expanded transactions of Japanese and foreign equities as Yen depreciated and share prices soared and solid distribution of bonds, the distribution amount of investment trusts increased. In the end, net operating revenue was 253.1 billion yen (up 37.2% from the previous fiscal year) and ordinary income was 102.1 billion yen (up 107.3% from the previous fiscal year).

#### **[Wholesale]**

With trades of Japanese and foreign equities increased as Yen depreciated and share prices soared, expanded distribution of bonds contributed to net operating revenue and ordinary income, which increased to 175.3 billion yen (up 31.7% from the previous fiscal year) and 47.4 billion yen (up 294.1% from the previous fiscal year), respectively.

#### **[Asset Management]**

Net operating revenue was 48.7 billion yen (up 11.8% from the previous fiscal year) and ordinary income was 25.3 billion yen (up 32.7% from the previous fiscal year), because asset under management expanded as the distribution of stock investment trusts increased in addition to depreciated Yen and soared share prices.

#### **[Investment]**

Net operating revenue was 19.9 billion yen (up 14.3% from the previous fiscal year) and ordinary income was 17.1 billion yen (up 21.3% from the previous fiscal year), as a progress of return of investment contributed to the revenue.

### **(2) Status of Assets, Liabilities and Net Assets of the Group**

Total assets increased by 431.7 billion yen to 19 trillion 480.8 billion yen, mainly because loans secured by securities increased by 1 trillion 46.6 billion yen, cash and deposits increased by 674.7 billion yen and short-term investment securities invested by Daiwa Next Bank and so on increased by 470.2 billion yen while trading products decreased by 1 trillion 738.1 billion.

Total liabilities increased by 260.8 billion yen to 18 trillion 227.4 billion yen, mainly because deposits for banking business increased by 405.9 billion yen, trading products increased by 330.7 billion yen and long-term loan payable increased by 106.1 billion yen and so on, while loans payable secured by securities decreased by 812.6 billion yen.

As for net assets, retained earnings increased by 119.7 billion yen due to net income, valuation difference on available-for-sale securities increased by 11.1 billion yen due to rise in stock price, and foreign currency translation adjustment increased by 30.6 billion yen due to weakening of yen. As a result, total net assets increased by 170.8 billion yen to 1 trillion 253.4 billion yen. Net assets per share was 633.53 yen.

### **(3) Status of the Capital Investment of the Group**

The Group has been making capital investments for the purpose of enhancing its customers' convenience and the competitive power of its businesses. During the current fiscal year, we have made total IT investments of 26.2 billion yen, strengthening products and services such as NISA, enhancing capacity of supporting business activity with renewing infrastructure and adapting to the market integration of Tokyo Stock Exchange, Inc. and Osaka Stock Exchange, Inc. (Note).

Concerning branch offices, Daiwa Securities Co. Ltd established nine business offices in Fushimi, Kitasenri, Shakujiikoen, Eifukucho, Saginuma, Narimasu, Musashikoyama, Musashikosugi and Yoyogiuehara.

(Note) Osaka Stock Exchange, Inc. changed its corporate name to Osaka Exchange, Inc. as of March 24, 2014.

### **(4) Status of Financing of the Group**

The Company issued its 12th series of Yen denominated unsecured straight bonds of 30 billion yen (payment date of April 19, 2013), 13th series of Yen denominated unsecured straight bonds of 40 billion yen (payment date of May 31, 2013), 14th series of Yen



denominated unsecured straight bonds of 30 billion yen (payment date of May 27, 2013) and 15th series of Yen denominated unsecured straight bonds of 30 billion yen (payment date of September 2, 2013). And the Company issued Daiwa Securities Group Inc. United States Dollars Notes due July 22, 2020 of 53 million United States Dollars (payment date of July 25, 2013), and Daiwa Securities Group Inc. South African Rand Notes due March 16, 2017 of 1.45 billion South African Rand (payment date of July 25, 2013).

### 3. Five-year trend of the status of Consolidated Performance and Assets

	73 <sup>rd</sup> term	74 <sup>th</sup> term	75 <sup>th</sup> term	76 <sup>th</sup> term	(Billions of yen) 77 <sup>th</sup> term (current term)
	(Apr 1, 2009 - Mar 31, 2010)	(Apr 1, 2010- Mar 31, 2011)	(Apr 1, 2011- Mar 31, 2012)	(Apr 1, 2012- Mar 31, 2013)	(Apr 1, 2013- Mar 31, 2014)
Operating revenues	537.9	403.0	422.3	525.4	642.8
Net operating revenues	458.1	318.5	336.0	417.3	541.9
Ordinary income (loss)	102.9	(32.6)	(12.2)	95.1	197.0
Net income (loss)	43.4	(37.3)	(39.4)	72.9	169.4
Stockholders' equity (Net assets)	1,017.5	921.3	951.7	1,082.5	1,253.4
Total assets	17,155.3	16,842.4	18,924.0	19,049.0	19,480.8
Stockholders' equity (Net assets) per share (Yen)	530.27	496.76	463.04	536.72	633.53
Net income (loss) per share (Yen)	26.41	(21.90)	(23.41)	43.00	99.63
Return on Equity (ROE)%	5.3%	-	-	8.6%	17.0%
Number of consolidated Subsidiaries	54	58	60	52	49
Number of affiliates included under the equity method	7	6	5	8	8

### 4. Issues to be Addressed by the Group

In FY 2013, as Abenomics fueled a historically unprecedented upturn in the market, including the devaluation of the excessively strong yen, high stock prices, etc., the Daiwa Securities Group earned a healthy profit from its customer-based businesses and achieved outstanding performance that spurred the growth phase in the second year of its medium-term management plan. Our ongoing efforts to boost stable revenue and cut fixed costs paid off. The percentage of fixed costs covered by stable revenue exceeded 50%, the target set for the final year of the medium-term management plan. We made significant headway toward reaching our goal of establishing a solid business foundation that is not susceptible to market fluctuations. In FY 2014 which marks the final year of our medium-term management plan, we will shift into the expansion stage. Focusing on our retail business, we will stick to a key growth-accelerating business strategy that harnesses the strengths of our business segments and affiliates across the group to take the lead in ushering in the era of transition from savings to investments. As the end of deflation and a dynamic financial shift from savings to investments looms over the horizon, the Retail Division will leverage its position at the forefront of that coming trend to implement specific measures with an eye to expanding the sales platform and forging a new business model. Along with improvement on products and services responding to customers' needs, we will continue to work on initiatives in the NISA market to expand our customer base of individual investors by marketing long-term installment and diversified investment products designed specifically for NISA. We will also step up efforts on IPO-related businesses in order to fulfill our mission as a leader in the primary market and supply risk money to start-ups and growing companies.

The Daiwa Securities Group will leverage the integrated strengths of its global network to take the lead in the era of shift from savings to investments and activate personal financial assets with an eye to expanding its operations and driving the growth of the Japanese economy.

#### The Action Plans for Each Business Division for FY 2014

##### Retail Division

- 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

##### Wholesale Division

- 1) Improve IB (Note 1) pipelines (Note 2) by strengthening the quality and quantity of IB proposals
- 2) Strengthening 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

##### Asset Management Division

- 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

##### IT / Think Tank Division

- 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

##### Investment Division

- 1) Actively invest the Group's management resources to promote fund-raising (Note 3) 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 the existing investments

##### Other (Daiwa Next Bank)

- 1) Expand the FX business, and enhance ALM (Note 4) functions in order to evolve the securities-banking business model

*(Note 1) Investment Banking business which provides the best solution to customers in underwriting of stocks and bonds, Initial Public Offering, advisory of mergers and acquisitions, etc.*

*(Note 2) deals which are expected to be realized and profitable*

*(Note 3) establishment and distribution of private placement of investment funds*

*(Note 4) Asset Liability Management: risk management method which totally controls the quantity of asset and liability*

## 5. Status of the Group

### (1) The Group's Primary Businesses

The Group, whose businesses are investment and financial services 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, treatment of public offering for subscription and secondary offering of securities, treatment of private offering for subscription of securities, and banking business or other businesses related to the securities and financial fields.

### (2) Status of Major Subsidiaries and Affiliates

Company Name	Location	Capital (millions of yen)	Ratio of Voting Rights (Directly owned)	Business
Daiwa Securities Co. Ltd.	Chiyoda-ku, Tokyo	100,000	100.0% (99.9%)	Securities related business Investment advisory and agency business
Daiwa Asset Management Co. Ltd.	Chiyoda-ku, Tokyo	15,174	100.0% (100.0%)	Investment management business Investment advisory and agency business
Daiwa Institute of Research Holdings Ltd.	Koto-ku, Tokyo	3,898	100.0% (100.0%)	Integration and management of subsidiaries
Daiwa SB Investments Ltd. (Note)	Chiyoda-ku, Tokyo	2,000	44.0% (44.0%)	Investment management business Investment advisory and agency business
Daiwa Securities Business Center Co. Ltd.	Koto-ku, Tokyo	100	100.0% (100.0%)	Back office operation
Daiwa Property Co., Ltd.	Chuo-ku, Tokyo	100	100.0% (99.4%)	Lending and borrowing of real estate
Daiwa Next Bank, Ltd.	Chiyoda-ku, Tokyo	50,000	100.0% (100.0%)	Banking business
Daiwa Institute of Research Ltd.	Koto-ku, Tokyo	1,000	100.0% ( - )	Information service
Daiwa Institute of Research Business Innovation Ltd.	Koto-ku, Tokyo	3,000	100.0% ( - )	Information service
Daiwa Corporate Investment Co., Ltd.	Chiyoda-ku, Tokyo	100	100.0% ( - )	Investment business
Daiwa Securities SMBC Principal Investments Co. Ltd.	Chiyoda-ku, Tokyo	100	60.0% ( - )	Investment business
Daiwa PI Partners Co. Ltd.	Chiyoda-ku, Tokyo	12,000	100.0% ( - )	Investment business
Daiwa Real Estate Asset Management Co., Ltd.	Chuo-ku, Tokyo	200	100.0% (100.0%)	Investment management business Investment advisory and agency business
Daiwa Office Investment Corporation	Chuo-ku, Tokyo	198,780	47.6% (15.0%)	Investment in specified assets
Daiwa Capital Markets Europe Limited	London, U.K.	GBP732 million	100.0% ( - )	Securities-related business
Daiwa Capital Markets Asia Holding B.V.	Amsterdam, Netherlands	EUR1,083 million	100.0% ( - )	Integration and management of subsidiaries
Daiwa Capital Markets Hong Kong Limited	Hong Kong, China	HKD100 million USD676 million	100.0% ( - )	Securities-related business
Daiwa Capital Markets Singapore Limited	Singapore, Singapore	SGD140 Million	100.0% ( - )	Securities-related business
Daiwa Capital Markets America Holdings Inc.	New York, U.S.A.	USD621 Million	100.0% ( - )	Integration and management of subsidiaries
Daiwa Capital Markets America Inc.	New York, U.S.A.	USD100 Million	100.0% ( - )	Securities-related business

(Note) Daiwa SB Investments Ltd. is an affiliated company.

**(3) Status of the Group's Business Combinations, etc.**

Not applicable

**(4) Status of Major Business Alliances**

The Company operates joint ventures with Sumitomo Mitsui Financial Group Inc. in the areas of the asset management business.

**(5) The Group's Primary Business Locations**

1) **The Company's Head Office:** 9-1, Marunouchi 1-Chome, Chiyoda-ku, Tokyo

2) **Main Subsidiaries' Business Locations**

Daiwa Securities Co. Ltd.

Hokkaido / Tohoku	Sapporo Branch, Sendai Branch, and 8 other branches
Kanto (excluding Tokyo)	Yokohama Branch, Yokohama-eki Nishiguchi Branch, Chiba Branch, Omiya Branch, and 23 other branches
Tokyo	Head Office, Ginza Branch, Shinjuku Branch, Shibuya Branch, Ikebukuro Branch, and 28 other branches
Chubu / Hokuriku	Nagoya Branch, Nagoya-ekimae Branch, Shizuoka Branch, and 16 other branches
Kinki	Kyoto Branch, Osaka Branch, Umeda Branch, Nanba Branch, Kobe Branch, and 15 other branches
Chugoku / Shikoku	Hiroshima Branch, and 12 other branches
Kyushu / Okinawa	Fukuoka Branch, and 9 other branches

**(6) Status of Employees**

1) **The Group's Employees**

Number of employees	Change from previous fiscal year
13,317	(109)

*(Note 1): The number of employees is calculated by the number of full-time staff.*

*(Note 2): The annual average number of part-time workers is 666.*

2) **The Company's Employees**

Number of employees	Average age	Average years of service
9 [ 602 ]	[ 41yrs.&2mons. ]	[ 14yrs.&10mons. ]

*(Note 1): "The number of employees is calculated by the number of full-time staff, and the number of employees who work for both the Company and Daiwa Securities Co. Ltd. is noted in brackets.*

*(Note 2): In Average age and Average years of service above, the numbers include those of employees who work for both the Company and Daiwa Securities Co. Ltd.*

*(Note 3): In Average years of service above, the years of service in Daiwa Securities Co. Ltd., etc. are included,*

## (7) Major Lenders

### Daiwa Securities Group Inc.

Name of Lender	Type of Loan	Balance (millions of yen)
Sumitomo Mitsui Banking Corporation	Short-Term Borrowings	48,525
	Long-Term Borrowings	44,850
Sumitomo Mitsui Trust Bank, Limited	Short-Term Borrowings	7,600
	Long-Term Borrowings	45,000
Mizuho Bank, Ltd.	Long-Term Borrowings	42,600
Resona Bank, Ltd.	Short-Term Borrowings	5,000
	Long-Term Borrowings	18,000
Taiyo Life Insurance Company.	Long-Term Borrowings	20,000

### Daiwa Office Investment Corporation

Name of Lender	Type of Loan	Balance (millions of yen)
Sumitomo Mitsui Banking Corporation	Short-Term Borrowings	15,500
	Long-Term Borrowings	14,400

*(Note): The main borrowings from outside of the Group, excluding call money etc., are stated above.*

## (8) Other Significant Matters relating to the Group's Current Status

Not applicable

*(Note): This business report is prepared in accordance with the provisions of the "Companies Act" (Act No. 86 of 2005), the "Ordinance for Enforcement of the Companies Act" (Ministry of Justice Ordinance No. 12 of 2006) and the "Accounting Regulation Ordinance" (Ministry of Justice Ordinance No. 13 of 2006). Where it was possible to state the Group's status, we stated the status of the Group instead of the status of the Company alone.*

## II. Summary of the Company (as of March 31, 2014)

### 1. Status of Shares

#### (1) Total number of Shares

Total number of authorized shares: 4,000,000,000 shares

Total number of issued and outstanding shares: 1,749,378,772 shares  
(Including treasury stock)

(2) Total number of Shareholders: 110,831

#### (3) Major Shareholders (top ten)

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

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

(Note 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.

## 2. Status of Stock Acquisition Rights, etc.

### (1) Status of Stock Acquisition Rights (Stock Options) at the end of the current fiscal year

#### A. Stock Acquisition Rights issued under Article 280-20 and Article 280-21 of the previous Commercial Code.

Name (Issued Day)	Number (Class and Number of Shares)	Amount to be paid in upon issuance	Amount to be paid in upon exercise	Period to exercise	Conditions for exercise
Stock Acquisition Rights issued in June 2005 (June 24, 2005)	344 (Common stock 344,000 shares)	Gratuitous grant	1,000 yen (1 yen per share)	From July 1, 2005 to June 30, 2025	(Note1) (Note2) (Note3)

(Note 1) Each stock acquisition right may not be exercised in part.

(Note 2) The holder of the stock acquisition rights may exercise the rights from the next day of the day when they exit all positions as director or Corporate Executive Officer, or Executive Officers of the Company and its subsidiaries which is determined by the Board of Directors of the Company or the Corporate Executive Officers to whom the determination has been delegated by a resolution of the Board of Directors of the Company. However, stock acquisition rights may be exercised after June 1, 2025 in accordance with other conditions for exercise of stock acquisition rights.

(Note 3) Other conditions for exercise shall be set forth in the stock acquisition right grant agreement.

#### B. Stock Acquisition Rights issued under Article 236, Article 238 and Article 239 of the Companies Act

Name (Issued Day)	Number (Class and Number of Shares)	Amount to be paid in upon issuance	Amount to be paid in upon exercise	Period to exercise	Conditions for exercise
Stock Acquisition Rights issued in July 2006 (July 1, 2006)	213 (Common stock 213,000 shares)	Gratuitous grant	1,000 yen (1 yen per share)	From July 1, 2006 to June 30, 2026	(Note 1) (Note 2) (Note 4)
Stock Acquisition Rights, Series 3 (September 4, 2006)	2,593 (Common stock 2,593,000 shares)	Gratuitous grant	1,455,000 yen (1,455 yen per share)	From July 1, 2011 to June 23, 2016	(Note 1) (Note 4)
Stock Acquisition Rights issued in July 2007 (July 1, 2007)	238 (Common stock 238,000 shares)	Gratuitous grant	1,000 yen (1 yen per share)	From July 1, 2007 to June 30, 2027	(Note 1) (Note 2) (Note 4)
Stock Acquisition Rights, Series 4 (September 3, 2007)	2,570 (Common stock 2,570,000 shares)	Gratuitous grant	1,176,000 yen (1,176 yen per share)	From July 1, 2012 to June 22, 2017	(Note 1) (Note 4)
Stock Acquisition Rights issued in July 2008 (July 1, 2008)	296 (Common stock 296,000 shares)	Gratuitous grant	1,000 yen (1 yen per share)	From July 1, 2008 to June 30, 2028	(Note 1) (Note 2) (Note 4)
Stock Acquisition Rights, Series 5 (September 8, 2008)	3,015 (Common stock 3,015,000 shares)	Gratuitous grant	881,000 yen (881 yen per share)	From July 1, 2013 to June 20, 2018	(Note 1) (Note 4)
Stock Acquisition Rights issued in July 2009 (July 1, 2009)	598 (Common stock 598,000 shares)	Gratuitous grant	1,000 yen (1 yen per share)	From July 1, 2009 to June 30, 2029	(Note 1) (Note 2) (Note 4)
Stock Acquisition Rights, Series 6 (November 9, 2009)	4,413 (Common stock 4,413,000 shares)	Gratuitous grant	496,000 yen (496 yen per share)	From July 1, 2014 to June 19, 2019	(Note 1) (Note 4)
Stock Acquisition Rights issued in July 2010 (July 1, 2010)	1,015 (Common stock 1,015,000 shares)	Gratuitous grant	1,000 yen (1 yen per share)	From July 1, 2010 to June 30, 2030	(Note 1) (Note 3) (Note 4)
Stock Acquisition Rights, Series 7 (September 1, 2010)	7,399 (Common stock 7,399,000 shares)	Gratuitous grant	380,000 yen (380 yen per share)	From July 1, 2015 to June 25, 2020	(Note 1) (Note 4)
Stock Acquisition Rights issued in July 2011 (July 1, 2011)	1,204 (Common stock 1,204,000 shares)	Gratuitous grant	1,000 yen (1 yen per share)	From July 1, 2011 to June 30, 2031	(Note 1) (Note 2) (Note 4)
Stock Acquisition Rights, Series 8 (September 5, 2011)	5,855 (Common stock 5,855,000 shares)	Gratuitous grant	326,000 yen (326 yen per share)	From July 1, 2016 to June 24, 2021	(Note 1) (Note 4)
Stock Acquisition Rights issued in February 2013 (February 12, 2013)	831 (Common stock 831,000 shares)	Gratuitous grant	1,000 yen (1 yen per share)	From February 12, 2013 to June 30, 2032	(Note 1) (Note 3) (Note 4)

Stock Acquisition Rights, Series 9 (February 12, 2013)	6,333 (Common stock 6,333,000 shares)	Gratuitous grant	598,000 yen (598 yen per share)	From July 1, 2017 to June 26, 2022	(Note 1) (Note 4)
Stock Acquisition Rights issued in February 2014 (February 10, 2014)	404 (Common stock 404,000 shares)	Gratuitous grant	1,000 yen (1 yen per share)	From February 10, 2014 to June 30, 2033	(Note 1) (Note 3) (Note 4)
Stock Acquisition Rights, Series 10 (February 10, 2014)	3,964 (Common stock 3,964,000 shares)	Gratuitous grant	1,062,000 yen (1,062 yen per share)	From July 1, 2018 to June 25, 2023	(Note 1) (Note 4)
Total	40,941 (Common stock 40,941,000 shares)				

(Note 1) Each stock acquisition right may not be exercised in part.

(Note 2) The holder of the stock acquisition rights may exercise the rights from the next day of the day when they exit all positions as director, Corporate Executive Officer, or Executive Officer of the Company and its subsidiaries, which is determined by the Board of Directors of the Company or the Corporate Executive Officers to whom the determination has been delegated by a resolution of the Board of Directors of the Company. However, from 30 days before the last day of the exercise period, the holder can exercise the stock acquisition rights in accordance with other conditions of exercise.

(Note 3) The holder of the stock acquisition rights may exercise the rights from the next day the day when they exit all positions as director, Corporate Executive Officer, or Executive Officer of the Company and its subsidiaries and affiliates, which is determined by the Board of Directors of the Company or the Corporate Executive Officers to whom the determination has been delegated by a resolution of the Board of Directors of the Company. However, from 30 days before the last day of the exercise period, the holder can exercise the stock acquisition rights in accordance with other conditions of exercise.

(Note 4) Other conditions for exercise shall be set forth in the stock acquisition right allocation agreement.

(Note 5) The number of stock acquisition rights above includes the stock acquisition rights held by the Company.

## **(2) Status of Stock Acquisition Rights (Stock Options) held by the Company's Officers at the end of the current fiscal year**

<u>Name of Stock Acquisition Rights</u>	<u>Number of holders</u>	<u>Number of rights</u>
Stock Acquisition Rights issued in June 2005	8	56
Stock Acquisition Rights issued in July 2006	8	33
Stock Acquisition Rights, Series 3	7	23
Stock Acquisition Rights issued in July 2007	9	36
Stock Acquisition Rights, Series 4	6	20
Stock Acquisition Rights issued in July 2008	12	55
Stock Acquisition Rights, Series 5	3	13
Stock Acquisition Rights issued in July 2009	13	114
Stock Acquisition Rights, Series 6	2	11
Stock Acquisition Rights issued in July 2010	14	176
Stock Acquisition Rights, Series 7	1	8
Stock Acquisition Rights issued in July 2011	14	252
Stock Acquisition Rights, Series 8	1	9
Stock Acquisition Rights issued in February 2013	14	187
Stock Acquisition Rights, Series 9	1	11
Stock Acquisition Rights issued in February 2014	15	100

(Note 1) No stock acquisition right as a stock option was allocated to any Outside Director.

(Note 2) The officers at the end of current fiscal year did not hold Stock Acquisition Rights, Series 10.



**(3) Status of Stock Acquisition Rights (Stock Options) allotted to Employees, etc., during the current fiscal year**

Name of Stock Acquisition Rights	Class of holders	No. of holders	No. of rights
Stock Acquisition Rights issued in February 2014	Employees of the Company	7	23
	Directors of Subsidiaries	42	162
	Employees of Subsidiaries	39	119
	Total	88	304
Stock Acquisition Rights, Series 10	Directors of Subsidiaries	7	27
	Employees of Subsidiaries	2,808	3,818
	Directors and Employees of Affiliates	66	119
	Total	2,881	3,964

(Note 1) Above numbers are as of the allocation date of each stock acquisition right.

(Note 2) Executive Officers of the Company are classified as employees of the Company.

(Note 3) Executive Officers of subsidiaries are classified as employees of subsidiaries.

(Note 4) No stock acquisition right as a stock option was allocated to the Audit & Supervisory Board Member of subsidiaries.

**3. Status of the Company's Officers**

**(1) Directors**

Title	Name	Area in Charge and Significant Concurrent Positions
Chairman of the Board	Shigeharu Suzuki	See “ (2) Corporate Executive Officers ”
Member of the Board	Takashi Hibino	See “ (2) Corporate Executive Officers ”
Member of the Board	Nobuyuki Iwamoto	See “ (2) Corporate Executive Officers ”
Member of the Board	Akio Takahashi	See “ (2) Corporate Executive Officers ”
Member of the Board	Yoriyuki Kusaki	See “ (2) Corporate Executive Officers ”
Member of the Board	Saburo Jifuku	See “ (2) Corporate Executive Officers ”
Member of the Board	Masaru Shirataki	Audit & Supervisory Board Member of Daiwa Securities Co. Ltd. Outside Audit & Supervisory Board Member of Daiwa SB Investments Ltd. Audit & Supervisory Board Member of Daiwa Property Co., Ltd. Audit & Supervisory Board Member of Daiwa Real Estate Asset Management Co., Ltd.
Member of the Board	Ryuji Yasuda	See “ (3) Outside Officers ”
Member of the Board	Nobuko Matsubara	See “ (3) Outside Officers ”
Member of the Board	Keiichi Tadaki	See “ (3) Outside Officers ”
Member of the Board	Kensuke Itoh	See “ (3) Outside Officers ”
Member of the Board	Hiroki Tsuda	See “ (3) Outside Officers ”

(Note 1) Members of the Board, Ryuji Yasuda, Nobuko Matsubara, Keiichi Tadaki, Kensuke Itoh and Hiroki Tsuda are outside directors as defined under Article 2 item 15 of the Companies Act, and independent directors as defined by Tokyo Stock Exchange, Inc. and Nagoya Stock Exchange, Inc.

(Note 2) As a “company with committees”, the Company installed the following three committees, composed of the following directors.

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

Audit Committee: Keiichi Tadaki (Chairman), Masaru Shirataki,  
Nobuko Matsubara, Hiroki Tsuda

Compensation Committee: Shigeharu Suzuki (Chairman), Takashi Hibino,  
Ryuji Yasuda, Kensuke Itoh, Hiroki Tsuda

Further, composition of Compensation Committee was changed as follows as of April 1, 2014.

Compensation Committee: Ryuji Yasuda (Chairman), Shigeharu Suzuki,  
Takashi Hibino, Kensuke Itoh, Hiroki Tsuda

## (2) Corporate Executive Officers

Title	Name	Area in Charge and Significant Concurrent Positions
President/Representative Corporate Executive Officer	Takashi Hibino	Chief Executive Officer (CEO), Representative Director/President of Daiwa Securities Co. Ltd.
Deputy President/Representative Corporate Executive Officer	Nobuyuki Iwamoto	Chief Operating Officer (COO), Head of Personnel and Overseas Representative Director/Deputy President of Daiwa Securities Co. Ltd.
Deputy President	Akio Takahashi	Head of Wholesale, Representative Director/Deputy President of Daiwa Securities Co. Ltd.
Deputy President	Yoriyuki Kusaki	Head of Retail, Representative Director/Deputy President of Daiwa Securities Co. Ltd.
Deputy President	Hiroshi Nakamura	Deputy Head of Wholesale, Representative Director/Deputy President of Daiwa Securities Co. Ltd.
Deputy President	Makoto Shirakawa	Head of Asset Management, Representative Director/President of Daiwa Asset Management Co. Ltd.
Deputy President	Takashi Fukai	Head of Think-tank, Representative Director/President of Daiwa Institute of Research Holdings Ltd., Daiwa Institute of Research Ltd. and Daiwa Institute of Research Business Innovation Ltd.
Executive Managing Director	Saburo Jifuku	Chief Risk Management Officer (CRO), Executive Managing Director of Daiwa Securities Co. Ltd.
Executive Managing Director	Masaaki Goto	Deputy Head of Overseas (Head of Europe/Middle East Region), Chairman of Daiwa Capital Markets Europe Limited
Executive Managing Director	Koichi Matsushita	Head of Communications Executive Managing Director of Daiwa Securities Co. Ltd.
Executive Managing Director	Toshihiro Matsui	Head of Planning and Legal, Deputy Head of Personnel Executive Managing Director of Daiwa Securities Co. Ltd.
Executive Managing Director	Toshihiko Onishi	Head of Internal Audit, Executive Managing Director of Daiwa Securities Co. Ltd.
Executive Managing Director	Mikita Komatsu	Chief Financial Officer (CFO), Deputy Head of Planning and Overseas, Executive Managing Director of Daiwa Securities Co. Ltd.
Senior Managing Director	Shigeharu Suzuki	Representative Director/Chairman of the Board of Daiwa Securities Co. Ltd.

(Note 1) Corporate Executive Officers Takashi Hibino, Nobuyuki Iwamoto, Akio Takahashi, Yoriyuki Kusaki, Saburo Jifuku and Shigeharu Suzuki also serve as Directors.

(Note 2) Corporate Executive Officers Saburo Jifuku, Masaaki Goto and Koichi Matsushita resigned as of March 31, 2014, respectively.

(Note 3) Keiko Tashiro and Hiroyuki Inose took their new positions as Corporate Executive Officer

as of April 1, 2014, and as of said day the responsibilities of the Corporate Executive Officers were changed as follows.

Deputy President	Nobuyuki Iwamoto	Chief Operating Officer (COO), Head of Overseas
Senior Executive Managing Director	Toshihiro Matsui	Head of Planning and Personnel
Executive Managing Director	Keiko Tashiro	Deputy Head of Overseas (Head of Americas Region)
Corporate Executive Officer	Hiroyuki Inose	Chief Risk Management Officer (CRO)

### (3) Outside Officers

#### 1) Significant concurrent positions held by outside officers in other companies and the relationships between these companies and the Company

Name	Significant Concurrent Positions
Ryuji Yasuda	Professor of Hitotsubashi University, Graduate School of International Corporate Strategy Outside Director of Fukuoka Financial Group, Inc. Outside Director of the Bank of Fukuoka, Ltd. Outside Director of Sony Corporation Outside Director of Yakult Honsha Co., Ltd. Outside Audit & Supervisory Board Member of The Asahi Shimbun Company Outside Director of ORIX Corporation
Nobuko Matsubara	Honorary Chairman of Japan Institute of Worker's Evolution Outside Director of Mitsui & Co., Ltd.
Keiichi Tadaki	Special Counsel Attorney at law of Mori Hamada & Matsumoto Outside Director of Aeon Co., Ltd. Outside Audit & Supervisory Board Member of Nippon Life Insurance Company Outside Audit & Supervisory Board Member of Fujita Corporation
Kensuke Itoh	Advisor to Kyoto Ceramic Co., Ltd.
Hiroki Tsuda	Outside Director of Mitsubishi Heavy Industries, Ltd. Advisor to Mitsui Sumitomo Insurance Co., Ltd.

(Note) The Company has no special relationships of interest with companies listed above in which outside officers hold concurrent positions.

#### 2) Major activities during the current fiscal year

Name	Major activities (Status of attendance & remarks)
Ryuji Yasuda	Attended all 10 Board of Directors' Meetings held during the current fiscal year, and made remarks on the bills and discussion of meetings, mainly based on his knowledge and experience relating to management strategies.
Nobuko Matsubara	Attended all 10 Board of Directors' Meetings and all 12 Audit Committee held during the current fiscal year, and made remarks mainly on the Company's personnel policies, from her ample experience and view as a government officer.
Keiichi Tadaki	Attended all 10 Board of Directors' Meetings and all 12 Audit Committee held during the current fiscal year, and made remarks mainly on maintenance and build-up of the compliance system of the Company, from his professional view as an attorney.
Kensuke Itoh	Attended all 10 Board of Directors' Meetings held during the current fiscal year, and made remarks on the bills and agenda of the meetings, mainly based on his ample experience and views as a corporate manager.

Hiroki Tsuda

Attended all 8 Board of Directors' Meetings and all 10 Audit Committee held after his assumption of his position as Director during current fiscal year, and made remarks on the bills and agenda of the meetings, from his ample experience and view as a government officer.

*(Note) Nobuko Matsubara, Keiichi Tadaki and Hiroki Tsuda are members of the Audit Committee.*

### 3) Outline of the Agreement to limit liability

Each outside director executed an agreement to limit liability provided in Article 423, Paragraph 1 of the Companies Act, with the Company. The maximum amount of liability under the said agreement shall be 10 million yen or the minimum liability amount provided in Article 425, paragraph 1 of the Companies Act, whichever is higher.

### (4) Remunerations paid to Directors and Corporate Executive Officers

	Directors		Corporate Executive Officers		Total	
Amounts of Remunerations, etc.	Number Paid	Amount Paid	Number Paid	Amount Paid	Number Paid	Amount Paid
Paid based on Resolution of the Compensation Committee	Persons	¥million	Persons	¥million	Persons	¥million
	8	113	14	1,159	22	1,273

*(Note 1) The above paid amounts include the estimated amounts payable as payment linked to achievement for the current fiscal year.*

*(Note 2) The above paid amounts include stock acquisition rights granted as stock options to the Directors and Corporate Executive Officers valued at 95 million yen in total. The details of the stock acquisition rights are as stated in "2. Status of Stock Acquisition Rights, etc."*

*(Note 3) The total remuneration, etc. paid to the six (6) outside directors was 85 million yen.*

*(Note 4) The remunerations to the seven (7) Directors who also serve as Corporate Executive Officers are stated in the column of Amount Paid to the Corporate Executive Officers.*

### (5) Policies for Determination of Remuneration for Directors and Corporate Executive Officers

Remuneration for Directors and Corporate Executive Officers is determined based on the following fundamental policies.

- To make incentives, which contribute to increasing shareholders' value through sound business development and lead to development of short-term and medium to long-term business, in order to function effectively.
- To stay at an internationally competitive level as well as to compete in Japan, as a securities-related business group operating globally.
- To operate as a "committee system" company, so that execution and supervision function effectively.

Remuneration for Directors and Corporate Executive Officers are composed of base payment, payment linked to achievement and payment linked to stock price as defined below.

#### 1) Base payment

Base payment is a fixed amount calculated based on his/her position, duties and role.

#### 2) Payment linked to achievement

Payment linked to achievement shall be determined by the individual's level of contributions on the basis of consolidated ordinary income, after taking consolidated ROE and the status concerning how the core management targets set in the Medium-Term Management Plan have progressed and other elements into consideration.

Payment linked to achievement shall not be applied to Directors who do not serve as a Corporate Executive Officer.

### 3) Payment linked to stock price

To increase the link between payment and shareholders' value, the Company grants stock options, etc., whose values correspond to a certain percentage of base payment, as payment linked to stock price.

Payment linked to stock price shall not apply to Outside Directors.

## 4. Status of Independent Auditors

### 1) Name: KPMG AZSA LLC

### 2) Amount of Fees, etc.

1. The amount of fees, etc. to be paid by the Company to the independent auditor.  
80 million yen

2. The total amount of benefits, etc. to be paid by the Company and subsidiaries of the Company to the independent auditor.  
557 million yen

*(Note 1) Because the amounts of audit fees for audit services under the Companies Act and audit service under the Financial Instruments and Exchange Act of Japan are not clearly distinguished in the audit engagement contract between the Company and the independent auditor, and it is not practical to categorize them, the fees, etc. above are the aggregated amount of both.*

*(Note 2) The Company and subsidiaries of the Company also pay a fee to the independent auditor in consideration of its services relating to the assessment of controlled risk and compliance concerning segregation of customers' assets, a service not included in audit duties (audit certificate service) as defined in Article 2, Paragraph 1 of the Certified Public Accountant Law.*

### 3) Policies for Determination of Discharge or Refusal of Reappointment

In the event that the independent auditor violates or conflicts with the Companies Act, Certified Public Accountant Law, etc., or acts against public policy, or if the Audit Committee determines that discharge or refusal of reappointment of the relevant independent auditor needs to be considered, the Audit Committee will examine the facts. When the Audit Committee finds that discharge or refusal of reappointment is reasonable, it will decide to submit a "Discharge or refusal of reappointment of the independent auditor" as a bill to the General Meeting of Shareholders, pursuant to regulations of the Audit Committee.

### 4) Others

Among major subsidiaries of the Company, Daiwa Capital Markets Europe Limited, Daiwa Capital Markets America Holdings Inc. and other foreign subsidiaries have, only in relation to audits on the basis of the Companies Act or Financial Instruments and Exchange Act of Japan (including comparable foreign law(s)), been audited by certified public accountant(s) or audit corporation(s) (including one(s) who have/has comparable qualification(s) in foreign country(s) ) other than the independent auditor of the Company.

*(Note) The Company has not executed a contract to limit liability with the independent auditor, "KPMG AZSA LLC".*

## 5. Policies for Determination of Distribution of Surpluses

The Company pursues continuous enhancement of shareholders' value including profit shares. We plan to pay a dividend every six months with a dividend payout ratio guideline of 30%, reflecting consolidated business performance. Taking care to secure enough internal reserves for future business development after taking stability into consideration, we plan to actively return profits to shareholders including repurchase of the Company's shares, etc.

Further, based on the above basic policies, distribution of the surpluses for the current fiscal year are: 17 yen per share as the mid-term dividend (resolved at the Board of Directors' meeting held on October 29, 2013), and 17 yen per share as the year-end dividend. Accordingly, the annual dividend will be 34 yen per share.

## **6. System to Assure Appropriate Business Operations**

Pursuant to provisions of Article 416, Paragraph 1, Item 1(b) and 1(e) of the Companies Act and Article 112 of Ordinance for Enforcement of the Companies Act, the Board of Directors resolved matters, as outlined below, as a system to ensure appropriate business operations of the Company.

### **(1) Matters necessary for execution of Audit Committee's duties (matters provided in Article 112, Paragraph 1 of Ordinance for Enforcement of the Companies Act)**

1) Matters with respect to Directors and employees assisting the Audit Committee  
To establish a section exclusively to assist in the duties of the Audit Committee.

2) Matters regarding the independence of Directors and employees set forth in the preceding paragraph, from the Corporate Executive Officers  
Corporate Executive Officers must give consideration to the significance of the Audit Committee and its independence from business execution departments, and must obtain consent in advance from the Audit Committee or a committee member whom the Audit Committee may appoint (hereinafter referred to as "appointed Audit Committee member") for such section's personnel affairs (transfer, evaluation, etc.), any change of organization of such section, etc.

### **3) System for Corporate Executive Officers and employees to report to Audit Committee and System for other reports to Audit Committee**

Corporate Executive Officers and other officers and employees shall report the following to the Audit Committee or the appointed Audit Committee member:

- a. When an individual discovers any fact that has the possibility of causing substantial damage to the Company.
- b. When any officer or employee performs any act in violation of any law, ordinance or the Articles of Incorporation, or is considered to have possibly performed those acts.
- c. Matters requested to be reported by the Audit Committee or the appointed Audit Committee member, and other matters considered helpful for audit.

### **4) System to ensure effective audit by the Audit Committee**

- \* Members of the Audit Committee may attend meetings of the Group Risk Management Committee and the Group Internal Audit Committee and may seek explanations and speak. They also may attend other significant meetings.
- \* The Audit Committee shall receive periodic reports regarding the preparation to manage the risk and the risk status of the Group, etc., from the relevant divisions which are responsible for management of their respective risks, and regarding the internal audit status of the Group from the Internal Audit Division.
- \* The Audit Committee or an appointed Audit Committee member may, as necessary, entrust the Internal Audit Division to perform any necessary investigation.
- \* The Audit Committee shall receive periodic reports of the Group's companies regarding respective audit status from the Independent Auditor.
- \* The Audit Committee may have outside professionals, who are independent from the divisions conducting business, assist in its audit duties.

### **(2) System to ensure that the Corporate Executive Officers execute their duties in compliance with laws, ordinances and the Articles of Incorporation, and system to assure appropriateness of stock company's other operations (Systems provided in Article 112,**

Paragraph 2 of Ordinance for Enforcement of the Companies Act).

1) System to ensure that the Corporate Executive Officers execute their duties in compliance with laws, ordinances and the Articles of Incorporation, and system to ensure that employees execute their duties in compliance with laws, ordinances and the Articles of Incorporation.

a) Compliance System

- \* Establish an internal reporting system for the purpose of identifying and correcting any conduct, etc. violating laws, ordinances or other regulations in the Group at an early stage.
- \* Enact rules of ethics and standards of ethical conduct for the purpose of officers' and employees' compliance with laws.
- \* Hold training seminars, for officers and employees in the Group on compliance addressing the respective business features of each company.
- \* Appoint a person in charge of formation and promotion of corporate compliance system across the Group, and establish a section to promote the corporate ethics among officers and employees.
- \* Establish a section that gives advice regarding overall legal issues of the Group, and assist each company of the Group in activities relating to formation of systems for compliance with laws, ordinances and other rules and regulations.

b) Group Risk Management Committee

The Group Risk Management Committee, as a sectional committee of the Executive Management Committee, grasps the risk status and the system for managing the risk and the risk status of the Group, etc., discusses and determines the policies and actual implementation of methods relating to risk management.

c) Group Internal Audit Committee

The Group Internal Audit Committee, as a sectional committee under the CEO, discusses and determines the matters relating to development of a system to execute internal audit and verification of the internal controls for the Group's business.

d) Internal Audit Division

- \* For sound and effective internal control of the Group, we believe that internal audit is an important function and have established internal audit divisions at major companies of the Group as well as in the Company.
- \* The internal audit division evaluates and examines the effectiveness of the Group's internal controls, and makes proposals for improvement and efficiency of the Group's business operation.
- \* The internal audit division makes proposals and reports to the Audit Committee and the Group Internal Audit Committee about the plans and results of the internal audit.

e) Internal Control on Financial Reporting

- \* For preparing the necessary structure to assure appropriateness of financial statements and other information, the Company establishes basic rules relating to internal control on financial reporting.
- \* The Disclosure Committee and the Group Internal Audit Committee discuss and decide important issues concerning internal control on financial reporting.

2) System for storing and managing information relating to execution of Corporate Executive Officers' duties

Information relating to execution of Corporate Executive Officers' duties shall be stored and managed properly in accordance with the rules for filing and storing documents.

3) Systems for rules and others relating to management of loss risk

- \* Clarify the systems for managing the risk by establishing basic matters to properly manage various risks belonging to the entire Group for its business in accordance with each characteristic of the Group and enacting risk management regulations for the purposes of securing sound finance and appropriate business operation which provide basic policies of risk management, the category of risks to manage and Corporate Executive Officers to manage and sections to control each category of risks,

etc.

- \* Each section shall establish its own management rules for each risk it has control over, and shall make reports about the preparation to manage the risk and situation of the risk, etc., to the Group Risk Management Committee, etc.

4) System for efficient execution of Corporate Executive Officers' duties

- \* Clarify Corporate Executive Officers' duties and methods of executing them, and the business operations they manage in the rules of Corporate Executive Officers.
- \* About matters which have material effect on the Company or its group, clarify the matters to be resolved and matters to be reported in the rules of the Executive Management Committee and Overseas Management Committee, etc.

5) System to assure appropriateness of business operation in the corporate group composed of the relevant stock companies and subsidiaries

- \* Carry out a business strategy based on the Group's strategy flexibly and efficiently in each company of the Group by way of the Company's Corporate Executive Officers concurrently serving as the representatives of respective major companies of the Group, etc.
- \* Establish rules for management of group companies in Japan and overseas for the purpose of proper management of business activities of group companies in Japan and overseas.
- \* Establish regulations at each group company to grasp important information regarding the management of each group company, and to assure such information is disclosed fairly, timely and appropriately in compliance with laws, ordinances, rules and regulations.

*(Note) The amount and number of shares given in this report omit figures smaller than the indication units.*



## Consolidated balance sheets

(Millions of yen)

	Fiscal 2013 As of Mar. 31, 2014	<u>[References]</u> Fiscal 2012 As of Mar. 31, 2013
<b>Assets</b>		
Current assets:	18,737,101	18,329,152
Cash and deposits	1,886,958	1,212,243
Cash segregated as deposits	294,069	260,197
Notes and accounts receivable-trade	15,337	13,675
Securities	2,583,315	2,113,038
Trading products:	7,110,968	8,849,128
Trading securities and other	4,736,344	6,101,443
Derivatives	2,374,623	2,747,684
Trade date accrual	-	235,449
Operational investment securities	143,010	149,329
Allowance for investment loss	(35,150)	(35,495)
Operating loans	237,416	171,843
Work in process	619	574
Margin transaction assets:	264,725	193,642
Loans on margin transactions	245,827	182,882
Cash collateral pledged for securities borrowing on margin transactions	18,897	10,760
Loans secured by securities:	5,888,420	4,841,726
Cash collateral pledged for securities borrowed	5,886,605	4,840,106
Loans on Gensaki transactions	1,814	1,620
Advances paid	15,289	26,934
Short-term loans receivable	1,240	10,524
Accrued income	33,096	34,831
Deferred tax assets	10,034	5,643
Other current assets	287,954	246,143
Allowance for doubtful accounts	(205)	(280)
Non-current assets:	743,762	719,947
Property, plant and equipment:	432,365	407,118
Buildings	105,772	103,038
Equipment	15,690	15,827
Land	310,901	288,252
Intangible assets:	78,021	84,439
Goodwill	9,425	15,465
Leasehold right	5,921	6,215
Software	45,240	49,133
Other	17,433	13,624
Investments and other assets:	233,375	228,389
Investment securities	200,456	192,906
Long-term loans receivable	4,983	5,101
Long-term guarantee deposits	17,169	19,469
Deferred tax assets	323	3,028
Other	11,478	9,117
Allowance for doubtful accounts	(1,035)	(1,234)
<b>Total assets</b>	<b>19,480,863</b>	<b>19,049,099</b>

(Millions of yen)

	Fiscal 2013 As of Mar. 31, 2014	<u>References</u> Fiscal 2012 As of Mar. 31, 2013
<b><i>Liabilities</i></b>		
Current liabilities:	16,154,730	16,055,427
Notes and accounts payable-trade	5,581	3,508
Trading products:	5,296,428	4,965,693
Trading securities and other	3,426,718	2,624,241
Derivatives	1,869,710	2,341,451
Trade date accrual	74,472	-
Margin transaction liabilities:	52,434	57,762
Borrowings on margin transactions	5,588	12,617
Cash received for securities lending on margin transactions	46,845	45,145
Loans payable secured by securities:	6,330,269	7,142,965
Cash received on debt credit transaction of securities	6,299,764	6,899,162
Borrowings on Gensaki transaction	30,505	243,803
Deposits for banking business	2,197,719	1,791,765
Deposits received	181,509	168,453
Guarantee deposits received	395,406	286,675
Short-term loans payable	903,916	946,311
Commercial papers	266,480	301,711
Current portion of bonds	224,344	221,291
Income taxes payable	15,347	3,094
Deferred tax liabilities	17,989	13,889
Provision for bonuses	34,922	30,855
Other current liabilities	157,908	121,448
Non-current liabilities:	2,069,198	1,908,548
Bonds payable	1,249,007	1,198,172
Long-term loans payable	748,973	642,835
Deferred tax liabilities	14,345	10,403
Provision for retirement benefits	-	31,813
Net defined benefit liabilities	33,739	-
Provision for loss on litigation	1,870	648
Negative goodwill	3,424	7,990
Other non-current liabilities	17,838	16,685
Reserves under the special laws:	3,471	2,555
Reserve for financial products transaction liabilities	3,471	2,555
<b>Total liabilities</b>	<b>18,227,401</b>	<b>17,966,531</b>
<b><i>Net assets</i></b>		
Shareholders' equity:	988,754	867,509
Capital stock	247,397	247,397
Capital surplus	230,765	230,676
Retained earnings	528,406	408,647
Treasury stock	(17,817)	(19,212)
Deposit for subscriptions to treasury stock	1	-
Accumulated other comprehensive income:	89,820	44,264
Valuation difference on available-for-sale securities	87,845	76,740
Deferred gains or losses on hedges	(12,935)	(16,765)
Foreign currency translation adjustment	14,910	(15,709)
Subscription rights to shares	7,363	6,387
Minority interests	167,525	164,406
<b>Total net assets</b>	<b>1,253,462</b>	<b>1,082,567</b>
<b>Total liabilities and net assets</b>	<b>19,480,863</b>	<b>19,049,099</b>

## Consolidated statements of income

(Millions of yen)

	Fiscal 2013 Apr. 1, 2013 - Mar. 31, 2014	<u>[References]</u> Fiscal 2012 Apr. 1, 2012 - Mar. 31, 2013
Operating revenue:	642,829	525,411
Commission received:	301,937	229,522
Commission to consignees	89,634	48,871
Commission for underwriting, secondary distribution and solicitation for selling and others for professional investors	29,606	26,684
Fee for offering, secondary distribution and solicitation for selling and others for professional investors	55,967	46,607
Other fees received	126,729	107,359
Net trading income	156,499	123,537
Net gain (loss) on operational investment securities	17,454	16,531
Financial revenue	107,974	93,276
Other operating revenue	58,963	62,544
Financial expenses	60,333	70,130
Other operating expenses	40,545	37,972
Net operating revenue	541,951	417,308
Selling, general and administrative expenses:	357,358	333,496
Trading related expenses	74,360	66,513
Personnel expenses	177,049	156,987
Real estate expenses	36,260	38,168
Office cost	24,704	23,133
Depreciation	26,551	30,773
Taxes and dues	6,603	5,736
Provision of allowance for doubtful accounts	11	45
Other	11,817	12,138
Operating income (loss)	184,593	83,812
Non-operating income:	14,987	14,500
Interest income	224	103
Dividends income	4,554	4,131
Amortization of negative goodwill	4,565	4,565
Equity in earnings of affiliates	1,314	1,729
Gain on investments in partnership	144	88
Other	4,183	3,882
Non-operating expenses:	2,535	3,136
Interest expenses	1,368	1,610
Bond issuance cost	461	298
Foreign exchange losses	9	461
Other	695	766
Ordinary income (loss)	197,045	95,176
Extraordinary income:	9,664	9,753
Gain on sales of investment securities	9,664	4,964
Gain on negative goodwill	-	4,675
Reversal of reserve for financial products transaction liabilities	-	113
Extraordinary loss:	11,130	13,254
Loss on sales and retirement of non-current assets	596	1,109
Loss on step acquisitions	-	420
Impairment loss	5,942	4,571
Loss on valuation of investment securities	-	384
Provision of reserve for financial products transaction liabilities	916	-
Office transfer related expenses	738	-
Business restructuring cost	-	5,521
Other	2,936	1,247
Income (loss) before income taxes	195,579	91,675
Income taxes-current	19,226	8,219
Income taxes-deferred	(1,555)	3,341
Income (loss) before minority interests	177,908	80,113
Minority interests in income (loss)	8,451	7,203
Net income (loss)	169,457	72,909

## Consolidated statements of changes in net assets

(Apr. 1, 2013 - Mar. 31, 2014)

(Millions of yen)

	Shareholders' equity					
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Deposit for subscriptions to treasury stock	Total shareholders' equity
Balance at the beginning of current period	247,397	230,676	408,647	(19,212)	-	867,509
Changes of items during the period						
Dividends from surplus	-	-	(49,698)	-	-	(49,698)
Net income (loss)	-	-	169,457	-	-	169,457
Purchase of treasury stock	-	-	-	(78)	-	(78)
Disposal of treasury stock	-	89	-	1,473	-	1,562
Other	-	-	-	-	1	1
Total changes of items during the period	-	89	119,759	1,394	1	121,244
Balance at the end of current period	247,397	230,765	528,406	(17,817)	1	988,754

(Millions of yen)

	Accumulated other comprehensive income			Subscription rights to shares	Minority interests
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment		
Balance at the beginning of current period	76,740	(16,765)	(15,709)	6,387	164,406
Changes of items during the period					
Net changes of items other than shareholders' equity	11,104	3,830	30,620	975	3,119
Total changes of items during the period	11,104	3,830	30,620	975	3,119
Balance at the end of current period	87,845	(12,935)	14,910	7,363	167,525

(Apr. 1, 2012 - Mar. 31, 2013)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	247,397	230,655	345,983	(22,681)	801,353
Changes of items during the period					
Dividends from surplus	-	-	(10,281)	-	(10,281)
Net income (loss)	-	-	72,909	-	72,909
Purchase of treasury stock	-	-	-	(11)	(11)
Disposal of treasury stock	-	20	-	3,481	3,501
Changes of scope of consolidation	-	-	36	-	36
Total changes of items during the period	-	20	62,664	3,469	66,155
Balance at the end of current period	247,397	230,676	408,647	(19,212)	867,509

(Millions of yen)

	Accumulated other comprehensive income			Subscription rights to shares	Minority interests
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment		
Balance at the beginning of current period	23,338	(1,676)	(40,517)	5,429	163,774
Changes of items during the period					
Net changes of items other than shareholders' equity	53,401	(15,089)	24,807	958	631
Total changes of items during the period	53,401	(15,089)	24,807	958	631
Balance at the end of current period	76,740	(16,765)	(15,709)	6,387	164,406

The consolidated financial statement of Daiwa Securities Group Inc. ("the Company") for the fiscal year ended March 31, 2014 is prepared in accordance with the "Accounting Regulation Ordinance" (Ministry of Justice Ordinance No. 13, 2006), the "Cabinet Office Ordinance on Financial Instruments Business, etc." (Cabinet Office Ordinance No. 52, 2007), and the "Uniform Accounting Standards for Securities Companies" (set by the board of directors of the Japan Securities Dealers Association, November 14, 1974), based on Article 118 of the Accounting Regulation Ordinance.

The figures in the consolidated statutory report are expressed in millions of yen, with amounts of less than one million omitted.

## A summary of significant accounting policies

### 1. Scope of consolidation

#### (1) The number of consolidated subsidiaries and the names of major consolidated subsidiaries

The number of consolidated subsidiaries: 49 companies

The names of major consolidated subsidiaries:

Daiwa Securities Co. Ltd.  
Daiwa Asset Management Co. Ltd.  
Daiwa Institute of Research Holdings Ltd.  
Daiwa Securities Business Center Co., Ltd.  
Daiwa Property Co., Ltd.  
Daiwa Next Bank, Ltd.  
Daiwa Institute of Research Ltd.  
Daiwa Institute of Research Business Innovation Ltd.  
Daiwa Corporate Investment Co., Ltd.  
Daiwa Securities SMBC Principal Investments Co. Ltd.  
Daiwa PI Partners Co. Ltd.  
Daiwa Real Estate Asset Management Co. Ltd.  
Daiwa Office Investment Corporation  
Daiwa Capital Markets Europe Limited  
Daiwa Capital Markets Asia Holding B.V.  
Daiwa Capital Markets Hong Kong Limited  
Daiwa Capital Markets Singapore Limited  
Daiwa Capital Markets America Holdings Inc.  
Daiwa Capital Markets America Inc.

In consolidated financial statements of the Company for the fiscal year ended March 31, 2014, one company was added to the scope of consolidation because of newly established, two companies were excluded due to adsorption-type merger and two companies were excluded due to the decrease in materiality.

#### (2) The names of major non-consolidated subsidiaries, etc.

The names of major non-consolidated subsidiaries

DIR Information Systems Co., Ltd.

Rationale for exclusion from the scope of consolidation

The non-consolidated subsidiaries have no material impact on the consolidated statutory report in terms of total assets, operating revenues or sales, the share of net income or loss, and the share of retained earnings, and are immaterial as a whole; therefore they are excluded from the scope of consolidation.

#### (3) Special Purpose Entities subject to disclosure

Summary of Special Purpose Entities subject to disclosure and the transactions which utilize Special Purpose Entities, etc.

Some consolidated subsidiaries distribute structured notes for the purpose of dealing with their customers' needs as a tool of investment and utilize Special Purpose Entities. Those consolidated subsidiaries acquire and transfer bonds to Cayman Islands domiciled Special Purpose Entities and issue structured notes collateralized by those bonds. The Company and consolidated companies neither hold any voting rights nor any shares of six Special Purpose Entities and have not dispatched any directors or employees to those six Special Purpose Entities. The issued amount of notes by those Special Purpose Entities is 610,540 million yen as of March 31, 2014.

### 2. Application of equity method

#### (1) The number of non-consolidated subsidiaries and affiliates and the names of major non-consolidated subsidiaries and affiliates, to which the equity method is applied

The number of non-consolidated subsidiaries included under the equity method: 0 companies

The number of affiliates included under the equity method: 8 companies

The names of major affiliates included under the equity method:

Daiwa SB Investments Ltd.

Concerning affiliates included under the equity method with fiscal years ended on a date other than March 31, 2014, for four affiliates, the tentative financial statements as of March 31, 2014 are reflected, and for the other affiliates, the financial statements for the fiscal year of the affiliate are reflected.

(2) The names of non-consolidated subsidiaries and affiliates to which the equity method is not applied

The names of major companies

DIR Information Systems Co., Ltd.

Rationale for not applying the equity method

The exclusion from application of the equity method to those non-consolidated subsidiaries and affiliates has no material impact on the consolidated statutory report in terms of operating revenues or sales, the share of net income or loss, and the share of retained earnings, and are immaterial as a whole. Therefore the Company does not apply the equity method to these non-consolidated subsidiaries and affiliates.

(3) The names of companies not treated as affiliates regardless of the Company's ownership of between 20% and 50% of the voting rights, etc.

The number of the companies: 7 companies

The names of major companies not treated as affiliates

ALMEX PE Inc.

Rationale for not being treated as affiliates

Some consolidated subsidiaries have owned these companies' stocks as operational transactions for the purpose of acquiring capital gains by cultivating investments and revitalizing businesses. These investment activities meet the necessary requirements of the "Guidance on determining a subsidiary and an affiliate" (Implementation Guidance No. 22), and thus it is clear that the Company's subsidiaries cannot exercise significant influence on these investee companies.

3. Fiscal year of consolidated subsidiaries

Fiscal year end of consolidated subsidiaries are as follows:

March 31 : 46 companies

May 31 and November 30 : 1 company

December 31 : 2 companies

For one consolidated subsidiary with a fiscal year ended on a date other than March 31, 2014, the financial statements for the fiscal year of the subsidiary are reflected, and for two consolidated subsidiaries with a fiscal year ended on a date other than March 31, 2014, the tentative financial statements for the fiscal year ended March 31, 2014 or other record date are reflected, and important transactions occurring after the account date are adjusted for in these consolidated financial statements.

4. Accounting policies

(1) Valuation standards and methods for major assets

(i) Valuation standards and methods for securities and others classified as trading products

Trading assets and liabilities, including securities and financial derivatives for trading purposes held by consolidated subsidiaries are recorded at fair value.

(ii) Valuation standards and methods for securities and others classified as non-trading products

Securities and others which are not classified as trading assets are as follows:

(a) Securities intended to be held for trading purposes

Valued at market value (cost is determined based on the moving average method).

(b) Held-to-maturity debt securities

Held-to-maturity debt securities are recorded using the amortized cost method.

(c) Available-for-sale securities

Available-for-sale securities with market value are recorded at market value, based on quoted market prices as of the end of the fiscal year, and net unrealized gains (losses) are booked directly in net assets, and the costs of securities sold are generally calculated based on the moving average method. Securities whose fair value is hard to estimate are recorded at cost using the moving average method. Investment in investment limited partnerships is stated as "Operational investment securities" or "Investment securities" at net asset values based on the partnerships' financial statements in proportion to the Company's share, and share of net unrealized profits and losses on securities held by the partnerships is directly posted into net assets.

Further, some portion of securities or operational investment securities held by some of the consolidated subsidiaries is included in current assets.

- (d) Derivatives  
Valued at market value.

- (iii) Valuation standards and methods for inventory asset

Work in process mainly applies the cost method determined by the specific identification method (accounting procedure for write-down due to decreased profitability).

- (2) Depreciation methods for depreciable assets

- (i) Property, plant and equipment (excluding leased assets)

Property, plant and equipment are generally amortized under the straight-line method. The Company and its domestic consolidated subsidiaries generally compute amortization over estimated useful lives stipulated by the Corporation Tax Law of Japan.

- (ii) Intangible fixed assets, Investments and others (excluding leased assets)

Intangible fixed assets, Investments and other assets are generally amortized under the straight-line method. The Company and its domestic consolidated subsidiaries generally compute amortization over estimated useful lives as stipulated by the Corporation Tax Law of Japan, and over internally estimated useful lives (five years) for software used in-house.

- (iii) Leased assets (in finance lease transactions other than those that are expected to transfer ownership of the assets to the lessee)

Leased assets are amortized under the straight-line method over the leasing period assuming their residual value to be zero.

Concerning financial lease transactions other than those that transfer ownership to the lessee, the fiscal situation of those which started before March 31, 2008 were accounted for using the accounting treatment similar to that for ordinary rental transactions.

(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 its depreciation method for Property, plant 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 yen for the fiscal year ended March 31, 2014. Meanwhile, ordinary income and income before income taxes increased by 1,135 million yen compared to the previous method respectively.

- (3) Accounting policies for provisions

- (i) Allowance for doubtful accounts

Allowance for doubtful accounts is provided based on the estimated historical default rate for normal loans, and based on individually assessed amounts for doubtful accounts, bankruptcy claims, and reorganization claims, etc.

- (ii) Allowance for investment loss

Some consolidated subsidiaries provide allowances based on estimated losses on operational investment securities held at the balance sheet date, assessing the financial conditions of investee companies.

- (iii) Provision for bonuses

Provision for bonuses of employees and directors represent liabilities estimated in accordance with the calculation standards of each company as of the balance sheet date.

- (iv) Provision for loss on litigation

Estimated amount of restitution is accrued to provide for future monetary damage of litigation regarding financial services based on the status of litigation.

- (4) Accounting policies for net defined benefit liabilities

The Company and its domestic consolidated subsidiaries provide for employees' retirement benefits payments, they provide obligatory amounts at the consolidated fiscal year end based on each company's retirement benefit policy. This is because salary increases in the future do not cause changes in benefit obligations, and service costs are vested for all individuals for each fiscal year in accordance with their contributions, capabilities, achievements, etc. Some of the consolidated subsidiaries appropriate the amounts deemed to have accrued as of the current fiscal year-end based on the projected retirement benefits obligations at year-end.

- (5) Accounting standard for material revenue and cost recognition

- Accounting standard for revenue and cost recognition of long term construction contracts

Concerning some consolidated domestic subsidiaries which engage in made-to-order software, the percentage-of-completion method to work commencing during the year ended March 31, 2014 is applied to the outcome of individual contracts; 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.

(6) Primary accounting methods for hedging

Marked-to-market profits and losses on hedging instruments are principally deferred as net assets until the profits or losses on the hedged items are realized. Certain eligible interest swaps for hedging purposes are based on cost basis without being marked-to-market under generally accepted accounting principles in Japan. The premium or discount on forward foreign exchanges for hedging purposes is allocated to each fiscal term without being marked-to-market under generally accepted accounting principles in Japan. In order to avoid interest rate fluctuation risk and foreign exchange fluctuation risk associated with some of the securities, loans payable and bonds, the Company and some subsidiaries apply hedge accounting using various derivatives instruments such as interest rate swaps, currency swaps and similar transactions. The effectiveness of hedging is evaluated based upon the correlation between the change in aggregated amount of fair value or cash flow of the hedging instrument and the change in aggregated amount of fair value or cash flow of the hedged item.

(7) Amortization of goodwill and negative goodwill

Goodwill and negative goodwill which were generated before March 31, 2010 are amortized, when incurred, by using the straight-line method within 20 years considering each condition of acquired subsidiaries and affiliates. The goodwill is amortized in a lump sum when incurred in cases where the amount is immaterial.

(8) Other significant items associated with the preparation of consolidated statutory report

(i) Accounting method for consumption tax

The accounting method for consumption tax is based on the tax excluded method.

(ii) Consolidated tax payments system

The consolidated tax payments system has been applied to the Company and Daiwa Corporate Investment Co., Ltd. as parent companies of the consolidated tax payments.

(iii) Accounting method for trust beneficiary interests in real estate and other assets

Concerning trust beneficiary interests in real estate held by some consolidated subsidiaries, all accounts of assets and liabilities within assets in trust, as well as all income generated and expenses incurred from assets in trust, are recorded in the relevant consolidated balance sheets and consolidated statements of income.

(Changes in accounting policies)

Concomitant with the Accounting Standard for Retirement Benefits (Accounting Standards Board of Japan (ASBJ) Statement No.23 of May 17, 2012), and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No.25. of May 17, 2012), which became eligible for adoption from April 1, 2013, we have applied these standards as of the end the fiscal year 2013. As a result, "Provision for retirement benefits" had turned to be zero, and changed its name to "Net defined benefit liabilities", which was reflected by 33,739 million yen as of the year ended March 31, 2014 on the consolidated balance sheets and no effect on the consolidated comprehensive income as of the end the fiscal year 2013.

## Notes to consolidated balance sheet

1. Assets pledged as collateral and liabilities secured

(1) Assets pledged as collateral

Fixed-term deposits	650	million yen
Securities	76,412	
Trading products	393,795	
Investment securities	7,969	
Total	478,827	

(Note) The amounts above corresponded to the amount on the consolidated balance sheet. In addition to the above pledged assets, borrowed securities of 322,730 million yen were also pledged as collateral.

(2) Liabilities secured

Borrowings on margin transactions	5,588	million yen
Short-term loans payable	370,400	
Long-term loans payable	45,700	
Total	421,688	

(Note) The amounts above corresponded to the amount on the consolidated balance sheet.

2. Market value of securities pledged as collateral
- |                                                             |           |             |
|-------------------------------------------------------------|-----------|-------------|
| Lending securities under agreements of loan for consumption | 7,558,417 | million yen |
| Securities sold by Gensaki transaction                      | 29,998    |             |
| Others                                                      | 428,085   |             |
| Total                                                       | 8,016,501 |             |
- (Note) Assets classified as pledged assets were excluded.
3. Market value of securities accepted as collateral
- |                                                              |           |             |
|--------------------------------------------------------------|-----------|-------------|
| Borrowed securities under agreements of loan for consumption | 7,388,205 | million yen |
| Others                                                       | 418,390   |             |
| Total                                                        | 7,806,595 |             |
4. Allowance for doubtful accounts deducted directly from assets
- |                                     |       |             |
|-------------------------------------|-------|-------------|
| Investments and other assets, other | 8,889 | million yen |
|-------------------------------------|-------|-------------|
5. Accumulated depreciation of property, plant and equipment: 129,725 million yen
6. Liabilities on guarantees
- | Name of the guaranteed | Liabilities guaranteed | Amount of liabilities |
|------------------------|------------------------|-----------------------|
| Employee               | Borrowing              | 331 million yen       |
| Others                 | Liabilities            | 2,071                 |
| Total                  |                        | 2,403                 |
7. The clauses of the laws and regulations that prescribe recording of reserves under the special laws
- Reserve for financial products transaction liabilities:
- Article 46-5 I of Financial Instruments and Exchange Act of Japan

## Notes to consolidated statement of changes in net assets

1. Total shares outstanding as of the end of the fiscal year ended March 31, 2014
- Common shares 1,749,378,772

### 2. Dividends

#### (1) Amount of dividends

Resolution	Type of share	Total amount of dividends (million yen)	Dividend per share (yen)	Date of record	Effective Date
Board of Directors on May 15, 2013	Common shares	20,564	12	March 31, 2013	June 3, 2013
Board of Directors on October 29, 2013	Common shares	29,133	17	September 30, 2013	December 2, 2013
Total		49,698			

(Note) The total amount of dividends resolved by the Board of Directors on May 15, 2013 includes 178 million yen distributed to The Master Trust Bank of Japan, Ltd. (ESOP Trust Account 75404).

The total amount of dividends resolved by the Board of Directors on October 29, 2013 includes 221 million yen distributed to The Master Trust Bank of Japan, Ltd. (ESOP Trust Account 75404).

#### (2) Dividends to be distributed after the fiscal year ended March 31, 2014

It was scheduled to be resolved at the meeting of the Board of Directors on May 16, 2014 as follows:

Item related to dividends on common share

1. Total amount of dividends 29,135 million yen
2. Dividend per share 17 yen
3. Date of record March 31, 2014
4. Effective date June 2, 2014

(Note 1) The source of dividends will be retained earnings.

(Note 2) Total amount of dividends includes 192 million yen distributed to The Master Trust Bank of Japan, Ltd. (ESOP Trust Account 75404).

### 3. Number of shares subject of stock subscription rights upon exercise thereof as of March 31, 2014

	Item	Number of shares				As of Mar. 31, 2014 (Millions of yen)
		As of Apr. 1, 2013	Increase	Decrease	As of Mar. 31, 2014	
The Company	Stock subscription rights issued in July, 2006	224,000	-	11,000	213,000	290
	Series 3 stock subscription rights	2,383,000	-	16,000	2,367,000	1,190
	Treasury stock subscription rights	210,000	16,000	-	226,000	-
	Stock subscription rights issued in July, 2007	252,000	-	14,000	238,000	312
	Series 4 stock subscription rights	2,385,000	-	18,000	2,367,000	832
	Treasury stock subscription rights	185,000	18,000	-	203,000	-
	Stock subscription rights issued in July, 2008	308,000	-	12,000	296,000	287
	Series 5 stock subscription rights	2,940,000	-	103,000	2,837,000	695
	Treasury stock subscription rights	159,000	19,000	-	178,000	-
	Stock subscription rights issued in July, 2009	622,000	-	24,000	598,000	346
	Series 6 stock subscription rights	4,187,000	-	42,000	4,145,000	636
	Treasury stock subscription rights	226,000	42,000	-	268,000	-
	Stock subscription rights issued in July, 2010	1,038,000	-	23,000	1,015,000	380
	Series 7 stock subscription rights	7,120,000	-	75,000	7,045,000	455
	Treasury stock subscription rights	279,000	75,000	-	354,000	-
	Stock subscription rights issued in July, 2011	1,211,000	-	7,000	1,204,000	431
	Series 8 stock subscription rights	5,649,000	-	74,000	5,575,000	279
	Treasury stock subscription rights	206,000	74,000	-	280,000	-
	Stock subscription rights issued in February, 2013	831,000	-	-	831,000	472
	Series 9 stock subscription rights	6,320,000	-	111,000	6,209,000	323
	Treasury stock subscription rights	13,000	111,000	-	124,000	-
	Stock subscription rights issued in February, 2014	-	404,000	-	404,000	386
	Series 10 stock subscription rights	-	3,964,000	13,000	3,951,000	44
	Treasury stock subscription rights	-	13,000	-	13,000	-
					Total	7,363
						-

(Note 1) All shares of stock subscription rights above are common stock.

(Note 2) Exercise periods of "Series 6 stock subscription rights", "Series 7 stock subscription rights", "Series 8 stock subscription rights", "Series 9 stock subscription rights" and "Series 10 stock subscription rights" have not yet started.

## Notes to financial instruments

### 1. Concerning the situation of financial instruments

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

The Group, 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, treatment of public offering for subscription and secondary offering of securities, treatment of private offering for subscription of securities, and banking business or other businesses related to the securities and financial fields.

The Group holds financial assets and liabilities as follows to execute its businesses: "trading securities and others", "derivatives", "operational investment securities", "loans" and "investment securities", etc. and raises its capital with corporate bonds, medium-term notes, borrowing from financial institutions, deposits, etc. Under the basic policy for financing such that enough liquidity for continuing business should be effectively secured, the Group 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, the Group 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.

The Group 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

The Group holds financial instruments in the trading business as follows: (a) trading securities and others (stocks and warrants, bonds and units of investment trusts), loans secured by securities and loans payable secured by securities, margin transaction assets and liabilities, (b) derivatives, traded on exchanges, such as stock index futures, bond futures, interest rate futures and options for those, (c) derivatives (OTC derivatives), not traded on exchanges, such as interest rate and foreign exchange swaps, foreign currency futures, currency options, bond options, FRA and OTC securities derivatives, etc. The Group also 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 forced to trade in extremely unfavorable conditions. Credit risk means the risk of suffering losses from defaults or credit change of counterparts or issuers of financial instruments which the Group holds, etc.

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

The Group 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 means 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 the Group, etc.

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

## (3) Risk management system concerning 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, 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. The Company also 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 sensitivity, etc., considering the financial situation, the business plan and budget of each division. The risk management department of the Company recognizes 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 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 yen in total.

In the meantime, the Group executes the back test which compares calculated VaR and the actual profit/loss and verifies its effectiveness. The VaR statistically estimates 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, the Group has established the credit limit based on ratings of counterparties in advance and monitors notional principals and credit amounts. Especially, in connection with the wholesale business that carries a relatively high credit risk, the Group assesses the credit condition of its counterparties with the qualitative and quantitative analysis based on the rating analysis model. The Group has also 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 Group 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 the Group, deposits which were set as collateral will be charged to the customers. In connection with the securities loan transaction, the Group has tried to reduce credit risk by establishing credit limit for counterparties, charging necessary collateral, and daily mark-to-market.

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

The Group holds financial instruments other than trading business such as operational investment securities, etc., as a result of the investment business and investment securities for the business relationship, loans, 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 an investment committee etc. and make each investment judgment. After investments, the subsidiaries regularly monitor the situation of invested companies and inform the risk management committee etc.

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

In connection with investment securities as long-term holding for the business relationship, etc., the Group decides to acquire or sell the securities in accordance with the policy defined by the relevant company's rules. Also, the Group regularly monitors the situation of risk and informs 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 yen if the index, such as TOPIX, were to change by 10%.

Also, the main financial liabilities in the Group 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 yen and 0.1 billion yen, 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 quantitative analysis when managing the interest rate risk. The financial value changes are derived from the 99th 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 the currency less than 5% of total assets or debts, 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 yen 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

The Group 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 and stably secure enough liquidity for continuing its business.

Methods of raising capital of the Group 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, the Group realizes effective and stable raising of capital.

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

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

Further, the Group has established a liquidity management system referenced liquidity coverage ratio suggested by Basel Committee on Banking Supervision. That means that the Group 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. The Group has established a system that enables the Group to continue the business even if the Group cannot raise funds for a year or so.

The Company collectively manages and monitors the liquidity of the entire Group under the basic policy of securing the appropriate liquidity of the Group as a whole. The Company always monitors whether the liquidity portfolio is sufficiently secured against short-term raised capital without collateral in preparation for the case where 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, the Group has established a system that enables the Company to flexibly supply capital to the Group companies if necessary, and achieves efficient and unified raising of capital and capital management. That enables the Group to raise and manage capital integrally.

The Group has also established a contingency plan as one of the measures of dealing with liquidity risk. This plan states the basic policy concerning the reporting 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 etc. The contingency plan enables the Group to prepare a system for securing liquidity through a swift response.

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

Moreover, Daiwa Securities Co. Ltd., Daiwa Next Bank, Ltd. and foreign securities subsidiaries, which are sensitive to influence by financial markets and for which the importance of securing 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 crises scenarios assumed and tries to preliminarily execute countermeasures, both increasing the liquidity and reducing assets at the same time.

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

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

## 2. Fair values of financial instruments

The figures stated in the consolidated balance sheets as of March 31, 2014, fair value and the difference between the two are as below. Any item for which it is extremely difficult to obtain its fair value is not included in the statement below (see Note 2).

(Millions of yen)

	Amounts in consolidated balance sheets	Fair value	Difference
<b>Assets</b>			
( 1 ) Cash and deposits	1,886,958	1,886,958	-
( 2 ) Cash segregated as deposits	294,069	294,069	-
( 3 ) Trading products			
(a) Trading securities and other	4,736,344	4,736,344	-
(b) Derivatives	2,374,623	2,374,623	-
( 4 ) Operating Loans	237,416		
Allowance for doubtful Accounts	(29)		
	237,387	237,640	252
( 5 ) Margin transaction assets			
Loans on margin transactions	245,827	245,827	-
Cash collateral pledged for securities borrowing on	18,897	18,897	-
( 6 ) Loans secured by securities			
Cash collateral pledged for securities borrowed	5,886,605	5,886,605	-
Loans on Gensaki transactions	1,814	1,814	-
(7) Securities, Operational investment securities and Investment securities			
(a) Held-to-maturity debt securities	100	100	0
(b) Subsidiaries' stocks and affiliates' stocks	27,418		
Allowance for investment loss	(6,910)		
	20,507	20,534	27
(c) Available-for-sale securities	2,787,576	2,787,576	-
<b>Total assets</b>	<b>18,490,714</b>	<b>18,490,994</b>	<b>279</b>
<b>Liabilities</b>			
( 1 ) Trading products			
(a) Trading securities and other	3,426,718	3,426,718	-
(b) Derivatives	1,869,710	1,869,710	-
( 2 ) Trade date accrual	74,472	74,472	
( 3 ) Margin transaction liabilities			
Borrowings on margin transactions	5,588	5,588	-
Cash received for securities lending on margin	46,845	46,845	-
( 4 ) Loans payable secured by securities			
Cash received on debt credit transactions of securities	6,299,764	6,299,764	-
Borrowings on Gensaki transactions	30,505	30,505	-
( 5 ) Deposits for banking business	2,197,719	2,197,613	106
( 6 ) Deposits received	181,509	181,509	-
( 7 ) Guarantee deposits received	395,406	395,406	-
( 8 ) Short-term loans payable	903,916	903,916	-
( 9 ) Commercial papers	266,480	266,480	-
( 10 ) Current portion of bonds	224,344	224,344	-
( 11 ) Bonds payable	1,249,007	1,251,192	(2,185)
( 12 ) Long-term loans payable	748,973	746,341	2,631
<b>Total liabilities</b>	<b>17,920,961</b>	<b>17,920,408</b>	<b>552</b>
<b>Derivative transactions other than trading ( )</b>			
Transactions in which hedge accounting is not applied	(7,305)	(7,305)	-
Transactions in which hedge accounting is applied	(19,284)	(1,308)	17,976
<b>Total derivative transactions other than trading</b>	<b>(26,589)</b>	<b>(8,613)</b>	<b>17,976</b>

Asset and Liabilities which are generated from derivative transactions other than trading are stated on a net basis. These are stated in "( )" in the event that the net basis is a liability.

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

(i) Cash and deposits

Cash and deposits are recorded at their book value because fair values are similar to book value and they are settled in the short term.

(ii) Cash segregated as deposits

Cash segregated as deposits 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.

(iii) Trading products

(a) Trading Securities and others

Equities and others	closing price or closing quotation on 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 quotation on exchange

(b) Derivative transactions

Derivatives traded on exchange	mainly liquidation price on exchange or basic price for calculation margin
Interest rate swaps	prices calculated by price valuation models generally acknowledged in 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 in 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 generally acknowledged in the market or the model expanding those, based on interest rates, credit spread of the reference, etc.

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

(iv) Trade date accrual

Trade date accrual are recorded at their book value because fair values are similar to book value and they are settled in the short term.

(v) Operating Loans

Operating loans 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.

(vi) Margin transaction assets, margin transaction liabilities

Margin transaction assets consist of lending money to customers generated from margin transactions and collateral to securities finance companies. Those are recorded 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.

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



(vii) Loan secured by securities

These are recorded at their book value because fair values are similar to book value and those are almost settled in the short term.

(viii) Securities, Operational investment securities and Investment securities

Equities and others	closed price or closed quotation on 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	closed price or closed quotation on exchange, or standard price
Investment in partnership	the amount, which closely resembles the fair value, deducting an allowance for possible investment losses from the amount recorded in the balance sheet as of the fiscal year end, concerning the investments in partnership whose possible investment losses are calculated based on the estimate of receivables-related real estate

(ix) Deposits for banking business

The fair value of demand deposits are calculated based on the amount payable at the end of the fiscal year, which means their book value is used as their fair value.

The fair value of fixed deposits is calculated by categorizing the balance in accordance with discounting the relevant future cash flow, at the fixed discount rate.

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.

(x) Deposits received

These are mainly deposits received from customers and payment amount (book value) when settled at the end of this fiscal year is considered as fair value. Other deposits are recorded at their book value because the fair value closely resembles the book value and they are settled in the short term.

(xi) Guarantee deposits received

These are mainly guarantee deposits relating to derivative transactions and recorded at their book value as settled in the short term with those characteristics which are marked-to-market for each transaction. Concerning the other cash guarantee deposits received from customers, the payment amount (book value) when settled at the end of this fiscal year is considered as fair value.

(xii) Short-term loans payable, commercial papers and bonds and current portion of bonds

These are recorded at their book value because fair value is similar to book value and they are settled in the short term.

(xiii) Bonds payable

Concerning the fair value of bonds whose maturity is longer than one year, in the case that market price (trading price statistics, etc.) is available in the market, fair value is calculated from the market price. If the market price is not available, fair value is calculated from book value which is adjusted based on a consideration of interest rate fluctuation since the issuance and change of the credit spread of the Company. The credit spread of the Company is referred to as the interest rate of the immediately previous issuance or market prices of similar bonds issued by the Company, etc.

(ixx) Long-term loans payable

Fair value is calculated from book value which is adjusted based on a consideration of interest rate fluctuation from the issuance and change of the credit spread of the Company. The credit spread of the Company is referred to as the interest rate of the immediately previous issuance or market prices of similar bonds issued by the Company, etc.

(xx) Derivative transactions other than trading

The accounting method is the same as “(iii) Trading products (b) Derivative transactions”.

(Note 2) Any financial product for which it is extremely difficult to obtain its fair value is as below and is not included in the “Assets (7) (b) Subsidiaries’ stocks and affiliates’ stocks and (c) Available-for-sale securities” of fair value information of financial instruments.

(Millions of yen)	
	Amounts in consolidated balance sheets
Subsidiaries’ stocks and affiliates’ stocks	
Unlisted equities	35,162
Other securities	
Unlisted equities	57,496
Investments in limited partnerships and other similar partnerships	13,991
Others	5,036

These are recognized as extremely difficult to obtain the fair value of because they do not have any market price and it is impossible to estimate their future cash flow. Therefore, their fair value is not disclosed.

(Note 3) “Operating loans” is separately noted from this fiscal year, due to the materiality of amounts.

## Notes to rental properties

### 1. Regarding the situation of rental properties

Some subsidiaries hold rental properties that are utilized for rental offices (including land).

### 2. Regarding the market prices of rental properties

The amount on the consolidated balance sheet and market price of the properties as of the end of fiscal year 2013 are as follows.

(millions of yen)	
The amount recorded on the consolidated balance sheets	Market price
308,855	328,290

( Note 1 ) The amount on the consolidated balance sheets is calculated as acquisition costs less accumulated depreciation.

( Note 2 ) The market prices as of the end of fiscal year 2013 are the valuations provided by the outside real estate appraiser.

## Notes to per share information

Net assets per share	633.53 yen
Net income (loss) per share	99.63 yen

## Balance sheet

(Millions of yen)

	Fiscal 2013 As of Mar. 31, 2014
<b>Assets</b>	
Current assets:	456,785
Cash and deposits	102,472
Securities	60,000
Short-term loans receivable	275,678
Accounts receivable	12,189
Accrued income	4,338
Other current assets	2,105
Non-current assets:	1,609,238
Property, plant and equipment:	44,841
Buildings	458
Equipment	2,300
Land	42,082
Intangible assets:	3,178
Software	2,732
Other	446
Investments and other assets:	1,561,218
Investment securities	138,450
Stocks of subsidiaries and affiliates	836,331
Investments in other securities of subsidiaries and affiliates	15,374
Long-term loans receivable	562,732
Long-term guarantee deposits	4,814
Other	3,777
Allowance for doubtful accounts	(263)
<b>Total assets</b>	<b>2,066,024</b>

(Millions of yen)

	Fiscal 2013 As of Mar. 31, 2014
<b><i>Liabilities</i></b>	
Current liabilities:	348,970
Short-term loans payable	145,636
Current portion of bonds	139,661
Accrued expenses	3,430
Loans payable secured by securities	44,086
Income taxes payable	115
Provision for bonuses	1,308
Deferred tax liabilities	174
Other current liabilities	14,556
Non-current liabilities:	844,579
Bonds payable	430,658
Long-term loans payable	391,973
Deferred tax liabilities	14,200
Other non-current liabilities	7,747
<b>Total liabilities</b>	<b>1,193,550</b>
<b><i>Net assets</i></b>	
Shareholders' equity:	830,266
Capital stock	247,397
Capital surplus:	226,910
Legal capital surplus	226,751
Other capital surplus	158
Retained earnings:	373,773
Legal retained earnings	45,335
Other retained earnings	328,437
Voluntary retained earnings	218,000
Retained earnings brought forward	110,437
Treasury stock	(17,817)
Deposit for subscriptions to treasury stock	1
Valuation and translation adjustments:	34,844
Valuation difference on available-for-sale securities	34,844
Subscription rights to shares	7,363
<b>Total net assets</b>	<b>872,473</b>
<b>Total liabilities and net assets</b>	<b>2,066,024</b>

## Statement of income

(Millions of yen)

	Fiscal 2013 Apr. 1, 2013 - Mar. 31, 2014
Operating revenue:	18,730
Dividends from subsidiaries and affiliates	13,831
Interest on loans receivable from subsidiaries and affiliates	4,745
Other	154
Operating expenses:	22,039
Selling, general and administrative expenses:	14,585
Trading related expenses	2,061
Personnel expenses	6,790
Real estate expenses	1,451
Office cost	1,602
Depreciation	1,044
Taxes and dues	888
Other	745
Financial expenses	7,454
Operating income (loss)	(3,308)
Non-operating income:	12,930
Interest income	96
Dividend income	3,291
Foreign exchange gains	8,292
Other	1,249
Non-operating expenses:	10,368
Bond issue cost	1,365
Derivative loss	8,856
Other	146
Ordinary income (loss)	(746)
Extraordinary income:	2,555
Gain on sales of investment securities	1,275
Gain on sales of affiliates	1,280
Extraordinary loss:	1,366
bad debt loss	1,289
Other	77
Income (loss) before income taxes	441
Income taxes-current	(5,056)
Income taxes-deferred	1,181
Net income (loss)	4,317

## Statement of changes in net assets

(Apr. 1, 2013 - Mar. 31, 2014)

(Millions of yen)

	Shareholders' equity								
	Common stock	Capital surplus		Retained earnings			Treasury stock	Deposit for subscriptions to treasury stock	Total
		Additional paid-in capital	Other capital surplus	Earned surplus reserve	Other earned surplus reserve				
					General - purpose reserve	Deferred earned surplus			
Balance at the beginning of current period	247,397	226,751	69	45,335	218,000	155,818	(19,211)	-	874,161
Changes of items during the period									
Dividends from surplus	-	-	-	-	-	(49,698)	-	-	(49,698)
Net income	-	-	-	-	-	4,317	-	-	4,317
Purchase of treasury stock	-	-	-	-	-	-	(78)	-	(78)
Disposal of treasury stock	-	-	89	-	-	-	1,473	-	1,562
Others	-	-	-	-	-	-	-	1	1
Total changes of items during the period	-	-	89	-	-	(45,380)	1,394	1	(43,895)
Balance at the end of current period	247,397	226,751	158	45,335	218,000	110,437	(17,817)	1	830,266

(Millions of yen)

	Valuation and translation adjustments	Subscription Rights to shares
	Others Valuation difference on available-for-sale securities	
Balance at the beginning of current period	23,286	6,387
Changes of items during the period		
Net changes of items other than shareholders' equity	11,557	975
Total changes of items during the period	11,557	975
Balance at the end of current period	34,844	7,363

The non-consolidated statutory report of the Company is prepared in accordance with the “Accounting Regulation Ordinance” (Ministry of Justice Ordinance No. 13, 2006).

The figures in the statutory reports are expressed in millions of yen, with amounts of less than one million omitted.

## **Notes to significant accounting policies**

### **1. Valuation standards and methods for major assets**

#### **(1) Securities intended to be held for trading purposes**

Valued at market value (cost is determined based on the moving average method).

#### **(2) Subsidiaries’ stock and affiliates’ stock**

Valued at cost based on the moving-average method.

#### **(3) Other securities**

Other securities with market value are recorded at market value, based on quoted market prices, etc., as of the end of the fiscal year (net unrealized gain (loss) is booked directly in net assets, and the costs of securities sold are calculated based on the moving average method).

Securities for which the fair value is extremely difficult to obtain are recorded at cost using the moving average method. Investments in investment limited partnerships, etc. are stated as “Investment securities” at net asset values based on the partnerships’ financial statements in proportion to the Company’s share, and the share of net unrealized profits and losses on securities held by the partnerships is directly posted into net assets.

#### **(4) Securities intended to be held for trading purposes**

Valued at market value.

### **2. Depreciation methods for depreciable assets**

#### **(1) Property, plant and equipment**

The Company computes depreciation of property, plant and equipment based on the straight-line method. Useful lives of these tangible fixed assets are estimated in accordance with the Corporation Tax Law of Japan.

#### **(2) Intangible fixed assets, Investments and others**

Intangible fixed assets, Investments and other assets are amortized under the straight-line method. The Company computes amortization over estimated useful lives as stipulated by the Corporation Tax Law of Japan, and over internally estimated useful lives (five years) for software used in-house.

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

Effective April 1, 2013, the Company changed its depreciation method for Property, plant 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. In addition, there is no effect on the income as of the end of the fiscal year 2014.

### **3. Accounting policies for provisions**

#### **(1) Allowance for doubtful accounts**

Allowance for doubtful accounts is provided based on the estimated historical default rate for normal loans, and based on individually assessed amounts for doubtful accounts, bankruptcy claims, and reorganization claims, etc.

#### **(2) Provision for bonuses**

Provision for bonuses of employees and directors represent liabilities estimated in accordance with the calculation standards of the Company as of the balance sheet date.

### **4. Other significant items associated with the preparation of non-consolidated statutory report**

#### **(1) Accounting methods for deferred assets**

Expenses for the issue of Bonds and Notes are all accounted for as expenses when they are incurred.

#### **(2) Accounting methods for hedging**

Deferred hedge accounting is used in principle. If certain conditions are met, then the hedge for interest rate fluctuation risk is based on special provisions for interest swaps, and the hedge for foreign exchange fluctuation risk is based on appropriated treatment.

In order to avoid interest rate fluctuation risk and foreign exchange fluctuation risk associated with some of the loans payable and bonds, the Company applies hedge accounting using various derivatives instruments such as interest rate swaps, currency swaps and similar transactions.

The effectiveness of hedging is evaluated based upon the correlation between the change in aggregated amount of fair value or cash flow of the hedging instrument and the change in aggregated amount of fair value or cash flow of the hedged item.

- (3) Accounting method for consumption tax  
The accounting method for consumption tax is based on the tax excluded method.
- (4) Tax consolidation  
The Company and its wholly-owned subsidiaries file a consolidated return.

## Notes to balance sheet

### 1. Pledged securities as collateral

77,890 million yen of investment securities were loaned.

### 2. Allowance for doubtful accounts deducted directly from assets

Investments and other assets 3,469 million yen

### 3. Accumulated depreciation of tangible fixed assets 1,869 million yen

### 4. Guarantee

Name of the guaranteed	Liabilities guaranteed	Amount of liabilities
Employee	Borrowing	264 million yen
Related companies	Derivative liabilities	2,450
Total		2,715

### 5. Monetary claims and obligations with related companies

Short-term loan receivables from related companies	359,309	million yen
Long-term loan receivables from related companies	571,423	million yen
Short-term monetary liabilities to related companies	56,961	million yen
Long-term monetary liabilities to related companies	6,798	million yen

## Notes to statement of income

### Transactions with related companies

Operating transactions	28,531	million yen
Non-operating transactions	15,327	million yen

## Notes to statement of changes in net assets

### Balance of Treasury Stock as of March 31, 2014

Common Shares 46,887,224

*(Note) The number of shares of treasury stock (common shares) includes 11,332,000 of the Company's shares held by the ESOP Trust account and this is because those shares held by the ESOP Trust account are stated as the Company's own shares on the balance sheets.*

## Notes to tax effect accounting

### Deferred tax assets and liabilities

#### (Deferred tax assets)

Loss carried forward	20,695	million yen
Write-down of stocks in subsidiaries and affiliates, etc.	19,967	
Write-down of investment securities	9,052	
Allowance for doubtful accounts	1,315	
Others	3,957	

54,988

Valuation allowance (54,358)

Total deferred tax assets: 630

#### (Deferred tax liabilities)

Valuation difference on available-for-sale securities	14,523	million yen
Others	481	
Total deferred tax liabilities	15,004	

Net deferred tax liabilities 14,374 million yen



## Notes to transactions with related companies

### Subsidiaries and affiliates

(Millions of yen)

Class	Name of company	Ratio of the voting rights	Relationship with the Company	Transaction	Transaction Amount	Account Title	Ending Balance
Subsidiary	Daiwa Securities Co. Ltd.	Direct Ownership 99.9% Indirect Ownership 0.0%	Debt financing Receipt of cash collateral Lending share Directors hold concurrent positions Counter-party of derivative transactions	Debt financing (Note 1) Receipt of interest (Note 1) Receipt of cash collateral (Note 2) Lending share (Note 2) Receipt of rent (Note 2) Payment of interest (Note 2) Derivative transactions (Note 3, 4)	297,279 1,371 38,649 77,890 3 56 -	Long-term loans receivable Short-term loans receivable Accrued income Loans payable secured by securities Accrued income Accrued expenses Other current assets (derivative liabilities) Investment and other assets (derivative assets) Other current liabilities (derivative liabilities) Other non-current liabilities (derivative liabilities) Accrued income Accrued expenses	67,540 261,928 209 44,086 0 4 716 269 2,362 5,369 1,492 142
Subsidiary	Daiwa Property Co., Ltd.	Direct Ownership 99.4% Indirect Ownership 0.6%	Debt financing Directors hold concurrent positions	Debt financing (Note 1) Receipt of interest (Note 1)	- 327	Long-term loans receivable Accrued income	27,020 -
Subsidiary	Daiwa Next Bank, Ltd.	Direct Ownership 100.0%	Depositing of negotiable certificates of deposit Directors hold concurrent positions	Depositing of negotiable certificates of deposit (Note 5) Receipt of interest (Note 5) Subscription to new stock (Note 6)	10,416 7 40,000	Securities (negotiable certificates of deposit) Accrued income	50,000 0
Subsidiary	Daiwa PI Partners	Indirect Ownership 100.0%	Debt Financing Directors hold concurrent positions	Debt financing (Note 1) Receipt of interest (Note 1)	27,000 244	Long-term loans receivable Accrued income	27,100 -
Subsidiary	Daiwa Investment Management Inc.	Direct Ownership 100.0%	Debt Financing Directors hold concurrent positions	Debt financing (Note 1) Receipt of interest (Note 1)	- 2,379	Long-term loans receivable Accrued income	194,300 1,259
Subsidiary	Daiwa International Holdings Inc.	Direct Ownership 100.0%	Debt Financing Directors hold concurrent positions	Debt financing (Note 1)	27,680	Long-term loans receivable	243,690

Terms and conditions of the transactions and transaction policy

(Note 1) Each transaction amount is the average of month-end balances for short-term loans receivable and each loan amount for long-term loans receivable, respectively.

Interest rates on loans receivable are determined rationally in consideration of market interest rates. No collateral is obtained.

(Note 2) Market price of lending stock as of the fiscal year end date or the price of pledged assets are recorded in the Transaction Amount column. Lease rate or interest rates are determined based on market rate.

(Note 3) The description of transaction amount is omitted because these are repeated transactions.

(Note 4) The conditions of these transactions are decided with considering market prices.

(Note 5) The transaction amount is the average of month-end balances for negotiable certificates of deposit. Interest rates on negotiable certificates of deposit are determined according to the deposit period rationally in consideration of market interest rates.

(Note 6) The Company has subscribed to the capital increase through shareholder allocation of Daiwa Next Bank, Ltd. at 10 million yen per share.

Notes to per share information

Net assets per share	508.14 yen
Net income per share	2.54 yen

## **Independent Auditor's Report**

May 14, 2014

The Board of Directors  
Daiwa Securities Group Inc.

KPMG AZSA LLC

Hiroyuki Takanami (Seal)  
Designated Limited Liability Partner  
Engagement Partner  
Certified Public Accountant

Atsunori Sadahiro (Seal)  
Designated Limited Liability Partner  
Engagement Partner  
Certified Public Accountant

Kazuo Uchida (Seal)  
Designated Limited Liability Partner  
Engagement Partner  
Certified Public Accountant

We have audited the consolidated financial statements, comprising the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in net assets, a summary of significant accounting policies and other explanatory information of Daiwa Securities Group Inc. as at March 31, 2014 and for the year from April 1, 2013 to March 31, 2014 in accordance with Article 444-4 of the Companies Act.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the 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 the consolidated financial statements based on our audit as independent auditor. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 referred to above present fairly, in all material respects, the financial position and the results of operations of Daiwa Securities Group Inc. and its consolidated subsidiaries for the period, for which the consolidated financial statements were prepared, in accordance with accounting principles generally accepted in Japan.

### **Other Matter**

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Law of Japan.

### **Emphasis of Matter**

Without qualifying our opinion, we draw attention to (Changes in accounting policies which is difficult to distinguish from changes in accounting estimates) to the consolidated financial statements, which describes that effective April 1, 2013, the Company and its domestic subsidiaries changed its depreciation method for Property, plant and equipment from the declining-balance method to the straight-line method.

### **Notes to the Reader of Independent Auditor's Report:**

The Independent Auditor's Report herein is the English translation of the Independent Auditor's Report as required by the Companies Act.

## **Independent Auditor's Report**

May 14, 2014

The Board of Directors  
Daiwa Securities Group Inc.

KPMG AZSA LLC

Hiroyuki Takanami (Seal)  
Designated Limited Liability Partner  
Engagement Partner  
Certified Public Accountant

Atsunori Sadahiro (Seal)  
Designated Limited Liability Partner  
Engagement Partner  
Certified Public Accountant

Kazuo Uchida (Seal)  
Designated Limited Liability Partner  
Engagement Partner  
Certified Public Accountant

We have audited the financial statements, comprising the balance sheet, the statement of income, the statement of changes in net assets, a summary of significant accounting policies and other explanatory information, and the supplementary schedules of Daiwa Securities Group Inc. as at March 31, 2014 and for the year from April 1, 2013 to March 31, 2014 in accordance with Article 436-2-1 of the Companies Act.

### **Management's Responsibility for the Financial Statements and Others**

Management is responsible for the preparation and fair presentation of the financial statements and the supplementary schedules 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 and the supplementary schedules that are free from material misstatements, whether due to fraud or error.

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the supplementary schedules. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements and the supplementary schedules, 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 and the supplementary schedules 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 and the supplementary schedules.

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 and the supplementary schedules referred to above present fairly, in all material respects, the financial position and the results of operations of Daiwa Securities Group Inc. for the period, for which the financial statements and the supplementary schedules were prepared, in accordance with accounting principles generally accepted in Japan.

### **Other Matter**

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Law of Japan.

### **Notes to the Reader of Independent Auditor's Report:**

The Independent Auditor's Report herein is the English translation of the Independent Auditor's Report as required by the Companies Act.

## **Audit Report**

The Audit Committee has audited the performance of duties by the Directors and the Executive Officers, the business report, the statutory report (the balance sheet, the statement of income, the statement of changes in net assets, a summary of significant accounting policies and other explanatory information) and the supplementary schedules, and the consolidated statutory report (the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in net assets, a summary of significant accounting policies and other explanatory information) for the 77th fiscal year from April 1, 2013 to March 31, 2014. We report the methods and the results of the audit as follows.

### **1. Methods used in audits and content of audits**

The Audit Committee observed and examined the resolutions of the Board of Directors regarding the organization of the system stipulated in Article 416, Paragraph 1, Item 1(b) and 1(e) of the Companies Act and the status of internal control systems. We were reported the situation of the construction of the systems and the use by the Directors, the Executive Officers and the employee at fixed intervals. We demand explanation as needed and express an opinion. We also set the purpose of developing the Group's audit system as a critical issue based on the policies established by the Audit Committee and in accordance with the allocation of responsibilities among Audit Committee members. In cooperation with the internal control division we attended significant meetings, received reports from Directors and Executive Officers, etc. about their execution, received their explanation when necessary, inspected the contents of the important authorized documents and other important documents, and investigated the Company's operations and condition of property. The Audit Committee exchanged information with and, when necessary, received reports from Directors and Audit & Supervisory Board Member, etc., of subsidiaries.

In addition, the Audit Committee also observed and verified whether the accounting auditor was maintaining its independence and was carrying out its audits in an appropriate manner. The Audit Committee received reports from the accounting auditor on the execution of its duties and, when necessary, requested explanations regarding those reports. The Audit Committee also received notification from the accounting auditor that it was taking steps to improve the "system for ensuring the proper execution of its duties" (as enumerated in Article 131 of the Accounting Regulation Ordinance) in compliance with the "Quality Control Standards Relating to Auditing" (adopted by the Business Accounting Deliberation Council on October 28, 2005). When necessary, the Audit Committee requested explanations.

### **2. Results of the Audit**

#### **(1) Results of audit of the business report, etc.**

- In our opinion, the business report and its supporting schedules fairly present the situation of the Company, in compliance with the provisions of applicable laws, regulations and the Articles of Incorporation.
- In our opinion, none of the actions taken by Directors and Executive Officers in executing their duties were irregular and none of their actions violated the provisions of applicable laws, regulations or the Articles of Incorporation.
- In our opinion, the content of the resolution by the Board of Directors and the mention contents of the business report regarding internal control systems was appropriate, and, furthermore, all actions of the Board of Directors with respect to executing internal control systems were carried out appropriately.

#### **(2) Results of the audit of the statutory report and its supporting schedules**

In our opinion, the auditing methods used by the accounting auditor KPMG AZSA LLC and the results of its audit were appropriate.

(3)Results of the audit of the consolidated statutory report and its supporting schedules

In our opinion, the auditing methods used by the accounting auditor KPMG AZSA LLC and the results of its audit were appropriate.

May 15, 2014

Audit Committee  
Daiwa Securities Group Inc.

Committee Chairperson  
Keiichi Tadaki

Committee Member  
Masaru Shirataki (Full time)

Committee Member  
Nobuko Matsubara

Committee Member  
Hiroki Tsuda

*(Note) Mr. Keiichi Tadaki, Ms. Nobuko Matsubara and Mr. Hiroki Tsuda are the outside directors provided under the provisions of Article 2, item 15 and Article 400, Paragraph 3 of the Companies Act.*