＜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]

June 2, 2017

Matters to be disclosed on the Internet Based on Ordinances and Articles of Incorporation On Notice of 80th General Meeting of Shareholders

Daiwa Securities Group Inc.

Based on Ordinances and Articles of Incorporation No.23, “Notes to the Consolidated Statutory Report” and “Notes to the Non-Consolidated Statutory Report” are offered via the Internet; please access the web site of the company. (http://www.daiwa-grp.jp/ir/shareholders/shareholders_04.html)

Ⅰ. Notes to the Consolidated Statutory Report

The Consolidated Statutory Report of Daiwa Securities Group Inc. ("the Company") for the fiscal year ended March 31, 2017 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), the two latter of which are applied to the balance sheets and the income statements of the companies that engage in securities-related business, the main business of the Group, 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: 52 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 PI Partners Co. Ltd.
Daiwa Securities SMBC Principal Investments Co. Ltd.
Daiwa Real Estate Asset Management Co. Ltd.
Daiwa Capital Markets Europe Limited
Daiwa Capital Markets Hong Kong Limited
Daiwa Capital Markets Singapore Limited
Daiwa Capital Markets America Holdings Inc.
Daiwa Capital Markets America Inc.

In the Consolidated Statutory Report of the Company for the fiscal year ending March 31, 2017 we included, in the scope of consolidation, 6 companies because of increase in materiality. Also, we excluded, therefrom, 1 company due to transfer of the shares,2 companies due to decrease in materiality since they resolved its liquidation and 1 company due to completion of liquidation.

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

The names of major non-consolidated subsidiaries

DIR Information Systems Co., Ltd.

Rationale for exclusion from the scope of consolidation

The non-consolidated subsidiaries had 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 were immaterial as a whole; therefore they were excluded from the scope of consolidation.

(3) Companies not treated as subsidiaries regardless of the Company's ownership of the majority of the voting rights

The number of companies not treated as subsidiaries: 9 companies

The names of the companies not treated as subsidiaries

F-Power Inc.
Miike Thermal Power Co.
Optimized Energy Co.

Rationale for not being treated as subsidiaries:

Some subsidiaries have owned these companies' stocks as operational transactions for the purpose of acquiring capital gains by investments/developments and revitalizing businesses. These investment activities meet the requirements of the Accounting Standards Implementation Guidance No. 22 (as to determination of scope of subsidiaries and affiliates in consolidated financial statements) and thus it is clear that such subsidiaries do not control the decision-making organizations of these investee companies.

(4) Special Purpose Entities subject to disclosure

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

Some consolidated subsidiaries utilized Special Purpose Entities in structuring and distributing structured notes in order to deal with their customers' needs for investment. Those consolidated subsidiaries acquired and transferred bonds to Special Purpose Entities in Cayman Islands and then those Special Purpose Entities issued structured notes collateralized by those bonds. Although there are six Special Purpose Entities, neither the Company nor the consolidated subsidiaries hold any voting rights or shares in Special Purpose Entities, and have not also dispatched any officers or employees to those Special Purpose Entities. The outstanding issued amount of notes by those Special Purpose Entities is 648,694 million yen as of March 31, 2017.

2. Application of equity method

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

The number of non-consolidated subsidiaries to which the equity method is applied: 0 companies

The number of affiliates to which the equity method is applied: 11 companies

The names of major affiliates to which the equity method is applied:

Daiwa SB Investments Ltd.

Daiwa Office Investment Corporation

In the Consolidated Statutory Report of the Company for the fiscal year ended March 31, 2017, we newly applied the equity method to one company due to a new acquisition of the shares and one company due to an increase in shareholding ratio. We stopped applying this to one company due to dissolution in merger.

Among the companies to which the equity method is applied and with fiscal year ending on a date other than March 31, 2017, we used the tentative financial statements as of March 31, 2017 or other record date as to 5 companies and the financial statements for the fiscal year of such companies as to the other companies.

(2) The names, etc. 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

These non-consolidated subsidiaries and affiliates had 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 were immaterial as a whole. Therefore the Company did not apply the equity method to these non-consolidated subsidiaries and affiliates.

(3) The names, etc. of companies not treated as affiliates regardless of the ownership of not less than 20% but more than 50% of the voting rights, etc.

The number of the companies: 8 companies

The names of major companies not treated as affiliates

ALMEX PE Inc.

Rationale for not being treated as affiliates

Some subsidiaries have owned these companies' stocks as operational transactions for the purpose of acquiring capital gains by investments/development and revitalizing businesses. These investment activities meet the requirements of the Accounting Standards Implementation Guidance No. 22 (as to determination of scope of subsidiaries and affiliates), and thus it is clear that the Company's subsidiaries cannot exercise significant influence on these investee companies.

3. Fiscal year, etc. of consolidated subsidiaries

Fiscal year ends of consolidated subsidiaries are as follows:

March 31 : 48 companies December 31 : 4 companies

Among the consolidated subsidiaries with a fiscal year ended on a date other than March 31, 2017, we used the financial statements for the fiscal year of such subsidiary as to two consolidated subsidiaries and the tentative financial statements as of March 31, 2017 as to the other 2 subsidiaries. We also made adjustments necessary for consolidation as to the important transactions that occurred between such dates and March 31, 2017.

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 products, 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 not classified as trading products
Securities and others which are not classified as trading products 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 (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 extremely difficult 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 the investment shares of the net asset values of the partnerships based on the partnerships' financial statements (the 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 consolidated subsidiaries is stated in current assets.
(d) Derivatives
Valued at market value.

(iii) Valuation standards and methods for inventory asset
Work in process is mainly stated based on the cost method using specific identification method (procedure method in which book value is written down based on decrease in profitability).

(2) Depreciation methods for major depreciable assets
(i) Property, plant and equipment
Property, plant and equipment are generally depreciated under the straight-line method. The Company and its domestic consolidated subsidiaries generally compute depreciation over estimated useful lives stipulated in the Corporation Tax Act of Japan.
(ii) Intangible fixed assets, investments and other 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 in the Corporation Tax Act of Japan; provided, however, that software used in-house is amortized over internally estimated useful lives (five years).

(3) Accounting policies for material allowances and 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 claims with default possibility, claims in bankruptcy, claims in reorganization and other.
(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
We provide allowance for bonuses of officers and employees and directors based on the estimated payment amount corresponding to the current fiscal year in accordance with the calculation standards of each company.
(iv) Provision for loss on litigation
We provide allowance for future monetary damage as to the litigation regarding financial transactions based on the estimated amount of restitution, considering the status of litigation.

(4) Accounting policies for net defined benefit liabilities
The Company and its domestic consolidated subsidiaries provide defined benefit liabilities for employees' retirement benefits payments, based on the amount required to pay at the fiscal year end in accordance with each company's retirement benefit policy. This is because in these companies, retirement benefits are not affected by salary increases in the future and the service costs are determined for each individual in accordance with their contributions, capabilities, achievements, etc. for each fiscal year. Some of the consolidated subsidiaries appropriate the amounts deemed to have been accrued in the current fiscal year based on the estimated amount of retirement benefits obligations at this fiscal year-end.

(5) Accounting standard for material revenue and cost recognition
Accounting standard for net sales and costs as to completed construction
Concerning revenue of make-to-order software in some consolidated domestic subsidiaries, if the

outcome of work up to the end of the fiscal year ended March 31, 2017 can be estimated reliably, the percentage-of-completion method is applied; otherwise the completed-contract method is applied. In the percentage-of-completion method, 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 (cost-to-cost method).

(6) Accounting methods for material 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 ("Tokurei-shori"). Further, the premium or discount on certain eligible forward foreign exchanges for hedging purposes is allocated to each fiscal term without being marked-to-market under generally accepted accounting principles in Japan ("Furiate-shori").

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 consolidated subsidiaries apply hedge accounting using derivatives instruments such as interest rate swaps, currency swaps and similar transactions.

The effectiveness of hedging is evaluated based upon the correlation between the fair value or the accumulated cash flows of the hedging instrument and those of the hedged item. Also, in some consolidated subsidiaries, some hedges intended to cancel the market fluctuation and designated to make the material conditions of hedging instruments and hedged items almost identical are deemed to be highly effective without effectiveness tests. Hedges exempted from being marked-to-market under the two accounting treatments described in the first paragraph is judged to pass the effectiveness tests of hedging with its eligibility of applying those treatments.

Regarding subsidiary offering banking business, hedge instruments used to hedge foreign exchange risks associated with various foreign currency denominated monetary assets and liabilities are accounted for using the deferral method in accordance with "Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry" (JICPA Industry Audit Committee Report No. 24). The effectiveness of hedging instruments, such as currency swaps and foreign exchange swap used for hedging the foreign exchange risks of loans and borrowings payable denominated in foreign currencies, is assessed by comparing the foreign currency position of hedged loans and borrowings payable with that of the hedging instrument.

(7) Amortization method and period of goodwill

Goodwill is amortized, when incurred, by using the straight-line method over the amortization period within 20 years estimated based on 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 the 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 with the Company and Daiwa Capital Holdings Ltd. as parent companies to pay taxes on consolidated basis.

(Optional Information)

The Group applied from FY 2016 the Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Statement No.26 revised in March 28, 2016).

Notes to consolidated balance sheet

1. Assets pledged as collateral and liabilities secured
(1) Assets pledged as collateral

Fixed-term deposits	200	million yen
Securities	387,904	
Trading products	488,099	
Investment securities	16,402	
Total	892,605	

(Note) The amounts above are based on the amounts in the consolidated balance sheet. In addition to the above pledged assets, borrowed securities of 154,337 million yen were also pledged as collateral.

(2) Liabilities secured

Borrowings on margin transactions	3,053	million yen
Short-term loans payable	107,900	
Long-term loans payable	358,200	
Total	469,153	

(Note) The amounts above are based on the amounts in the consolidated balance sheet.

2. Market value of securities transferred

Lending securities under loan agreements *(shohi-taishaku)*	7,230,775	million yen
Others	628,904	
Total	7,859,679	

(Note) We exclude those belonging to "assets pledged as collateral" in 1(1) above.

3. Market value of securities accepted as collateral

Borrowed securities under loan agreements *(shohi-taishaku)*	6,513,334	million yen
Others	589,547	
Total	7,102,881	

4. Allowance for doubtful accounts deducted directly from assets
Investments and other assets, other 6,313 million yen

5. Accumulated depreciation of property, plant and equipment: 111,327 million yen

6. Liabilities on guarantees

Name of the guaranteed	Liabilities guaranteed	Amount of liabilities
Employee	Borrowing	135 million yen
Total		135

7. The clauses of the laws and regulations that prescribe recording of reserves under the special laws
Reserve for financial products transaction liabilities:
Paragraph 1, Article 46-5 of the Financial Instruments and Exchange Act of Japan

Notes to consolidated statement of changes in net assets

1. Type and total number of shares outstanding as of the end of the fiscal year ended March 31, 2017
Common shares 1,699,378,772

2. Dividends
(1) Amount of dividends

Resolution	Type of shares	Total amount of dividends (million yen)	Dividend per share (yen)	Record Date	Effective Date
Board of Directors on May 18, 2016	Common shares	20,308	12	Mar. 31, 2016	June 6, 2016
Board of Directors on Oct. 28, 2016	Common shares	22,018	13	Sep. 30, 2016	Dec. 1, 2016
Total		42,326			

(2) Dividends to be distributed after the fiscal year ended March 31, 2017
It was scheduled to be resolved at the meeting of the Board of Directors on May 16, 2017 as to dividends on common share as follows:
1. Total amount of dividends 21,8 million yen

2. Dividend per share 13 yen
3. Record Date March 31, 2017
4. Effective Date June 5, 2017

(Note 1)The dividends will be paid from retained earnings.

3. Class and number of shares subject of stock subscription rights upon exercise thereof as of March 31, 2017

	Item	Number of shares				Balance As of Mar. 31, 2017 (Millions of yen)
		As of Apr. 1, 2016	Increase	Decrease	As of Mar. 31, 2017	
	Stock subscription rights issued in Jul, 2006	171,000	-	17,000	154,000	209
	Series 3 stock subscription rights	2,331,000	-	2,331,000	-	-
	(treasury rights)	(262,000)	(-)	(262,000)	(-)	(-)
	Stock subscription rights issued in Jul, 2007	194,000	-	8,000	186,000	244
	Series 4 stock subscription rights	2,331,000	-	19,000	2,312,000	811
	(treasury rights)	(239,000)	(18,000)	(-)	(257,000)	(-)
	Stock subscription rights issued in Jul, 2008	245,000	-	10,000	235,000	228
	Series 5 stock subscription rights	2,620,000	-	180,000	2,602,000	637
	(treasury rights)	(205,000)	(18,000)	(-)	(223,000)	(-)
	Stock subscription rights issued in Jul, 2009	540,000	-	23,000	517,000	299
	Series 6 stock subscription rights	2,115,000	-	212,000	1,903,000	291
	(treasury rights)	(291,000)	(25,000)	(-)	(316,000)	(-)
	Stock subscription rights issued in Jul, 2010	954,000	-	28,000	926,000	347
	Series 7 stock subscription rights	4,082,000	-	597,000	3,485,000	291
	(treasury rights)	(442,000)	(44,000)	(-)	(486,000)	-
	Stock subscription rights issued in Jul, 2011	1,167,000	-	56,000	1,111,000	397
The Company	Series 8 stock subscription rights	5,466,000	-	2,071,000	3,395,000	304
	(treasury rights)	(389,000)	(58,000)	(-)	(447,000)	(-)
	Stock subscription rights issued in Feb, 2013	807,000	-	18,000	789,000	448
	Series 9 stock subscription rights	6,053,000	-	77,000	5,976,000	1,155
	(treasury rights)	(280,000)	(77,000)	(-)	(357,000)	(-)
	Stock subscription rights issued in Feb, 2014	394,000	-	6,000	388,000	370
	Series 10 stock subscription rights	3,830,000	-	52,000	3,778,000	839
	(treasury rights)	(134,000)	(52,000)	(-)	(186,000)	(-)
	Stock subscription rights issued in Feb, 2015	458,000	-	-	458,000	389
	Series 11 stock subscription rights	5,311,000	-	92,000	5,219,000	501
	(treasury rights)	(107,000)	(92,000)	(-)	(199,000)	(-)
	Stock subscription rights issued in Feb, 2016	581,000	-	-	581,000	385
	Series 12 stock subscription rights	4,470,000	-	92,000	4,378,000	134
	(treasury rights)	(14,000)	(92,000)	(-)	(106,000)	(-)
	Stock subscription rights issued in Feb, 2017	-	574,000	-	574,000	406
	Series 13 stock subscription rights	-	7,448,000	18,000	7,430,000	34
	(treasury rights)	(-)	(18,000)	(-)	(18,000)	(-)
					Total	8,729 (-)

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

(Note 2)Exercise periods of "Series 9 stock subscription rights", "Series 10 stock subscription rights", "Series 11 stock subscription rights", "Series 12 stock subscription rights" and "Series 13 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, dealing in public offering, secondary offering and private placement of securities and other security-related-business, banking business and other financial businesses.

The Group holds financial assets and liabilities such as "trading securities and others", "derivatives", "operational investment securities", "loans" and "investment securities", etc. in its businesses and raises its funds with corporate bonds, medium-term notes, borrowing from financial institutions, deposits, etc. In fundraising, under the basic policy for financing such that enough liquidity for continuing business should be effectively secured, the Group tries to realize efficient and stable financing by diversifying financial measures and maturity dates and maintaining an appropriate balance between assets and liabilities. 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 tries to secure financial soundness, by managing entirely and efficiently the variety of risks incurred by holding financial assets and liabilities in accordance with the characteristics of such risks.

(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, etc.), 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 swaps, foreign exchange swaps, foreign currency futures, bond options, currency 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.

Among the various risks implied in these financial instruments, the major risks 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 creditability change, etc. of counterparts or issuers of financial instruments which the Group holds.

In the trading business, the Group conducts derivative transactions as single transactions or as transactions embedded in structured notes, in order to meet customers' needs. These include transactions which are highly volatile in contrast to the fluctuation of stock indices, foreign exchange rates and interest rates of reference assets and the correlation between them, or transactions 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 sheet and the realized and unrealized profit/loss by fluctuation of fair values are recorded as the net trading income/loss.

The Group, holding the financial instruments as above, is also raising its funds utilizing corporate bonds, medium-term notes, borrowing from financial institutions, deposits, etc., and is exposed to liquidity risk. Liquidity risk means the risk of suffering losses such that cash management may be impossible or require remarkably higher financing costs than usual as a result of abrupt change of market environment or deterioration of financial conditions of the Group, etc.

Subsidiaries engaged in the trading business utilize derivative transactions as brokers and end-users in derivative market. Derivative products have been necessary to deal with a variety of customers' financial needs and such subsidiaries 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 also with 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 system 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 and discusses matters such as risk exposure and issues concerning the risk management system of each subsidiary grasped by monitoring of subsidiaries. Major subsidiaries regularly hold risk management committee meetings, etc., and strengthen each risk management.

(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 Value at Risk (which indicates the estimate of the maximum loss amount under a certain confidence level. Hereunder "VaR"), position and sensitivity, etc., considering the financial situation, the business plan and budget of each division. The risk management department of the Company monitors and reports the market risk to 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 abrupt change in the market and 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 trading products.

The VaR as of March 31, 2017 (fiscal year end) was 2.3 billion yen in total.

In the meantime, the Group verifies the model by executing back tests which compare calculated VaR and the actual profit/loss. Please note that as the VaR statistically estimates the risk based on historical market fluctuation, it 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

The credit risks generated in the trading business of the Group consists of counterparty risk and issuer risk. On the counter party risk, the Group has established the credit limit in advance based on ratings of counterparties and monitors the observance of such credit limit. In addition, concerning the issuer risk of financial instruments held for market-making, the Group monitors mainly the fluctuation risk of credit spread. Moreover, the Group also periodically monitors the influence from the large-lot credit.

Because margin transactions generate credit to customers, we require customers to set deposits as collateral. In connection with the securities loan transaction, the Group has tried to reduce credit risk by establishing credit limit for counterparties, charging necessary collaterals, and daily mark-to-market.

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

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

The subsidiaries in the investment business make an investment decision after investigating each investment thoroughly in an investment committee etc.. After investments, the subsidiaries regularly monitor and report the situation of invested companies to the risk management committee, etc.

The subsidiary in the banking business specifies risk which needs management and establishes a management policy and management system for each risk. Furthermore, it establishes a risk management committee, a body under the Board of Directors, to discuss and decide the way to manage the risks (The committee discusses the important matters relating to the management and control of the credit risk, market risk and liquidity risk etc.). The subsidiary controls the risks by doing its business within the various limit set by the Board of Directors, the risk management committee, etc.

In connection with investment securities 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 and reports the situation of risk to the management of the Company.

(Quantitative information concerning market risk)

(a) Financial assets and liabilities (excluding those held by the subsidiary which engages 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, 2017, if the index, such as TOPIX, were to change by 10%, market prices of the listed equities in "operational investment securities" and "investment securities" would fluctuate by 13.7 billion yen.

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, 2017, 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 2.1 billion yen and 0.3 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 utilizes VaR in managing market risk (i.e. the risk of loss which caused by fluctuation of value of assets and liabilities (including off-balance liabilities) due to fluctuation of interest, exchange stocks and other risk factors in the market and the risk of loss which caused by fluctuation of income from assets and liabilities).

When measuring VaR, we adopt the historical simulation method (confidence interval: 99%, observation period: 750 business days) and as for trading financial instrument, we convert the number calculated in 1 day of holding period to the number in 10 days of holding period and as for un-trading financial instrument, we convert the number calculated in 20 day of holding period to the number in 125 days of holding period. Such number as of March 31, 2017 are 200 million for trading financial instrument and 8.8 billion yen for un-trading financial instrument.

The subsidiary, in order to verify the effectiveness of the model, periodically conducts the back-tests by comparing the VaR calculated in risk measuring model with the virtual profits and losses. By the back-tests in fiscal year 2016, we estimate that our risk measurement model grasps the market risk. However, as the VaR statistically estimates the risk based on historical market fluctuation, it may be sometimes unable to completely grasp the risk in an environment in which the market unexpectedly changes beyond the estimation.

In order to complement the limitation of management utilizing VaR, we measure loss calculated by a wide variety of scenario (stress test).

(iii) Management of liquidity

As the Group conducts its business with a core focus on the securities-related business by utilizing a lot of assets and liabilities, it has the basic policy of fundraising that it efficiently and stably secures enough liquidity for continuing its business.

Methods of raising funds 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. The Group intends to realize effective and stable fundraising by combining these various methods.

In terms of financial stability, the Group, preparing for the case that the environment vastly changes, endeavors even 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 fundraising from the market and borrowing from financial institutions, in preparation for the unexpected situation due to world-wide financial crisis and credit crunch. Also, the Group tries to diversify the maturity and sources of funds in preparation for the event where it becomes difficult to raise new funds and to reschedule the existing funds due to a financial crisis.

In addition to the regulation of the Group's consolidated liquidity coverage ratio, the Company has organized its liquidity management system, which is based on original indices for liquidity management. Namely, concerning the unsecured fundraising, the repayment date of which arrives within a period of time, and the prospective outflows in the case where some stress events occur in such period, we verify every day that enough liquidity portfolio is secured for such repayment and outflows even in various stress scenarios. Herewith, the Group has established a system making it possible to continue business even if the unsecured fundraising is not available for one year.

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 funds without collateral in preparation for the case where it becomes difficult to raise new funds and to reschedule the existing funds due to the occurrence of some stress, which is specific to the Company or influences the entire market. Also, the Group raises and manages funds efficiently as a group, by establishing a system that enables the Company to flexibly distribute and supply funds to its group companies and also enables companies in the Group to finance each other.

The Group has also established a contingency funding plan as one of the measures of dealing with liquidity risk. This plan states the basic policy concerning the reporting lines and the method of fundraising, etc., depending upon the urgency of stress by internal factors such as decrease in creditability and external factors such as abrupt change of market environment. The contingency funding plan enables the Group to prepare a system for securing liquidity through a swift response.

The Group established the contingency finding plan of the Group considering the stress that the entire Group may face and also revised it periodically 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 is significant, decide their own contingency finding plans and periodically revise their plans as well.

In addition, the Company periodically monitors the development status of its subsidiaries' contingency funding plans. The Company revises, if necessary, its subsidiaries' fundraising plan or contingency funding plan itself considering crises scenarios to be assumed and also tries to preliminarily execute countermeasures, both increasing liquidity and reducing assets at the same time.

(iv) Supplementary explanation for fair values of financial instruments

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. As such theoretical prices are calculated based on certain assumptions, they may be changed under different assumptions..

2. Fair values of financial instruments

The figures stated in the consolidated balance sheet as of March 31, 2017, fair value and the difference between the two are as below. Any items for which it is extremely difficult to obtain their fair value are not included in the statement below (see Note 2).

(Millions of yen)

	Amounts in consolidated balance sheet	Fair value	Difference
Assets			
(1) Cash and deposits	3,828,674	3,828,674	-
(2) Cash segregated as deposits	336,338	336,338	-
(3) Trading products			
(a) Trading securities and other	3,853,260	3,853,260	-
(b) Derivatives	2,692,968	2,692,968	-
(4) Operating Loans	655,709		
Allowance for doubtful Accounts	(360)		
	655,349	656,148	798
(5) Margin transaction assets			
Loans on margin transactions	174,524	174,524	-
Cash collateral pledged for securities borrowing on	28,006	28,006	-
(6) Loans secured by securities			
Cash collateral pledged for securities borrowed	5,005,170	5,005,170	-
Loans on Gensaki transactions	300,347	300,347	-
(7) Securities, Operational investment securities and Investment securities			
(a) Trading securities	11,927	11,927	-
(b) Held-to-maturity bonds	56,230	56,193	(36)
(c) Shares of subsidiaries and affiliates	120,580		
Allowance for investment loss	(6,910)		
	113,670	140,940	27,270
(d) Available-for-sale securities	1,869,676	1,869,676	-
Total assets	18,926,145	18,954,177	28,032
Liabilities			
(1) Trading products			
(a) Trading securities and other	2,261,720	2,261,720	-
(b) Derivatives	2,396,874	2,396,874	-
(2) Trade date accrual	216,836	216,836	-
(3) Margin transaction liabilities			
Borrowings on margin transactions	3,086	3,086	-
Cash received for securities lending on margin	59,290	59,290	-
(4) Loans payable secured by securities			
Cash received on debt credit transactions of securities	5,909,682	5,909,682	-
Borrowings on Gensaki transactions	109,130	109,130	-
(5) Deposits for banking business	2,985,733	2,985,730	3
(6) Deposits received	256,873	256,873	-
(7) Guarantee deposits received	418,039	418,039	-
(8) Short-term loans payable	918,954	918,954	-
(9) Commercial papers	-	-	-
(10) Current portion of bonds	278,237	278,237	-
(11) Bonds payable	1,219,344	1,223,448	(4,104)
(12) Long-term loans payable	1,179,264	1,177,574	1,690
Total liabilities	18,213,068	18,215,479	(2,410)
Derivative transactions other than trading (※)			
Transactions in which hedge accounting is not applied	3,596	3,596	-
Transactions in which hedge accounting is applied	17,976	18,959	983
Total derivative transactions other than trading	21,573	22,556	983

※ 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 their fair values are similar to book value as they are settled in the short term.

(ii) Cash segregated as deposits

Cash segregated as deposits mainly consist of the trust of cash segregated for customers. The price of those which are invested 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 those of similar bonds. Other investment products are recorded as their book value because the fair value closely resembles the book value and they are settled in the short term.

(iii) Trading products

(a) Trading Securities and others

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

(b) Derivative transactions

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

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

(iv) Trade date accrual

Trade date accruals are recorded at their book value, because their fair values are similar to book value as 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 their fair value are similar to book value, as such floating rate loans reflect money market rates in the short term as far as the credit condition of borrowers does not greatly change; provided, however, that some loans are calculated based on the prices offered by financial institutions. The fair value of loans with a fixed rate 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 in considering of prospective repayment period and interest rate conditions etc.

(vi) Margin transaction assets, margin transaction liabilities

Margin transaction assets consist of lending money to customers accompanied by margin transactions and cash collateral to securities finance companies. Those are recorded at their book value as deemed to be 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 borrowing money from securities finance companies accompanied by customers' margin transactions and the amount equivalent to sales price of securities as to customers' margin transactions. Those are recorded at their book value as deemed to be 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 and loans payable secured by securities

These are recorded at their book value, because fair values are similar to book value as 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	price reasonably calculated by utilizing spread with index interest rate based on immediately previous traded price including similar bonds (OTC and broker screen, etc.) or market value information (trading price statistics, etc.), 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	Concerning the investments in partnership whose possible investment losses are calculated based on the estimated amount recoverable from real estate, the fair value resemble the amount calculated by deducting an allowance for possible investment losses at present from the amount recorded in the balance sheet as of the fiscal year end. Therefore, we deemed such calculated amount as fair value.

(ix) Deposits for banking business

Concerning demand deposits, we deem the amount payable demanded at the end of the fiscal year (which means their book value) as their fair value.

The fair value of fixed deposits is calculated by discounting the estimated relevant future cash flow at the fixed discount rate.

Discount rate is calculated by yield curve, which includes credit spread of the Group.

(x) Deposits received

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

(xi) Guarantee deposits received

These are mainly guarantee deposits relating to derivative transactions. They are recorded at their book value as they can be deemed to be settled in the short term because of those characteristics which are marked-to-market for each transaction. Concerning other guarantee deposits received from customers, the payment amount when settled at the end of this fiscal year (book value) 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 as 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 the amount equivalent to the fluctuation of interest rate and credit spread of the Company since the issuance. As to the credit spread of the Company, we refer to the interest rate of the immediately previous fundraising, 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 the amount equivalent to the fluctuation of interest rate and credit spread of the Company from lending. As to the credit spread of the Company, we refer to the interest rate of the immediately previous fundraising, market prices of similar bonds issued by the Company, etc.

(xx) Derivative transactions other than trading

The accounting method is the same as that in "(iii) Trading products (b) Derivative transactions".

(Note 2) Any financial products for which it is extremely difficult to obtain their fair value are as below and are not included in the "Assets (7) (c) Shares of subsidiaries and affiliates and (d) Available-for-sale securities" of fair value information of financial instruments.

(Millions of yen)

	Amounts in consolidated balance sheet
Shares of subsidiaries and affiliates	
Unlisted equities	36,431
Available-for-sale securities	
Unlisted equities	33,412
Investments in limited partnerships and other similar partnerships	48,818
Others	8,841

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

Notes to per share information

Net assets per share 745.80 yen
Net income (loss) per share 61.53 yen

Ⅱ. Notes to the Non-Consolidated Statutory Report

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) Trading securities
   Valued at market value (cost is determined based on the moving average method).
   (2) Shares of subsidiaries and affiliates
   Valued at cost based on the moving-average method.
   (3) Available-for-sales securities
   Available-for-sales 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 the investment shares of the net asset values of the partnerships based on the partnerships' financial statements (shares of net unrealized profits and losses on securities held by the partnerships is directly posted into net assets).
   (4) Derivatives
   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 Act 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 in the Corporation Tax Act of Japan; provided, however that software used in-house is amortized over internally estimated useful lives (five years).

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 claims with default possibility, claims in bankruptcy, claims in reorganization claims, etc.
   (2) Provision for bonuses
   We provide allowance for bonuses of officers and employees based on the estimated payment amount corresponding to the current fiscal year in accordance with the calculation standards of the Company.

4. Other significant items associated with the preparation of Non-Consolidated Statutory Report
   (1) Accounting methods for deferred assets
   Expenses for the issuance of bonds and notes are all accounted for as expenses when they are incurred.
   (2) 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 ("Tokurei-shori"). Further, the premium or discount on certain eligible forward foreign exchanges for hedging purposes is allocated to each fiscal term without being marked-to-market under generally accepted accounting principles in Japan ("Furiate-shori").
   In order to avoid interest rate fluctuation risk and foreign exchange fluctuation risk associated with some of the loans payable and bonds issued, the Company applies hedge accounting using derivatives instruments such as interest rate swaps, currency swaps and similar transactions.
   The effectiveness of hedging is evaluated based upon the correlation between the fair value or the accumulated cash flows of the hedging instrument and those of the hedged item. Hedges exempted from being marked-to-market under the two accounting treatments described in the first paragraph is judged to pass the effectiveness tests of hedging with its eligibility of applying

those treatments.

(3) Accounting method for consumption tax, etc.

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

(4) Tax consolidation

The Company and its wholly-owned subsidiaries file a consolidated tax return.

(Optional Information)

The Company applied from FY 2016 the Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Statement No.26 revised in March 28, 2016).

Notes to balance sheet

1. Securities transferred

Among the investment securities, those corresponding to 80,605 million yen were loaned.

2. Allowance for doubtful accounts deducted directly from assets

Investments and other assets, others	3,467 million yen

3. Accumulated depreciation of tangible fixed assets 1,937million yen

4. Guarantee

Name of the guaranteed	Liabilities guaranteed	Amount of liabilities
Employee	Borrowing	106 million yen
Related companies	Derivative liabilities	3,461
Total		3,568

5. Monetary claims and obligations with related companies

Short-term monetary claims	502,396	million yen
Long-term monetary claims	717,351	million yen
Short-term monetary liabilities	56,001	million yen
Long-term monetary liabilities	1,859	million yen

Notes to statement of income

Transactions with related companies

Operating transactions	44,817	million yen
Non-operating transactions	3,667	million yen

Notes to statement of changes in net assets

Balance of Treasury Stock as of March 31, 2017

Common Shares 22,136,669

Notes to tax effect accounting

Breakdown for main cause for deferred tax assets and liabilities

(Deferred tax assets)

Loss of valuation of shares of subsidiaries and affiliates, etc.	17,578	million yen
Loss brought forward	12,991	
Loss of valuation of investment securities	5,761	
Allowance for doubtful accounts	1,128	
Others	3,392	
Subtotal of deferred tax asset	40,853	
Valuation allowance	(40,512)	
Total deferred tax assets:	340	

(Deferred tax liabilities)

Valuation difference on available-for-sale securities	16,543	million yen
Others	536	
Total deferred tax liabilities	17,079	
Net deferred tax liabilities	16,739	million yen

Notes to transactions with related parties

Subsidiaries and affiliates, etc (Millions of yen)

Class	Name of company	Ratio of voting rights	Relationship with related parties	Transaction	Amount	Account Title	Ending Balance
Subsidiary	Daiwa Securities Co. Ltd.	Direct 100.0%	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) Payment of interest (Note 2) Lending shares (Note 2) Receipt of premium charges (Note 2)Derivative transactions (Note 3, 4)	448,292 2,710 54,918 9 80,605 5 -	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 non-current liabilities (derivative liabilities) Accrued income Accrued expenses	212,668 439,879 368 51,169 0 0 3 106 418 69 4
Subsidiary	Daiwa Property Co., Ltd.	Direct 99.4% Indirect 0.6%	Debt financing Directors hold concurrent positions	Debt financing (Note 1) Receipt of interest (Note 1)	370 232	Long-term loans receivable	23,150
Subsidiary	Daiwa PI Partners Co. Ltd.	Indirect 100.0%	Debt Financing	Debt financing (Note 1) Receipt of interest (Note 1)	17,000 608	Long-term loans receivable	42,000
Subsidiary	Daiwa Investment Management Inc.	Direct 100.0%	Debt Financing Directors hold concurrent positions	Debt financing (Note 1) Receipt of interest (Note 1)	- 1,894	Long-term loans receivable Accrued income	194,300 920
Subsidiary	Daiwa International Holdings Inc.	Direct 100.0%	Debt Financing Directors hold concurrent positions	Debt financing (Note 1)	78,409	Long-term loans receivable	240,400

Terms and conditions of transactions and the policy to determine them

(Note 1) As the amount of loans, we use the average of month-end balances for short-term loans receivable and the loan amount for long-term loans receivable, respectively.
Interest rates on loans receivable are determined in consideration of market interest rates. No collateral is obtained.

(Note 2) As the amount, we use the market price as of the end of the fiscal year for lending shares and the average of month-end balances of cash collateral.
Premium charges rate for lending shares and interest rates on cash collateral are determined based on market rate.

(Note 3) We omit the description of transaction amount because these are repeated transactions.

(Note 4) Terms and conditions of these transactions are determined in consideration of market rates.

Notes to per share information

Net assets per share	525.13 yen
Net income per share	14.70 yen