<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]

May 31, 2019

Matters to be disclosed on the Internet Based on Ordinances and Articles of Incorporation On Notice of 82nd 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. System to Ensure Appropriateness of Business and State of Operation of Such System

< System to Ensure Appropriateness of Business >

The following is the outline of the matters resolved by the Board of Directors as a system to ensure appropriateness of business.

(1) The outline of the matters necessary for execution of the Audit Committee's duties

1) Matters as to Directors and employees who shall assist in the duties of the Audit Committee

The Company set up the Audit Committee Office as a department, the sole role of which is to assist in the duties of the Audit Committee.

2) Matters regarding the enhancement of the independence of Directors and employees set forth in the preceding item from the Corporate Executive Officers and the effectiveness of instructions from the Audit Committee

The Audit Committee Office sits directly under the Audit Committee.

Corporate Executive Officers have to obtain the prior consent of the Audit Committee or its member designated by the Committee (hereinafter the "Selected Committee Member"), when deciding on personnel matters (personnel change, evaluation, etc.) or reorganizing the Audit Committee Office, taking the importance of the Audit Committee into consideration.

The Audit Committee or the Selected Committee Member may request that Corporate Executive Officers secure an adequate number of staff with the knowledge and ability necessary to carry out the duties of the Audit Committee Office. Corporate Executive Officers shall respect the request.

The Audit Committee Office may request that each department (including the internal audit department) provide support for investigations and information gathering by the Audit Committee. Each department shall respect the request.

The Audit Committee Office may attend various meetings when necessary.

3) The reporting system to the Audit Committee

a) System to ensure that Directors (excluding Audit Committee Members), Corporate Executive Officers and employees report to the Audit Committee

The following rule shall be included in the rules regarding reports to the Audit Committee.

* Directors (excluding Audit Committee Members), Corporate Executive Officers and employees must report the following matters to the Audit Committee or Selected Committee Member by adequate means, such as by using the whistleblowing system.

a. Any facts that have the potential to cause significant damage to the Company or the Group, immediately after they learn of such facts

b. Any activities of officers or employees of the Company or the Group that violate or may violate any laws and regulations or the Articles of Incorporation

c. Matters that the Audit Committee or Selected Committee Member of the Company request be reported and other matters that are deemed useful for the audit

b) The system to ensure that Directors, Audit & Supervisory Board Members and employees of the Company's subsidiaries or the persons who receive reports from them shall report to Audit Committee of the Company

The following rule shall be included in the rules regarding reports to Audit & Supervisory Board Member, etc. of such subsidiaries.

* Director, Audit & Supervisory Board Member and employees of the Company's subsidiaries or the persons who receive reports from them must report the following matters to the Audit Committee or Selected Committee Member by adequate mean, such as by using the internal whistleblowing system.
  a. Any facts that have the potential to cause significant damage to the Company's subsidiaries or the Group, immediately after they learn of such facts
  b. Any activities of officers or employees of the Company's subsidiaries or the Group that violate or may violate any laws and regulations or the Articles of Incorporation
  c. Matters that the Audit Committee or Selected Committee Member of the Company requests be reported and other matters that are deemed useful for the audit

4) System to ensure that reporters in the preceding item are not treated unfavorably due to their report

The Company adopted a rule that the persons who make reports in accordance with the preceding item shall not suffer dismissal, demotion, salary reduction or any other disadvantages due to their report. In order to secure the effectiveness of such rule, we established the rules on reporting to the Audit Committee and rules on reporting to Audit & Supervisory Board Member, etc. of the Company's subsidiaries.

5) Procedures for prepayment and reimbursement of expenses incurred in execution of the duties of Audit Committee Members (limited to those related to execution of the duties of the Audit Committee) and other matters relating to the policy on expenses and obligations incurred in execution of such duties

* When the Audit Committee or Selected Committee Member requests the Company to do the following matters, the Company shall not refuse such requests unless the Company proves that the expenses and obligations concerning such requests are unnecessary for execution of the duties of the Audit Committee or Audit Committee Members.
  a. Prepayment of expenses
  b. Reimbursement of expenses paid and interest accrued after payment
  c. Payment to creditors of obligations (or, in the case where such obligations are not due, the provision of collateral equivalent to such obligation)

6) Other systems to ensure the effective audit by the Audit Committee

* Audit Committee Members may attend meetings of the Group Risk Management Committee and Group Internal Audit Committee and also ask for explanations and state opinions there. They may also attend other important meetings.
* Audit Committee Members periodically receive reports (i) on the risk management system and the risk status of the Group from the departments handling each risk and (ii) on the status of implementation of the internal audit of the Group from the internal audit department.

* Consent of the Audit Committee or Selected Committee Member is necessary, in order to reorganize the audit policy, the audit plan and the rules for the internal audit or request the delegation of the internal audit.
* The Audit Committee or Selected Committee Member may, if necessary, request that the internal audit department conduct an investigation on its behalf.
* The Audit Committee periodically receives reports from the independent auditor as to the audit status of each company of the Group.
* The Audit Committee or Selected Committee Member may have external experts independent from the business execution department support audit activities.

(2) The outline of the system to ensure the compliance with laws and regulations and the Articles of Incorporation in execution of Corporate Executive Officers' duties and other systems to ensure appropriateness of the business of the company and the corporate group consisting of such company and its subsidiaries

1) System to ensure the compliance with laws and regulations and the Articles of Incorporation in execution of duties of the Company's Corporate Executive Officers and employees and also its subsidiaries' Directors, etc. and employees

a. Compliance System
* Establish a whistleblowing system for the purpose of identifying and correcting any conduct violating laws and regulations or other rules in the Group, etc. at an early stage.
* Enact the rules of ethics and the standards of ethical conduct for the purpose of officers' and employees' compliance with laws, etc.
* Hold training seminars as to compliance for officers and employees in each company of the Group which address the respective business features of each company.
* Appoint a person in charge of formation and promotion of the system as to corporate ethical compliance across the Group, and establish a section to promote instilling and maintaining 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 and regulations, etc.

b. Group Risk Management Committee
* The Group Risk Management Committee, as a sectional committee of the Executive Management Committee, oversees the risk management system and the risk status of the Group, etc., and discusses and determines the policies and actual implementation of measures relating to risk management.

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

d. Internal Audit Department
* For structuring sound and effective internal controls for the Group, the Group believes that the internal audit is an important function and have established internal audit departments in major companies of the Group

as well as the Company.

* The internal audit department evaluates and examines the effectiveness of the Group's internal controls, and makes proposals for improvement and efficiency of the Group's business operations.
* The internal audit department makes proposals and reports to the Group Internal Audit Committee about the plans for and results of the internal audit.

e. Internal Controls on Financial Reporting

* For preparing the structure necessary to ensure appropriateness of financial statements and other financial information, the Company establishes basic rules relating to internal controls on financial reporting.
* The Disclosure Committee and the Group Internal Audit Committee discuss and determine important issues concerning internal controls 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) Rules and other systems relating to management of risk of loss of the Company and its subsidiaries

* Enact rules of risk management for the purpose of properly managing various risks involved in the business of the Group considering each characteristic of the Group and thereby of secure sound financial status and appropriate business operations. Further, clarify the risk management system by providing for policies of risk management, the category of risks to be managed, Corporate Executive Officers managing each risk and sections in charge of each risks, etc.
* Each section shall establish its own management rules for each risk it has control over, and shall report the preparation for risk management and the status of the risk, etc., to the Group Risk Management Committee, etc.

4) System to ensure efficient execution of the duties of Corporate Executive Officers of the Company and Directors, etc. of its subsidiaries

* Clarify Corporate Executive Officers' duties, the methods of execution thereof and the business operations in their charge in the rules for Corporate Executive Officers.
* As to matters which have a material effect on the Company or the Group, clarify the matters to be resolved and reported in the rules of the Executive Management Committee and Overseas Management Committee, etc.
* By having Corporate Executive Officers serve concurrently as representatives of main companies of the Group, etc., enact their business strategy quickly and efficiently based on the strategy of the Group in each company of the Group.
* Formulate the Group Medium-Term Management Plan, the term of which is three fiscal years, and, in order to pursue this Plan, determine management policy and budget allocations, etc. for the entire Group for each fiscal year.

5) **System for the report of matters concerning execution of duties by the subsidiaries' Directors, etc. to the Company and other systems to ensure appropriateness of business operation in the corporate group consisting of the Company and its subsidiaries**

* Clarify the measures for information gathering and the matters to be approved and reported from each company of the Group, by establishing the rules for management of companies of the Group and overseas offices, etc., for the purpose of proper management of business activities of each company of the Group, domestic and overseas.
* Establish the rules at each company of the Group to obtain important information regarding the management of each company of the Group and also to ensure the fair, timely and appropriate disclosure of such information in compliance with laws, regulations and rules.

< The Outline of the State of Operation of System to Ensure Appropriateness of Business >

The following is the outline of the state of operation of the system to ensure appropriateness of business resolved by the Board of Directors.

(1) The outline of the state of the operation as to the matters necessary for execution of the duties of Audit Committee

1) **Matters as to Directors and employees who shall assist in the duties of the Audit Committee**

The Company has established the Audit Committee Office. It conducts planning and design of audit policy and the audit plan and also gathers, arranges and analyzes the information and materials necessary for the audit in order to assist in the audit activities of the Audit Committee.

Also, the Audit Committee Office conducts additional investigations in order to assist in the activities of the Audit Committee.

2) **Matters regarding the enhancement of the independence of Directors and employees set forth in the preceding item from the Corporate Executive Officers and the effectiveness of instructions from Audit Committee**

The Company ensures independence of the Audit Committee Office from the Corporate Executive Officers by (i) establishing the Audit Committee Office directly under the Audit Committee and (ii) obtaining prior consent of the Selected Committee Member as to the Audit Committee's personnel matters and securing a satisfactory number of staff in accordance with the rules of the Audit Committee.

Based on the rules, the Audit Committee Office attends meetings to understand various information, enabling itself to ensure effectiveness of instructions from the Audit Committee.

3) **The reporting system to the Audit Committee**

The Company obliges its Directors (excluding Audit Committee Members), Corporate Executive Officers and employees in the rules on reporting to the Audit Committee, etc. and the Company's subsidiaries oblige their Directors, Audit & Supervisory Board Member and employees or the persons who receive reports from them in the rules on report to the Audit & Supervisory Board Member, etc. of such subsidiaries, to report, by adequate means such as by using the whistleblowing system, to the Audit Committee or Selected Committee Member any facts that have a possibility to cause significant damage to the Company or the Group or any activities of officers or employees of the Company or the Group which violate or may violate any laws and regulations or the Articles of Incorporation. Thus, the Company provides an appropriate system to ensure reports will be received.

4) **System to ensure that reporters in the preceding item are not treated unfavorably due to the report**

The Company has prepared rules on reporting to the Audit Committee, etc. and the Company's subsidiaries have prepared rules on reporting to Audit & Supervisory Board Member, etc. No disadvantage such as dismissal, demotion, salary cut, termination of secondment contract, change in working conditions, etc. is given to persons who make reports in the preceding item due to the fact that they made such reports.

5) **Procedures for prepayment and reimbursement of expenses incurred in execution of the duties of Audit Committee Members (limited to those related to the duties of the Audit Committee) and other matters relating to the policy on expenses and obligations incurred in execution of such duties**

In accordance with rules of the Audit Committee, the Company adequately pays expenses, accrued interests and obligations, incurred in execution of duties of the Audit Committee and Selected Committee Member.

6) **Other systems to ensure the effective audit by the Audit Committee**

In accordance with audit standards of the Audit Committee, the Selected Committee Member of the Company tries to gather information as to execution status of duties of Directors and Corporate Executive Officers by attending important meetings such as meetings of the Executive Management Committee, browsing corporate decision documents and other important documents and receiving reports of the internal audit from the internal audit department. He also obtains periodically the reports from the independent auditor on the state of the accounting audit. He shares such information and reports with other Audit Committee Members.

The Audit Committee and Selected Audit Member of the Company, based on the Audit Committee Auditing Standard, strive to enhance the cooperation with the Internal Audit Department to secure effectiveness of auditing by the Audit Committee, by obtaining consent on important issues regarding the internal audit, such as the Audit Policy on Internal Audit, developing internal audit plans, etc.

(2) **The outline of the state of operation of the system to ensure the compliance with laws and regulations and the Articles of Incorporation in execution of Corporate Executive Officers' duties, and other systems to ensure appropriateness of the business of the company and the corporate group consisting of such company and its subsidiaries**

1) **System to ensure the compliance with laws and regulations and the Articles of Incorporation in execution of duties of the Company's Corporate Executive Officers and employees and also its subsidiaries' Directors, etc. and employees**

The Company has already implemented the rules, departments and systems, etc. on the matters listed in item (2) of “System to Ensure Appropriateness of Business” above and operates them adequately. The Company also tries to ensure the spread of information as to the laws and regulations and internal rules, etc. and instill a focus on compliance and corporate ethics through compliance seminars for all officers and employees, compliance training and orientation activities for new employees and newly appointed managers, etc. In FY2018, the Company held meetings of the Group Risk Management Committee eight times to understand the risk status of the Group and also held meetings of the Group Internal Audit Committee six times to share the results of the internal audit conducted by the internal audit department. Further, the internal audit department evaluated and verified the internal controls as to financial reporting and reported the result to the Group Internal Audit Committee.

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

The Company has stipulated the retention period for each document based on the characteristic of each document in the rules to arrange and retain documents. The information concerning execution of Corporate Executive Officers' duties is maintained and managed properly by the department in charge.

3) Rules and other systems relating to management of risk of loss of the Company and its subsidiaries

The Company has designated market risk, credit risk, liquidity risk, operational risk, reputational risk and accounting/ taxation risk as the risks to be managed in the rules on risk management. It also tries to upgrade the risk management system in response to the characteristics of each risk. Further, it has obtained the information as to the status of the risk management system and risks themselves through the meetings of the Group Risk Management Committee. In FY2018, such meetings were held eight times, where the departments in charge of each risk shared such information.

4) System to ensure efficient execution of the duties of Corporate Executive Officers of the Company and Directors, etc. of its subsidiaries

The Company realizes quick decision-making and efficient business execution through role assignment among Corporate Executive Officers. Further, Corporate Executive Officers serve concurrently as the representatives of main companies of the Group and share information as to the situation of their business execution in the meetings of the Executive Management Committee consisting of all Corporate Executive Officers including such representatives.

In FY2018, the meetings of the Executive Management Committee were held 19 times, where its members discussed and determined the important matters which affect the Company or the Group. Further, the Executive Management Committee properly reported the situation of execution of its duties to the Board of Directors. In this way, Board of Directors supervises the adequacy and efficiency of execution of the duties of the Company's Corporate Executive Officers and its subsidiaries' Directors.

5) System for the report of matters concerning execution of duties by the subsidiaries' Directors, etc. to the Company and other systems to ensure appropriateness of business operations in the corporate group consisting of the Company and its subsidiaries

The Company receives reports from each company of the Group, domestic and overseas, and approves important matters as to such companies at the Company's governance meetings, in accordance with the rules for management of companies of the Group and overseas offices, etc. In FY2018 the Company held meetings of the Executive Management Committee 19 times and the Overseas Management Committee six times for adequate discussions, decisions and reports.

II. Consolidated Statement of Changes in Net Assets

(Apr. 1, 2018 - Mar. 31, 2019)

(Millions of yen)

	Shareholders' equity					
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Deposit for subscriptions to treasury shares	Total shareholders' equity
Balance at beginning of current period	**247,397**	**230,713**	**785,730**	**(54,310)**	**3**	**1,209,535**
Changes of items during period						
Dividends of surplus	-	-	(43,575)	-	-	(43,575)
Profit attributable to owners of parent	-	-	63,813	-	-	63,813
Purchase of treasury shares	-	-	-	(34,819)	-	(34,819)
Disposal of treasury shares	-	-	(207)	1,808	-	1,600
Other	-	(80)	-	-	1	(79)
Total changes of items during period	-	**(80)**	**20,030**	**(33,010)**	**1**	**(13,059)**
Balance at end of current period	**247,397**	**230,633**	**805,761**	**(87,320)**	**5**	**1,196,476**

(Millions of yen)

	Accumulated other comprehensive income			Subscription rights to shares	Non-controlling interests
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment		
Balance at beginning of current period	**61,176**	**(129)**	**2,550**	**8,790**	**88,596**
Changes of items during period					
Net changes of items other than shareholders' equity	(13,508)	(5,481)	3,392	(48)	(85,385)
Total changes of items during period	**(13,508)**	**(5,481)**	**3,392**	**(48)**	**(85,385)**
Balance at end of current period	**47,668**	**(5,611)**	**5,942**	**8,741**	**3,211**

[References]

Consolidated statements of changes in net assets

(Apr. 1, 2017 - Mar. 31, 2018)

(Millions of yen)

	Shareholders' equity					
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Deposit for subscriptions to treasury shares	Total shareholders' equity
Balance at beginning of current period	**247,397**	**230,712**	**718,238**	**(12,719)**	**7**	**1,183,636**
Changes of items during period						
Dividends of surplus	-	-	(43,499)	-	-	(43,499)
Profit attributable to owners of parent	-	-	110,579	-	-	110,579
Purchase of treasury shares	-	-	-	(43,128)	-	(43,128)
Disposal of treasury shares	-	-	(134)	1,537	-	1,403
Change of scope of consolidation	-	-	546	-	-	546
Other	-	1	-	-	(3)	(1)
Total changes of items during period	**-**	**1**	**67,491**	**(41,591)**	**(3)**	**25,898**
Balance at end of current period	**247,397**	**230,713**	**785,730**	**(54,310)**	**3**	**1,209,535**

(Millions of yen)

	Accumulated other comprehensive income			Subscription rights to shares	Non-controlling interests
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment		
Balance at beginning of current period	**59,922**	**435**	**6,896**	**8,729**	**83,813**
Changes of items during period					
Net changes of items other than shareholders' equity	1,254	(564)	(4,345)	61	4,783
Total changes of items during period	**1,254**	**(564)**	**(4,345)**	**61**	**4,783**
Balance at end of current period	**61,176**	**(129)**	**2,550**	**8,790**	**88,596**

III. Notes to the Consolidated Statutory Report

The Consolidated Statutory Report of Daiwa Securities Group Inc. ("the Company") for the fiscal year ended March 31, 2019 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 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: 60 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 Energy & Infrastructure 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, 2019 we included, in the scope of consolidation, 1 company because of new acquisition of shares and 2 companies because of establishment. Also, we excluded, therefrom, 1 company due to decrease in materiality for the Consolidated Statutory Report, and 1 company due to merger.

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

The names of major non-consolidated subsidiaries

Daiwa Investor Relations 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 (as calculated by the equity method), and the share of retained earnings (as calculated by the equity method), 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: 4 companies

The names of the major companies not treated as subsidiaries

SEKAIE INC.

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 the Cayman Islands and then those Special Purpose Entities issued structured notes collateralized by those bonds. Although there are 8 Special Purpose Entities, neither the Company nor the consolidated subsidiaries hold any voting rights or shares in Special Purpose Entities, and have also not dispatched any officers or employees to those Special Purpose Entities. The outstanding issued amount of notes by those Special Purpose Entities is 621,348 million yen as of March 31, 2019.

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: 10 companies

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

Daiwa SB Investments Ltd.

Daiwa Office Investment Corporation

Among the companies to which the equity method is applied and with fiscal year ending on a date other than March 31, 2019, we used the tentative financial statements as of March 31, 2019 or other record date as to one company 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

Daiwa Investor Relations 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 (as calculated by the equity method), and the share of retained earnings (as calculated by the equity method), 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% and not more than 50% of the voting rights

The number of the companies: 10 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	:	56 companies
December 31	:	4 companies

Among the consolidated subsidiaries with a fiscal year ended on a date other than March 31, 2019, we used the financial statements for the fiscal year of such subsidiary as to 2 consolidated subsidiaries and the tentative financial statements as of March 31, 2019 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, 2019.

4. Accounting policies

(1) Valuation standards and methods for major assets

(i) Valuation standards and methods for securities, etc. 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, etc. not classified as trading products

Securities , etc. which are not classified as trading products are as follows:

(a) Trading Securities

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) Other securities

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.

Investments in investment limited partnerships, etc. are stated as “Operational investment securities” or “Investment securities” mainly 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 are 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 assets

Work in process is mainly stated based on the cost method using the 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 based on the straight-line method. The Company and its domestic consolidated subsidiaries generally compute depreciation over estimated useful lives as 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 based on 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 (5 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 be paid at the end of the fiscal year ended March 31, 2019 in accordance with each company’s retirement benefit policy. This is because, in these companies, retirement benefits are not affected by future salary increases, etc. 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 fiscal year ended March 31, 2019 based on the estimated amount of retirement benefits obligations at the end of the fiscal year ended March 31, 2019.

(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, 2019 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 issued, etc., 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 designed 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 are judged to pass the effectiveness tests of hedging with their eligibility for 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. 25, July 29, 2002). 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. Goodwill is amortized in a lump sum at the fiscal year 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, etc.

The accounting method for consumption tax and local 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 Capital Holdings Co., Ltd. as parent companies respectively to pay taxes on a consolidated basis.

(Changes in presentation)

(Changes due to the implementation of "Partial Amendments to Accounting Standard for Tax Effect Accounting ")

"Partial Amendments to Accounting Standard for Tax Effect Accounting "(ASBJ Statement No. 28, February 16, 2018) has been applied from the beginning of the fiscal year ended March 31, 2019.

Deferred tax assets are stated in the category of investments and other assets, and deferred tax liabilities are stated in the category of non-current liabilities.

Notes to consolidated balance sheet

1. Assets pledged as collateral and liabilities secured

(1) Assets pledged as collateral

Securities	43,628	million yen
Trading products	558,045	
Operating loans	685,367	
Investment securities	12,513	
Total	1,299,554	

(Note) The amounts above are based on the amounts in the consolidated balance sheet. In addition to the above pledged assets, borrowed securities of 181,124 million yen were also pledged as collateral.

(2) Liabilities secured

Borrowings on margin transactions	3,675	million yen
Short-term loans payable	422,600	
Long-term loans payable	457,800	
Total	884,075	

(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)*	5,379,208	million yen
Securities sold under repurchase agreement (*Gensaki*)	1,019,601	
Others	474,589	
Total	6,873,398	

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

3. Market value of securities received as collateral

Borrowed securities under loan agreements *(shohi-taishaku)*	5,692,767	million yen
Securities purchased under resale agreement (*Gensaki*)	854,993	
Others	296,293	
Total	6,844,054	

4. Allowance for doubtful accounts deducted directly from assets

Investments and other assets, other 6,015 million yen

5. Accumulated depreciation of property, plant and equipment: 115,850 million yen

6. Liabilities on guarantees

Name of the guaranteed	Liabilities guaranteed	Amount of liabilities
Employee	Borrowing	57 million yen
Total		57

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, 2019

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 17, 2018	Common shares	24,279	15	Mar 31, 2018	June 4, 2018
Board of Directors on Oct 29, 2018	Common shares	19,295	12	Sep 30, 2018	Dec 3, 2018
Total		43,575			

(2) Dividends to be distributed after the fiscal year ended March 31, 2019

It was scheduled to be resolved at the meeting of the Board of Directors on May 16, 2019 as to dividends on common shares as follows:

1. Total amount of dividends 14,096 million yen
2. Dividend per share 9 yen
3. Record Date March 31, 2019
4. Effective Date June 3, 2019

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

3. Class and number of shares subject to stock subscription rights upon exercise thereof as of March 31, 2019

	Item	Number of shares				Balance As of Mar. 31, 2019 (Millions of yen)
		As of Apr. 1, 2018	Increase	Decrease	As of Mar. 31, 2019	
The Company	Stock subscription rights issued in Jul, 2006	134,000	-	15,000	119,000	162
	Stock subscription rights issued in Jul, 2007	174,000	-	14,000	160,000	209
	Stock subscription rights issued in Jul, 2008	220,000	-	18,000	202,000	196
	Series 5 stock subscription rights	2,581,000	-	2,581,000	-	-
	(treasury rights)	(243,000)	(-)	(243,000)	(-)	(-)
	Stock subscription rights issued in Jul, 2009	488,000	-	38,000	450,000	261
	Series 6 stock subscription rights	1,642,000	-	259,000	1,383,000	210
	(treasury rights)	(319,000)	(4,000)	(-)	(323,000)	(-)
	Stock subscription rights issued in Jul, 2010	884,000	-	64,000	820,000	307
	Series 7 stock subscription rights	2,929,000	-	331,000	2,598,000	215
	(treasury rights)	(488,000)	(2,000)	(-)	(490,000)	(-)
	Stock subscription rights issued in Jul, 2011	1,092,000	-	56,000	1,036,000	370
	Series 8 stock subscription rights	2,757,000	-	314,000	2,443,000	218
	(treasury rights)	(452,000)	(8,000)	(-)	(460,000)	(-)
	Stock subscription rights issued in Feb, 2013	784,000	-	46,000	738,000	419
	Series 9 stock subscription rights	5,170,000	-	172,000	4,998,000	975
	(treasury rights)	(406,000)	(55,000)	(-)	(461,000)	(-)
	Stock subscription rights issued in Feb, 2014	385,000	-	10,000	375,000	358
	Series 10 stock subscription rights	3,734,000	-	54,000	3,680,000	1,157
	(treasury rights)	(230,000)	(53,000)	(-)	(283,000)	(-)
	Stock subscription rights issued in Feb, 2015	452,000	-	11,000	441,000	375
	Series 11 stock subscription rights	5,154,000	-	89,000	5,065,000	954
	(treasury rights)	(264,000)	(89,000)	(-)	(353,000)	(-)
	Stock subscription rights issued in Feb, 2016	578,000	-	11,000	567,000	376
	Series 12 stock subscription rights	4,308,000	-	80,000	4,228,000	357
	(treasury rights)	(176,000)	(80,000)	(-)	(256,000)	(-)
	Stock subscription rights issued in Feb, 2017	571,000	-	-	571,000	404
	Series 13 stock subscription rights	7,314,000	-	149,000	7,165,000	432
	(treasury rights)	(134,000)	(149,000)	(-)	(283,000)	(-)
	Stock subscription rights issued in Feb, 2018	599,000	-	-	599,000	435
	Series 14 stock subscription rights	7,450,000	-	163,000	7,287,000	238
	(treasury rights)	(12,000)	(163,000)	(-)	(175,000)	(-)
	Series 15 stock subscription rights	-	7,469,500	81,500	7,388,000	105
	(treasury rights)	(-)	(81,500)	-	(81,500)	(-)
					Total	8,741 (-)

(Note 1) All shares underlying stock subscription rights above are common shares.
(Note 2)Exercise periods of "Series 11 stock subscription rights", "Series 12 stock subscription rights", "Series 13 stock subscription rights" , "Series 14 stock subscription rights", and "Series 15 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 other", "derivatives", "operational investment securities", "loans" and "investment securities", etc. in its businesses and raises funds with corporate bonds, medium-term notes, borrowing from financial institutions, commercial paper, call money, deposit acceptance, Gensaki transactions, repurchase agreements, 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 utilizes interest rate swaps and foreign currency swaps, etc., for the purpose of hedging fluctuations in 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 risks of financial instruments

The Group holds financial instruments in the trading business as follows: (a) trading securities and other (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, etc. (b) derivatives traded on exchanges, such as stock index futures, bond futures, interest rate futures and options for such derivatives, (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 banking business and investment securities for business relationships, etc.

Among the various risks associated with 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 or rate of stock prices, interest rates, foreign exchange rates and commodities 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 creditworthiness changes, 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 comparison to the fluctuation of stock prices, interest rates, foreign exchange rates and commodities prices 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 net trading income/loss.

The Group, holding the financial instruments as above, also raises funds utilizing corporate bonds, medium-term notes, borrowing from financial institutions, commercial paper, call money, deposits acceptance, Gensaki transactions, repurchase agreements, 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 the derivatives market. Derivative products have been necessary to deal with a variety of customers' financial needs and subsidiaries provide customers with financial instruments to meet 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 utilize 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 adopted 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 departments for each major risk, and conducted risk management of the entire Group in accordance with Risk Appetite Framework. Furthermore, the Company also prepared a risk management framework through establishment of guidelines regarding “the Three Lines of Defense” in order to develop an effective risk governance system.

Each subsidiary conducts risk management suitable for its 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 discovered by monitoring subsidiaries. Major subsidiaries regularly hold risk management committee meetings, etc., and strengthen their risk management.

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

(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, hereinafter “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, 2019 (fiscal year end) was 1.0 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 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 consist of counterparty risk and issuer risk. In regards to counterparty risk, the Group has established the upper limit on the credit-equivalent exposure that can be tolerated for each counterparty and periodically monitors such credit-equivalent exposure. In addition, the Group has established the upper limit on total counterparty risk. The Group monitors risk amount related to the issuer risk of financial instruments held for market-making.

Because the Group provides financial instruments, manages assets and invests, the Group is exposed to the risk that various instrument and transaction exposures collect on a specific counterparty. If the counterparty's credit situation worsens, the Group may incur significant losses. Therefore, the Group has established the upper limit on total exposure to any counterparty and periodically monitors such limit.

Because margin transactions generate credit to customers, we require customers to set deposits as collateral. In connection with securities loan transactions, 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 as to financial instruments held for other than trading purpose

The Group holds financial instruments in the business for other than trading, such as operational investment securities in the investment business, loans, securities, etc., in banking business and investment securities for business relationships. 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 offering banking business specifies risks which need management and establishes a management policy and management system for each risk. Furthermore, it establishes the ALM committee, a body under the Board of Directors, to discuss and decide the way to manage the risks (the ALM committee discusses the important matters relating to the management and control of credit risk, market risk and liquidity risk etc.). The subsidiary controls the risks by conducting its business within the various limit set by the Board of Directors, the ALM committee, etc.

In connection with investment securities for business relationships, 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 offering banking business)

The main financial assets that are influenced by market risk are "operational investment securities" in the investment business and "investment securities" for business relationships. As of March 31, 2019, 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 9.9 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, 2019, 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 2.0 billion yen and 0.2 billion yen, respectively.

(b) Financial assets and liabilities held by the subsidiary offering banking business

The subsidiary offering banking business utilizes VaR in managing market risk (i.e. the risk of loss caused by fluctuation of value of assets and liabilities (including off-balance liabilities) due to fluctuation of interest rates, exchange rates, 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 utilize the historical simulation method (holding period: 20 days, confidence interval: 99%, observation period: 750 business days) and convert the number calculated in 20 days of the holding period to the number in 125 days of the holding period. Such number as of March 31, 2019 is 2.4 billion yen.

The subsidiary, in order to verify the effectiveness of the model, periodically conducts the back-tests by comparing the VaR calculated in the risk measuring model with the virtual profits and losses. By the back-tests in fiscal year 2018, 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 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 scenarios (stress test).

(iii) Management of liquidity

As the Group conducts its business with a core focus on the securities-related business by utilizing a variety of assets and liabilities, it has the basic policy of fundraising to efficiently and stably secure 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 acceptance, 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 difficulties. 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.

The Company is required to comply with the minimum standard of consolidated liquidity coverage ratio (hereinafter "LCR") based on 2014 Financial Services Agency Notification No.61. The Company has organized its liquidity management system other than LCR based on the notification of such Financial Services Agency, which is based on original indices for liquidity management. Namely, concerning 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 is secured for such repayment and outflows even in various stress scenarios. Assuming the situation that a stress event continues for more than a year, the Group measures and monitors the sufficiency of long-term funding for maintaining assets. The Group undertakes to make it possible to continue business even if unsecured fundraising is not available for one year.

The Group 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 creditworthiness 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 has established the contingency funding 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, have established their own contingency funding 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 plans or contingency funding plans 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, etc. 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 and may be changed under different assumptions.

2. Fair values of financial instruments

The figures stated in the consolidated balance sheet as of March 31, 2019, fair value and the difference between the two are as below. Any items for which it is extremely difficult to obtain 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	4,153,271	4,153,271	-
(2) Cash segregated as deposits	324,559	324,559	-
(3) Trading products			
(a) Trading securities and other	3,785,250	3,785,250	-
(b) Derivatives	2,930,815	2,930,815	-
(4) Operating loans	1,564,856		
Allowance for doubtful accounts	(53)		
	1,564,803	1,565,714	911
(5) Margin transaction assets			
Loans on margin transactions	157,309	157,309	-
Cash collateral pledged for securities borrowing on margin transactions	17,724	17,724	-
(6) Loans secured by securities			
Cash collateral pledged for securities borrowed	5,119,636	5,119,636	-
Loans on Gensaki transactions	854,135	854,135	-
(7) Securities, operational investment securities and Investment securities			
(a) Trading securities	-	-	-
(b) Held-to-maturity bonds	132,124	133,964	1,840
(c) Shares of subsidiaries and affiliates	122,584		
Allowance for investment loss	-		
	122,584	184,422	61,837
(d) Available-for-sale securities	854,484	854,484	-
Total assets	20,016,700	20,081,290	64,589
Liabilities			
(1) Trading products			
(a) Trading securities and other	2,040,196	2,040,196	-
(b) Derivatives	2,707,580	2,707,580	-
(2) Trade date accrual	255,804	255,804	-
(3) Margin transaction liabilities			
Borrowings on margin transactions	3,675	3,675	-
Cash received for securities lending on margin	66,306	66,306	-
(4) Loans payable secured by securities			
Cash received on debt credit transactions of securities	4,934,115	4,934,115	-
Borrowings on Gensaki transactions	1,013,853	1,013,853	-
(5) Deposits for banking business	3,632,575	3,632,409	165
(6) Deposits received	276,700	276,700	-
(7) Guarantee deposits received	372,591	372,591	-
(8) Short-term loans payable	1,341,415	1,341,415	-
(9) Commercial papers	100,000	100,000	-
(10) Current portion of bonds	190,772	190,772	-
(11) Bonds payable	1,361,918	1,367,467	(5,548)
(12) Long-term loans payable	1,336,787	1,338,147	(1,359)
Total liabilities	19,634,294	19,641,037	(6,742)
<u>Derivative transactions other than trading (※)</u>			
Transactions in which hedge accounting is not applied	(3,500)	(3,500)	-
Transactions in which hedge accounting is applied	(6,813)	(8,308)	(1,494)

Total derivative transactions other than trading	(10,314)	(11,808)	(1,494)

※ 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 other

Equities, etc.	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 standard price

(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 a model expanding such models), 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 a model expanding such models), 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 a model expanding such models), 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 in 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, etc.	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 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 closing 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 deemed 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 deemed 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.

(xiv) 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.

(xv) 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 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	46,618
Available-for-sale securities	
Unlisted equities	33,138
Investments in limited partnerships and other similar partnerships	103,934
Others	3,974

(Note) 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 leased real estate

1. Concerning the situation of leased real estate

The Group owns real estate for a redevelopment project in Tokyo.

2. Fair values of leased real estate

The figures stated in the consolidated balance sheet as of March 31, 2019 and fair value is as below.

(Millions of yen)

Amounts in consolidated balance sheet	Fair value
31,544	(-)

(Note) The fair value of the asset in the redevelopment project is not disclosed because the real estate is in the middle of a large scale redevelopment project and it is very difficult to calculate the fair value of the asset.

Notes to per share information

Net assets per share	794.54 yen
Net income (loss) per share	39.95 yen

Notes to subsequent events

(Merger of equity method affiliate)

On April 1, 2019, Daiwa SB Investments Ltd. (hereinafter "DSBI"), which was our equity method affiliate, merged with Sumitomo Mitsui Asset Management Company, Ltd. (hereinafter "SMAM"). The structure of the merger consisted of an absorption-type merger under which SMAM was the surviving company and DSBI was the absorbed company. The merged company name is Sumitomo Mitsui DS Asset Management Company, Ltd.

Due to the merger, it is expected that gain or loss on change in equity will occur. However, the amount of impact is currently under calculation.

IV. Statement of Changes in Net Assets

(Apr. 1, 2018 - Mar. 31, 2019)

(Millions of yen)

	Shareholders' equity							
	Capital stock	Capital surplus	Retained earnings			Treasury shares	Deposit for subscriptions to treasury shares	Total shareholders' equity
		Legal capital surplus	Legal retained earnings	Other retained earnings				
				Reserve for advanced depreciation	Retained earnings brought forward			
Balance at beginning of current period	**247,397**	**226,751**	**45,335**	**1,860**	**399,898**	**(54,309)**	**3**	**866,937**
Changes of items during period								
Dividends of surplus	-	-	-	-	(43,575)	-	-	(43,575)
Profit	-	-	-	-	86,505	-	-	86,505
Purchase of treasury shares	-	-	-	-	-	(34,819)	-	(34,819)
Disposal of treasury shares	-	-	-	-	(207)	1,808	-	1,600
Others	-	-	-	-	-	-	1	1
Total changes of items during period	**-**	**-**	**-**	**-**	**42,722**	**(33,010)**	**1**	**9,713**
Balance at end of current period	**247,397**	**226,751**	**45,335**	**1,860**	**442,620**	**(87,320)**	**5**	**876,650**

(Millions of yen)

	Valuation and translation adjustments	Subscription rights to shares
	Valuation difference on available-for-sale securities	
Balance at beginning of current period	**46,170**	**8,790**
Changes of items during period		
Net changes of items other than shareholders' equity	(14,619)	(48)
Total changes of items during period	**(14,619)**	**(48)**
Balance at end of current period	**31,550**	**8,741**

V. 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) Other securities

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 gains (losses) are booked directly in net assets, and the costs of securities sold are calculated based on the moving average method). Securities for which 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" mainly 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 are 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. The Company computes depreciation over estimated useful lives as stipulated in accordance with the Corporation Tax Act of Japan.

(2) Intangible fixed assets, investments and other assets

The Company computes amortization of intangible fixed assets, investments and other assets based on 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 (5 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 fiscal year ended March 31, 2019 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, etc., 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 are judged to pass the effectiveness tests of hedging with their 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.

(Changes in presentation)

"Partial Amendments to Accounting Standard for Tax Effect Accounting "(ASBJ Statement No. 28, February 16, 2018) has been applied from the beginning of the fiscal year ended March 31, 2019.

Deferred tax assets are stated in the category of investments and other assets, and deferred tax liabilities are stated in the category of non-current liabilities.

Notes to balance sheet

1. Securities transferred

Investment securities of 77,041 million yen were loaned.

2. Allowance for doubtful accounts deducted directly from assets

Investments and other assets, others 3,193 million yen

3. Accumulated depreciation of property, plant and equipment: 1,527 million yen

4. Guarantee

Name of the guaranteed	Liabilities guaranteed	Amount of liabilities
Employee	Borrowing	50 million yen
Related companies	Derivative liabilities	1,711
Total		1,761

5. Monetary claims and obligations with related companies

Short-term monetary claims	363,855	million yen
Long-term monetary claims	858,807	million yen
Short-term monetary liabilities	56,352	million yen
Long-term monetary liabilities	1,456	million yen

Notes to statement of income

Transactions with related companies

Operating transactions	114,194	million yen
Non-operating transactions	2,343	million yen

Notes to statement of changes in net assets

Balance of Treasury Shares as of March 31, 2019

Common Shares 133,081,441

Notes to tax effect accounting

Breakdown of main cause for deferred tax assets and liabilities

(Deferred tax assets)

Loss on valuation of shares of subsidiaries and associates	17,513	million yen
Net operating losses carry- forward	11,719	
Write-down of investment securities	5,544	
Allowance for doubtful accounts	1,044	
Others	6,276	
Subtotal of deferred tax assets	42,098	
Valuation allowance	(41,041)	
Total deferred tax assets:	1,057	

(Deferred tax liabilities)

Valuation difference on available-for-sale securities	12,978	million yen
Others	1,281	
Total deferred tax liabilities	14,259	

Net deferred tax liabilities	13,201 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 shares 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)	359,223 10,941 53,253 (17) 77,041 5 -	Long-term loans receivable Short-term loans receivable Accrued income Loans payable secured by securities Accrued income Accrued expenses Investments and other assets Other (derivative assets) Other current liabilities (derivative liabilities) Other non-current liabilities (derivative liabilities) Accrued income Accrued expenses	415,653 339,923 2,372 47,749 1 - 159 70 42 63 1
Subsidiary	Daiwa Property Co. Ltd.	Direct 99.4% Indirect 0.6%	Debt financing	Debt financing (Note 1) Receipt of interest (Note 1)	15,080 213	Long-term loans receivable	33,180
Subsidiary	Daiwa PI Partners Co. Ltd.	Indirect 100.0%	Debt Financing	Debt financing (Note 1) Receipt of interest (Note 1)	34,000 443	Long-term loans receivable	57,000
Subsidiary	Daiwa Investment Management Inc.	Direct 100.0%	Debt Financing Directors hold concurrent positions	Debt financing (Note 1) Receipt of interest (Note 1)	- 1,311	Long-term loans receivable	69,200
Subsidiary	Daiwa International Holdings Inc.	Direct 100.0%	Debt Financing Directors hold concurrent positions	Debt financing (Note 1)	28,132	Long-term loans receivable	256,390
Subsidiary	Daiwa Energy & Infrastructure Co. Ltd.	Indirect 100.0%	Debt Financing	Debt financing (Note 1) Receipt of interest (Note 1)	26,365 94	Long-term loans receivable Accrued income	22,192 45

Terms and conditions of transactions and related policies

(Note 1) For 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) For the amount, we use the market price as of the end of the fiscal year ended March 31, 2019 for lending shares and the average of month-end balances of cash collateral.

The premium charges rate for lending shares and interest rates on cash collateral are determined based on the market rate.

(Note 3) We omit the description of the 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	579.84 yen
Net income per share	54.16 yen