＜Translation＞

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

(Securities Code: 8601)
May 31, 2019

To Our Shareholders

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

Notice of Convocation of The 82nd Ordinary General Meeting of Shareholders

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

You are hereby notified that the 82nd Ordinary General Meeting of Shareholders ("Meeting") will be held as stated below. You are respectfully requested to attend the Meeting.

If you are unable to attend the Meeting, you may exercise your voting rights in writing. Please examine the "Reference Documents for the General Meeting of Shareholders" provided below, and indicate your approval or disapproval of the bill on the agenda on the "Voting Rights Exercise Form" enclosed herewith and return the form to the Company by 17:00 (5:00 p.m.) Tuesday, June 25, 2019.

You may also exercise your voting rights for the Meeting via electronic devices (via the Internet, etc.). If you choose to exercise your voting rights via the Internet, please access the website of the Company, https://www.web54.net/ , using the "Voting Rights Exercise Code" and "Password" indicated in the "Voting Rights Exercise Form" enclosed herewith. Please examine the "Reference Documents for the General Meeting of Shareholders" provided below and vote for approval or disapproval of the bill in accordance with the guidance on the website by 17:00 (5:00 p.m.) Tuesday, June 25, 2019.

Particulars

1. Date and time of the Meeting

10:00 a.m., Wednesday, June 26, 2019 (Doors open at 9:00 a.m.) (Tokyo time)

2. Place of the Meeting

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

3. Matter to be dealt with at the Meeting

Matters to be reported:

1. Report on the contents of the Business Report, the Consolidated Statutory Report, and the outcome of the audit of the Consolidated Statutory Report conducted by Independent Auditors and the Audit Committee, with respect to the 82nd fiscal year (from April 1, 2018 to March 31, 2019).
2. Report on the contents of the Non-Consolidated Statutory Report for the 82nd fiscal year (from April 1, 2018 to March 31, 2019).

Matters to be resolved:

Bill: Election of fourteen (14) Directors (Members of the Board)

4. Matters regarding the Exercise of Voting Rights

(1)If you are unable to attend the Meeting, you may exercise your voting rights in writing or via electronic device (via the Internet, etc.).

(2) If you exercise your voting rights in writing and submit the "Voting Rights Exercise Form" without any indication in the space for approval or disapproval of the bill, it shall be deemed as an intention of approval.

(3) If you exercise your voting rights by proxy, you must delegate your voting rights to a proxy who is a shareholder of the Company entitled to vote. In such case, in addition to the letter of proxy to prove the proxy, the proxy's own "Voting Rights Exercise Form" would be required. Furthermore, delegation of your voting rights is limited to only one proxy.

(4) If you choose to exercise your voting rights in a non-uniform manner, please inform the Company, in writing, of your intention to exercise your voting rights in a non-uniform manner and the reason for it three days in advance of the Meeting.

5. Disclosure via the Internet

(1) As permitted by applicable laws and regulations and Article 23 of the Company's Articles of Incorporation, "System to Ensure Appropriateness of Business and State of Operation of Such System", "Consolidated Statements of Changes in Net Assets", "Notes to the Consolidated Statutory Report", "Statements of changes in Net Assets", and "Notes to the Non-Consolidated Statutory Report" which are to be provided along with this Notice of Convocation, are posted on the website of the Company (http://www.daiwa-grp.jp/ir/shareholders/shareholders_04.html) and are not attached to this Notice of Convocation. Therefore, the attachment is only a part of the "Consolidated Statutory Report" and "Non-Consolidated Statutory Report" which were audited by Independent Auditors and the Audit Committee to create the audit report and accounting audit report, respectively.

(2) If any modification to the contents of the Reference Documents for the General Meeting of Shareholders, the Business Report, the Consolidated Statutory Report and/or the Non-Consolidated Statutory Report is needed before the date of the Meeting, the Company will post such modification on the website as stated above.

(3) For the purpose of providing early disclosure, the content of this Notice has been posted on the website of the Company before dispatch of the Notice.

- Please note that any proxy or person accompanying a shareholder <u>who is not a shareholder of the Company may not attend the Meeting</u>.

- When you attend the Meeting, <u>please submit the enclosed "Voting Rights Exercise Form" to the receptionist at the venue of the Meeting</u>.

- If you are a nominee shareholder of a custodian bank, etc. (including a standing proxy), and if you have applied in advance to use the web-based platform to exercise voting rights for institutional investors that is managed by Investor Communications Japan, Inc. (ICJ), you may use that platform as a method, instead of the Internet, of exercising your voting rights via an electronic device.

Reference Documents for the General Meeting of Shareholders

Bill and reference matters

Bill. Election of Fourteen (14) Directors (Members of the Board)

The terms of office of all members (fourteen (14) Directors) of the Board of Directors are expiring as of the conclusion of this Ordinary General Meeting of Shareholders. Accordingly, the Company requests shareholders' approval to elect, in total, fourteen (14) Directors pursuant to the decision of the Nominating Committee.

The nominees for Directors (Members of the Board) are as follows. Mr. Tadashi Onodera, Mr. Michiaki Ogasawara, Mr. Hirotaka Takeuchi, Mr. Ikuo Nishikawa, Ms. Eriko Kawai and Mr. Katsuyuki Nishikawa are the nominees for Outside Directors as defined in Article 2, Paragraph 3, Item 7 of the Ordinance for Enforcement of the Companies Act.

Candidate Number	Name	Title and charge in the Company	New appointment/ Reappointment, If Female, If Outside, If Independent	Years on Board	Attendance Rate (FY2018)
1	Takashi Hibino	Chairman of the Board and Corporate Executive Officer	Reappointment	15	10/10 (100%)
2	Seiji Nakata	Member of the Board, Representative Corporate Executive Officer, President and CEO of the Company, and Head of Retail	Reappointment	4	10/10 (100%)
3	Toshihiro Matsui	Member of the Board, Representative Corporate Executive Officer, Deputy President and COO of the Company, and Head of Wholesale	Reappointment	3	10/10 (100%)
4	Kazuo Takahashi	Member of the Board, Corporate Executive Officer and Deputy President of the Company, and Deputy Head of Wholesale	Reappointment	2	10/10 (100%)
5	Keiko Tashiro	Member of the Board, Corporate Executive Officer, Deputy President of the Company, and Head of Overseas	Reappointment Female	5	10/10 (100%)
6	Mikita Komatsu	Member of the Board, Senior Executive Managing Director of the Company, and Deputy Head of Wholesale	Reappointment	3	10/10 (100%)
7	Masahisa Nakagawa	Senior Executive Managing Director and CIO of the Company	New Appointment	-	-
8	Sachiko Hanaoka	Senior Managing Director	New Appointment Female	-	-
9	Tadashi Onodera	Outside Director	Reappointment Outside Independent	5	9/10 (90%)

10	Michiaki Ogasawara	Outside Director	Reappointment Outside Independent	4	9/10 (90%)
11	Hirotaka Takeuchi	Outside Director	Reappointment Outside Independent	3	9/10 (90%)
12	Ikuo Nishikawa	Outside Director	Reappointment Outside Independent	3	10/10 (100%)
13	Eriko Kawai	Outside Director	Reappointment Female Outside Independent	1	8/8 (100%)
14	Katsuyuki Nishikawa		New Appointment Outside Independent	-	-

Candidate Number	Name	Number of shares of the Company held	Date of Birth (Sept. 27, 1955)	Years on Board	Attendance Rate
1	Takashi Hibino	common stock 197,990 shares	Reappointment	15	10/10 (100%)

The reason for election

He joined the Company in 1979, served successively as the Head of Products, Overseas, Corporate Planning and Personnel and thereby has broad experience related to the business of the whole Daiwa Securities Group. Also, he served as the Representative Corporate Executive Officer, President and CEO of the Company from 2011 to 2017 and has broad experience and insights as a manager. Therefore, he is considered to be qualified to serve as a Member of the Board.

Brief personal history, title, charge and significant concurrent positions	
Apr. 1979	Joined the Company
Apr. 2002	Managing Director of Corporate Planning Dept. of the Company
June 2002	Senior Managing Director and Head of Equity of Daiwa Securities SMBC Co. Ltd.
May 2004	Executive Managing Director, Head of Corporate Planning, Personnel, Legal and Secretariat and Managing Director of Personnel Dept. of the Company
June 2004	Member of the Board, Executive Managing Director, Head of Planning, Personnel and Legal, and Managing Director of Personnel Dept. of the Company
July 2004	Head of Planning, Personnel and Legal of the Company
Apr. 2005	Head of Planning and Personnel of the Company
Apr. 2007	Member of the Board and Senior Executive Managing Director of the Company
July 2008	Head of Planning and Personnel and Deputy Head of Wholesale of the Company; and Senior Executive Managing Director of Daiwa Securities SMBC Co. Ltd.
Apr. 2009	Member of the Board, Deputy President and Deputy Head of Wholesale of the Company; and Representative Director and Deputy President of Daiwa Securities SMBC Co. Ltd.
Apr. 2011	Member of the Board, Representative Corporate Executive Officer, President, CEO and Head of Retail and Wholesale of the Company; Representative Director and President of Daiwa Securities Co. Ltd.; and Representative Director and President of Daiwa Securities Capital Markets Co. Ltd.
Apr. 2013	CEO of the Company
Apr. 2017	Chairman of the Board and Corporate Executive Officer of the Company (to date); and Representative Director and Chairman of the Board of Daiwa Securities Co. Ltd. (to date)
(Significant concurrent positions) Representative Director and Chairman of the Board of Daiwa Securities Co. Ltd. Outside Director of Imperial Hotel, Ltd.	

Candidate Number	Name	Number of shares of the Company held	Date of Birth (July 16, 1960)	Years on Board	Attendance Rate
2	Seiji Nakata	common stock 129,830 shares	Reappointment	4(Note)	10/10 (100%)

(Note) The total years served as Member of the Board.

The reason for election

He joined the Company in 1983 and served successively as the Deputy Head of Planning and Personnel of the Company, Head of Corporate Institution and Head of Sales of Daiwa Securities Co. Ltd., and COO and Head of Retail of the Company. He serves as the Representative Corporate Executive Officer, President and CEO of the Company from 2017. He has expertise and experience to present a management strategy based on a wide vision and also to execute adequately the management and control of Daiwa Securities Group. Therefore, he is considered to be qualified to serve as a Member of the Board.

Brief personal history, title, charge and significant concurrent positions	
Apr. 1983	Joined the Company
Apr. 1999	Transferred to Daiwa Securities SB Capital Markets Co., Ltd.
Apr. 2005	Managing Director of Product Strategy Dept. of Daiwa Securities SMBC Co. Ltd.
Apr. 2006	Senior Managing Director and Head of Planning of the above company
Apr. 2007	Corporate Executive Officer, Deputy Head of Planning and Personnel, and Managing Director of Corporate Planning Dept. of the Company
Oct. 2008	Deputy Head of Planning and Personnel of the Company
Apr. 2009	Executive Managing Director of the Company
June 2009	Member of the Board and Executive Managing Director of the Company
Apr. 2010	Member of the Board of the Company; and Member of the Board and Executive Managing Director of Daiwa Securities Capital Markets Co. Ltd.
June 2010	Member of the Board, Executive Managing Director, Senior Head of Corporate Sales, Corporate Institution Sales and Head of Corporate Presiding of Daiwa Securities Capital Markets Co. Ltd.
Apr. 2011	Senior Head of Corporate Institution Sales and Head of Corporate Sales and Corporate Presiding of the above company
Apr. 2012	Member of the Board, Senior Executive Managing Director and Head of Corporate Institution of Daiwa Securities Co. Ltd.
Apr. 2015	Senior Executive Managing Director and Deputy Head of Retail of the Company
Apr. 2016	Representative Corporate Executive Officer, Deputy President, COO and Head of Retail of the Company; and Representative Director and Deputy President of Daiwa Securities Co. Ltd.
June 2016	Member of the Board, Representative Corporate Executive Officer and Deputy President of the Company
Apr. 2017	Member of the Board, Representative Corporate Executive Officer, President, CEO and Head of Retail of the Company (to date); and Representative Director and President of Daiwa Securities Co. Ltd. (to date)
(Significant concurrent positions) Representative Director and President of Daiwa Securities Co. Ltd.	

Candidate Number	Name	Number of shares of the Company held	Date of Birth (Apr. 27, 1962)	Years on Board	Attendance Rate
3	Toshihiro Matsui	common stock 128,600 shares	Reappointment	3	10/10 (100%)

The reason for election

He joined the Company in 1985 and served as the Managing Director of Corporate Institutions and Corporate Finance of Daiwa Securities SMBC Co. Ltd. and Corporate Planning Dept. of the Company. Since his inauguration as Corporate Executive Officer of the Company in 2009, he served as the Head of Legal, Deputy Head of Planning, Head of Planning and Personnel and Deputy Head of Wholesale of the Company. He serves now as the Representative Corporate Executive Officer, Deputy President, COO and the Head of Wholesale of the Company. He has broad experience and knowledge in broad areas such as Retail, Wholesale, Investment Banking, Planning and Personnel. Therefore, he is considered to be qualified to serve as a member of the Board.

Brief personal history, title, charge and significant concurrent positions	
Apr. 1985	Joined the Company
Apr. 1999	Transferred to Daiwa Securities SB Capital Markets Co., Ltd.
Sept. 2007	Transferred to the Company
Oct. 2008	Managing Director of Corporate Planning Dept. of the Company
Apr. 2009	Corporate Executive Officer, Head of Legal, Deputy Head of Planning and Managing Director of Corporate Planning Dept. of the Company
Apr. 2010	Deputy Head of Planning and Personnel of the Company
Apr. 2011	Executive Managing Director, Head of Legal, Deputy Head of Planning and Personnel of the Company; and Senior Managing Director of Daiwa Securities Co. Ltd.
Jan. 2012	Executive Managing Director of the Company; Senior Managing Director of Daiwa Securities Co. Ltd.; and Senior Managing Director of Daiwa Securities Capital Markets Co. Ltd.
Apr. 2012	Head of Planning and Legal and Deputy Head of Personnel of the Company; and Executive Managing Director of the Daiwa Securities Co. Ltd.
Apr. 2014	Senior Executive Managing Director and Head of Planning and Personnel of the Company; and Member of the Board, Senior Executive Managing Director of Daiwa Securities Co. Ltd.
Apr. 2016	Head of Planning and Deputy Head of Wholesale of the Company
June 2016	Member of the Board and Senior Executive Managing Director of the Company
Apr. 2018	Representative Corporate Executive Officer, Deputy President, COO and Head of Planning and Wholesale of the Company; and Representative Director and Deputy President of Daiwa Securities Co. Ltd. (to date)
Apr. 2019	Representative Corporate Executive Officer, Deputy President, COO and Head of Wholesale of the Company (to date)
(Significant concurrent positions) Representative Director and Deputy President of Daiwa Securities Co. Ltd.	

Candidate Number	Name	Number of shares of the Company held	Date of Birth (Jan. 8, 1960)	Years on Board	Attendance Rate
4	Kazuo Takahashi	common stock 44,500 shares	Reappointment	2	10/10 (100%)

The reason for election

He joined the Company in 1982 and served successively as the Head of the Shimonoseki Branch of Daiwa Securities Co. Ltd, Managing Director of Corporate Institution Sales Dept. and Financial Corporate Institution Dept. of Daiwa Securities SMBC Co. Ltd. Since his inauguration as Senior Managing Director of Daiwa Securities SMBC Co. Ltd. in 2007, he served successively as the Head of Corporate Institution Sales and Head of Financial Corporate Institution of Daiwa Securities SMBC Co. Ltd. and also Head of Corporate Institution of Daiwa Securities Co. Ltd. He now serves as the Corporate Executive Officer, Deputy President and Deputy Head of Wholesale of the Company. He has broad experience and knowledge in Corporate Institution and also experience in Retail. Therefore, he is considered to be qualified to serve as a Member of the Board.

Brief personal history, title, charge and significant concurrent positions	
Apr. 1982	Joined the Company
Apr. 1999	Transferred to Daiwa Securities SB Capital Markets Co., Ltd.
Apr. 2001	Head of Shimonoseki Branch of Daiwa Securities Co. Ltd.
Feb. 2003	Managing Director of Corporate Institution Sales Dept. II of Daiwa Securities SMBC Co. Ltd.
Apr. 2005	Managing Director of Financial Institution Dept. of the above company
Apr. 2007	Senior Managing Director and Head of Corporate Institution Sales of the above company
Apr. 2008	Head of Financial Institutions of the above company
Apr. 2009	Head of Financial Institutions and Deputy Head of Financial and Public Solutions of the above company
Oct. 2009	Head of Financial Institutions of the above company
Apr. 2010	Executive Managing Director and Head of Financial & Public Institutions Banking of Daiwa Securities Capital Markets Co. Ltd.
Apr. 2012	Member of the Board and Executive Managing Director and Head of Financial & Public Institutions Banking of Daiwa Securities Co. Ltd.
Apr. 2013	Member of the Board and Senior Executive Managing Director of the above company
Apr. 2015	Head of Corporate Business Division of the above company
Apr. 2017	Corporate Executive Officer, Deputy President and Deputy Head of Wholesale of the Company; and Representative Director and Deputy President of Daiwa Securities Co. Ltd. (to date)
June 2017	Member of the Board, Corporate Executive Officer, Deputy President and Deputy Head of Wholesale of the Company (to date)
(Significant concurrent positions) Representative Director and Deputy President of Daiwa Securities Co. Ltd.	

Candidate Number	Name	Number of shares of the Company held	Date of Birth (Aug. 5, 1963)	Years on Board	Attendance Rate
5	Keiko Tashiro	common stock 47,900 shares	Reappointment Female	5	10/10 (100%)

The reason for election

She joined the Company in 1986 and served successively as the Managing Director of the IR Office of the Company and Managing Director of the Daiwa Direct Planning Dept. of Daiwa Securities Co. Ltd. Since her inauguration as Senior Managing Director of the above company in 2009, she served successively as its Head of Daiwa Direct Business, Fixed Income, Currency and Commodities and as Head of the Americas business and Deputy Head of Overseas (in charge of the Americas) of the Company and Chairperson of the Board of Daiwa Capital Markets America Holdings Inc. She serves now as the Corporate Executive Officer, Deputy President and the Head of Overseas of the Company. She has broad knowledge and experience in the Overseas and Corporate Planning. Therefore, she is considered to be qualified to serve as a Member of the Board.

Brief personal history, title, charge and significant concurrent positions	
Apr. 1986	Joined the Company
Apr. 1999	Transferred to Daiwa Securities SB Capital Markets Co., Ltd.
July 1999	Transferred to the Company
Sept. 2005	Managing Director of Daiwa Direct Planning Dept. of Daiwa Securities Co. Ltd.
Apr. 2009	Senior Managing Director, Head of PTS and Daiwa Direct Business of the above company
June 2009	Head of Online Product and Daiwa Direct Business of the above company
Apr. 2011	Senior Managing Director, Head of Fixed Income, Currency and Commodities of Daiwa Securities Capital Markets Co. Ltd.
Apr. 2012	Senior Managing Director, Head of Fixed Income, Currency and Commodities of Daiwa Securities Co. Ltd.
Apr. 2013	Executive Managing Director (in charge of the Americas) of the Company; and Chairperson of the Board of Daiwa Capital Markets America Holdings Inc.
July 2013	Chairperson of the Board of Daiwa Capital Markets America Inc.
Apr. 2014	Executive Managing Director, Deputy Head of Overseas (in charge of the Americas) of the Company
June 2014	Member of the Board and Executive Managing Director of the Company
Apr. 2016	Member of the Board, Senior Executive Managing Director and Head of Overseas of the Company; and Member of the Board, Senior Executive Managing Director of Daiwa Securities Co. Ltd.
Apr. 2019	Member of the Board, Corporate Executive Officer, Deputy President and Head of Overseas of the Company (to date); and Representative Director and Deputy President of Daiwa Securities Co. Ltd. (to date)
(Significant concurrent positions) Representative Director and Deputy President of Daiwa Securities Co. Ltd.	

Candidate Number	Name	Number of shares of the Company held	Date of Birth (Oct. 12, 1962)	Years on Board	Attendance Rate
6	Mikita Komatsu	common stock 89,900 shares	Reappointment	3	10/10 (100%)

The reason for election

He joined the Company in 1985 and served as the Managing Director of Finance of the Company and President of Daiwa Capital Markets Europe Ltd. Since his inauguration as Senior Managing Director of Daiwa Securities Capital Markets Co. Ltd. in 2010, he served successively as its Head of International Planning, Head of Finance and Deputy Head of Planning, CFO and Deputy Head of Overseas of the Company and now he is serving as Deputy Head of Wholesale of the Company. He has broad experience and knowledge in the Corporate Planning, Finance and Overseas and, therefore, he is considered to be qualified to serve as a Member of the Board.

Brief personal history, title, charge and significant concurrent positions	
Apr. 1985	Joined the Company
Feb. 2002	Transferred to Daiwa Securities SMBC Co. Ltd.
Feb. 2003	Transferred to the Company
Oct. 2008	Transferred to Daiwa Securities SMBC Co. Ltd. (President of Daiwa Securities SMBC Europe Ltd.)
Apr. 2010	Senior Managing Director, Head of International Planning and Managing Director of International Planning Dept. of the Daiwa Securities Capital Markets Co. Ltd.
Oct. 2010	Head of International Planning and Deputy Head of Planning of the above company
Dec. 2010	Head of International Planning, Deputy Head of Planning and Senior Deputy Head of Asia of the above company
Apr. 2011	Senior Managing Director and Head of Finance of the Company; Senior Managing Director of Daiwa Securities Co. Ltd.; and Senior Managing Director of Daiwa Securities Capital Markets Co. Ltd.
Apr. 2012	Head of Finance and Deputy Head of Planning of the Company; and Member of the Board of Daiwa Real Estate Asset Management Co. Ltd.
Apr. 2013	Executive Managing Director, CFO, Deputy Head of Planning and Overseas of the Company; and Executive Managing Director of Daiwa Securities Co. Ltd.
Apr. 2015	CFO and Deputy Head of Overseas of the Company
Apr. 2016	Senior Executive Managing Director of the Company; and Member of the Board, Senior Executive Managing Director of Daiwa Securities Co. Ltd. (to date)
June 2016	Member of the Board and Senior Executive Managing Director of the Company (to date)
Apr. 2019	Deputy Head of Wholesale of the Company (to date)
(Significant concurrent positions) Member of the Board, Senior Executive Managing Director of Daiwa Securities Co. Ltd.	

Candidate Number	Name	Number of shares of the Company held	Date of Birth (June 10, 1962)	Years on Board	Attendance Rate
7	Masahisa Nakagawa	common stock 58,400 shares	New appointment	–	–

The reason for election

He joined the Company in 1987 and served as the Managing Director of the Business Process Planning & Administration Dept. and Head of the Omiya Branch of Daiwa Securities Co. Ltd.. Since his inauguration as the Senior Managing Director of Daiwa Securities Co. Ltd. in 2010, he served successively as Head of Operations & IT and Head of Investment Program of Daiwa Securities Co. Ltd. and now he is serving as Chief Information Officer (CIO) of the Company. He has broad knowledge and experience in the Business Process Planning and Corporate IT Strategy and he also has experience in the Corporate Planning and Retail. Therefore, he is considered to be qualified to serve as a Member of the Board.

Brief personal history, title, charge and significant concurrent positions	
Apr. 1987	Joined the Company
Feb. 2004	Transferred to Daiwa Securities Co. Ltd.
Apr. 2009	Head of Omiya Branch of the above company
Apr. 2010	Senior Managing Director, Head of Operations & IT and Head of Investment Program of the above company
Apr. 2011	Senior Managing Director and Head of Operations & IT of the Company; Senior Managing Director of Daiwa Securities Co. Ltd.; and Senior Managing Director of Daiwa Securities Capital Markets Co. Ltd.
Apr. 2013	Executive Managing Director of the Company; and Executive Managing Director of Daiwa Securities Co. Ltd.
Apr. 2016	Executive Managing Director and CIO of the Company; and Member of the Board and Executive Managing Director of Daiwa Securities Co. Ltd.
Apr. 2017	Senior Executive Managing Director and CIO of the Company (to date); and Senior Executive Managing Director of Daiwa Securities Co. Ltd. (to date)
(Significant concurrent positions) Senior Executive Managing Director of Daiwa Securities Co. Ltd.	

Candidate Number	Name	Number of shares of the Company held	Date of Birth (May 28, 1967)	Years on Board	Attendance Rate
8	Sachiko Hanaoka	common stock 3,000 shares	New appointment Female	–	–

The reason for election

She joined the Company in 1990. After serving in the Research and Product Divisions, she served successively as the Managing Director of the Products Planning Dept., the Education and Training Dept., and the Investment Strategy Dept. of Daiwa Securities Co. Ltd. Throughout her broad accumulated experience in the Research Division, she has developed a strong analytical ability and broad knowledge in business accounting and broad accumulated experience in management. Therefore, she is considered to be qualified to serve as a Member of the Board.

Brief personal history, title, charge and significant concurrent positions	
Apr. 1990	Joined the Company
Mar. 1995	Transferred to Daiwa Institute of Research Ltd.
Oct. 1999	Transferred to Daiwa Securities Co. Ltd.
Apr. 2012	Managing Director of Investment Strategy Dept. of Daiwa Securities Co. Ltd.
Apr. 2019	Senior Managing Director of the Company (to date) ; Audit & Supervisory Board Member of Daiwa Securities Co. Ltd. (to date); Audit & Supervisory Board Member of Daiwa Asset Management Co. Ltd. (to date) ; Audit & Supervisory Board Member of Daiwa Institute of Research Business Innovation Ltd. (to date); and Audit & Supervisory Board Member of Daiwa Real Estate Asset Management Co. Ltd. (to date)
(Significant concurrent positions) Audit & Supervisory Board Member of Daiwa Securities Co. Ltd. Audit & Supervisory Board Member of Daiwa Asset Management Co. Ltd. Audit & Supervisory Board Member of Daiwa Institute of Research Business Innovation Ltd. Audit & Supervisory Board Member of Daiwa Real Estate Asset Management Co. Ltd.	

Candidate Number	Name	Number of shares of the Company held	Date of Birth (Feb. 3, 1948)	Years on Board	Attendance Rate
9	Tadashi Onodera	common stock 8,800 shares	Reappointment Outside Independent	5	9/10 (90%)

The reason for election

He held positions such as the President of KDDI Corporation, etc. and currently is the Advisor of KDDI Corporation. The Company requests that shareholders elect him as an Outside Director since the Company believes that his broad accumulated experience and knowledge about corporate management would contribute to the management of the Company.

Brief personal history, title, charge and significant concurrent positions	
June 1989	Director of DDI Corporation (currently known as KDDI Corporation)
June 1995	Associate Senior Vice President, Director of the above company
June 1997	Representative Director and Deputy President of the above company
June 2001	Representative Director and President of KDDI Corporation
June 2005	Representative Director, President, Chairman of the Board of the above company
Dec. 2010	Chairman of the Board, Representative Director of the Board of the above company
June 2014	Member of the Board of the Company (to date)
July 2015	Chairman of the Board of KDDI Corporation
Apr. 2018	Member of the Board and Advisor of KDDI Corporation
June 2018	Advisor of KDDI Corporation (to date)
(Significant concurrent positions) Advisor of KDDI Corporation	

Candidate Number	Name	Number of shares of the Company held	Date of Birth (Jan. 29, 1954)	Years on Board	Attendance Rate
10	Michiaki Ogasawara	common stock 9,800 shares	Reappointment Outside Independent	4	9/10 (90%)

The reason for election

He served successively as the Director-General of Global ICT Strategy Bureaus, the Vice-Minister of the Ministry of Internal Affairs and Communication, etc. The Company requests that shareholders elect him as an Outside Director since the Company believes that his specialized experience and knowledge accumulated through his career would contribute to the management of the Company. Based on the above-mentioned reasons, the Company made the decision that he could adequately carry out his assignment as one of the Company's Outside Directors even though he had never been involved directly in corporate management.

Brief personal history, title, charge and significant concurrent positions	
Apr. 1976	Entered Ministry of Posts and Telecommunications
Jan. 2003	Director-General of Tohoku Bureau of Telecommunication, Ministry of Internal Affairs and Communications
Jan. 2004	Director-General of Kanto Bureau of Telecommunication, the above Ministry
Feb. 2005	Deputy Director-General of the above Ministry
Aug. 2005	Director-General of Local Public Service Personnel Dept., Local Administration Bureau the above Ministry
July 2006	Director-General of Civil Protection and Disaster Management Dept., Fire and Disaster Management Agency, the above Ministry
July 2007	Director-General of the Information and Communications Policy, the above Ministry
July 2008	Director-General of the Global ICT Strategy Bureau, the above Ministry
Jan. 2010	Assistant Vice-Minister of the above Ministry
Sept. 2012	Vice-Minister of the above Ministry
Oct. 2013	Advisor of Daiwa Institute of Research Ltd.
June 2015	Resigned as Advisor of Daiwa Institute of Research Ltd.
June 2015	Member of the Board of the Company (to date)
(Significant concurrent positions) Advisor of Sompo Japan Nipponkoa Insurance Inc.; and Advisor of Sumitomo Corporation	

Candidate Number	Name	Number of shares of the Company held	Date of Birth (Oct. 16, 1946)	Years on Board	Attendance Rate
11	Hirotaka Takeuchi	common stock 12,400shares	Reappointment Outside Independent	3	9/10 (90%)

The reason for election

He served successively as a Professor of Hitotsubashi University, Faculty of Commerce and Management and Professor of Harvard Business School, etc. The Company requests that shareholders elect him as an Outside Director since the Company believes that his accumulated specialized experience and knowledge would contribute to the management of the Company. Based on the above-mentioned reasons, the Company made the decision that he could adequately carry out his assignment as one of the Company's Outside Directors even though he had never been involved directly in corporate management.

Brief personal history, title, charge and significant concurrent positions	
Sept. 1976	Lecturer of Harvard Business School
Dec. 1977	Assistant Professor of Harvard Business School
Apr. 1983	Assistant Professor of Hitotsubashi University, Faculty of Commerce and Management
Apr. 1987	Professor of Hitotsubashi University, Faculty of Commerce and Management
Apr. 1998	Dean of Hitotsubashi University, the Graduate School of International Corporate Strategy
Apr. 2010	Professor Emeritus of Hitotsubashi University
July 2010	Professor of Harvard Business School (to date)
June 2016	Member of the Board of the Company (to date)
(Significant concurrent positions) Professor of Harvard Business School; Outside Director of Integral Corporation; Outside Director of BrightPath Biotherapeutics Co., Ltd; Director of t-lab; and Principal of Global Academy K. K.	

Candidate Number	Name	Number of shares of the Company held	Date of Birth (July 1, 1951)	Years on Board	Attendance Rate
12	Ikuo Nishikawa	common stock 4,500 shares	Reappointment Outside Independent	3	10/10 (100%)

The reason for election

He served successively as the Representative Partner of Century Audit Corporation and Chairman of Accounting Standards Board of Japan, etc. The Company requests that shareholders elect him as an Outside Director since the Company believes that his accumulated specialized experience and knowledge would contribute to the management of the Company. Based on the above-mentioned reasons, the Company made the decision that he could adequately carry out his assignment as one of the Company's Outside Directors, even though he had never been involved directly in corporate management.

Brief personal history, title, charge and significant concurrent positions	
Sept. 1990	Representative Partner of Century Audit Corporation (currently known as Ernst & Young ShinNihon LLC)
Jan. 1993	Representative of JICPA in International Accounting Standards Committee
July 1995	Executive Director of the Japanese Institute of Certified Public Accountants
Aug. 2001	Deputy Chairman of Accounting Standards Board of Japan
Apr. 2007	Chairman of Accounting Standards Board of Japan
Apr. 2012	Professor of Keio University, Faculty of Business & Commerce
June 2016	Member of the Board of the Company (to date)
Apr. 2017	Guest Professor of Graduate School of Keio University, Faculty of Business & Commerce (to date)
(Significant concurrent positions). Outside Director of MEGMILK SNOW BRAND Co., Ltd.; Outside Audit & Supervisory Board Member of Mitsubishi Corporation; and Guest Professor of Graduate School of Keio University, Faculty of Business & Commerce	

Candidate Number	Name	Number of shares of the Company held	Date of Birth (Apr. 28, 1958)	Years on Board	Attendance Rate (Note)
13	Eriko Kawai	common stock 0 shares	Reappointment Female Outside Independent	1	8/8 (100%)

(Note) Attendance Rate at the Board of Directors' meetings since her appointment in June, 2018.

The reason for election

She held positions such as the Pension Funds Administrator of BIS and OECD, etc. The Company requests that shareholders elect her as an Outside Director since the Company believes that she has extensive experience at global companies and international organizations, experience and record as a manager, and her significant accumulated experience and knowledge about corporate management would contribute to the management of the Company.

Brief personal history, title, charge and significant concurrent positions	
Oct. 1981	Joined Nomura Research Institute, Ltd.
Sept. 1985	Management Consultant at McKinsey & Company, Inc.
Oct. 1986	Fund Manager of Mercury Asset Management / SG Warburg plc
Nov. 1995	CIO of Yamaichi Regent ABC Polska, Head of Investment
July 1998	Pension Funds Administrator of Bank for International Settlements (BIS)
Oct. 2004	Senior Pension Funds Administrator of Organization for Economic Cooperation and Development (OECD)
Mar. 2008	Representative of Kawai Global Intelligence
Apr. 2012	Professor of Institute for the Promotion of Excellence in Higher Education, Kyoto University
Apr. 2013	Professor of Institute for Liberal Arts and Sciences, Kyoto University
Apr. 2014	Professor of Graduate School of Advanced Integrated Studies in Human Survivability, Kyoto University (to date)
June 2018	Member of the Board of the Company (to date)
(Significant concurrent positions) Professor of Graduate School of Advanced Integrated Studies in Human Survivability, Kyoto University; Director of the Outlook Foundation; Director of the Grew Bancroft Foundation; and Outside Audit & Supervisory Board Member of CMIC HOLDINGS Co., Ltd.	

Candidate Number	Name	Number of shares of the Company held	Date of Birth (Feb. 20, 1954)	Years on Board	Attendance Rate
14	Katsuyuki Nishikawa	common stock 0 shares	New appointment Outside Independent	–	–

The reason for election

He served successively as the Vice-Minister of Justice, the Superintending Prosecutor of the Tokyo High Public Prosecutors Office and the Prosecutor General and is currently an attorney at law. The Company requests that shareholders elect him as an Outside Director since the Company believes that his significant accumulated experience and professional knowledge about law and compliance would contribute to the management of the Company.

Brief personal history, title, charge and significant concurrent positions	
Apr. 1979	Prosecutor of Osaka District Public Prosecutors Office
Jan. 2008	Director-General of the Rehabilitation Bureau of the Ministry of Justice
July 2008	Director-General of the Immigration Bureau of the Ministry of Justice
July 2009	Director-General of the Criminal Affairs Bureau of the Ministry of Justice
Aug. 2011	Vice-Minister of the Ministry of Justice
Jan. 2014	Superintending Prosecutor of the Sapporo High Public Prosecutors Office
Dec. 2015	Superintending Prosecutor of the Tokyo High Public Prosecutors Office
Sep. 2016	Prosecutor General
July 2018	Retired as Prosecutor General
Sept. 2018	Attorney at law (operating to date)
(Significant concurrent positions) Attorney at Nishikawa Katsuyuki Law Office	

(Notes)

1. *The independence of the nominees for Outside Director from the Company is as follows.*
   - ** None of the nominees for Outside Director has executed business of or has become an executive of the Company or its subsidiaries by means other than being an Outside Director of the Company in the past.*
   - ** None of the nominees for Outside Director executes business of or is an executive of, or has done or been so during the last five (5) years, any entity that has a special relationship with the Company.*
   - ** None of the nominees for Outside Director received a large sum of money or other financial benefits from the Company or any entity that has a special relationship with the Company in the past, and none of them anticipates receiving them in the future.*
   - ** None of the nominees for Outside Director has a spouse, family member within the third degree of kinship or other similar person who executes business of or is an executive of the Company or any entity that has a special relationship with the Company.*
   - ** All of the nominees for Outside Director fulfill the requirements for Independent Directors as defined by the Tokyo Stock Exchange, Inc. and the Nagoya Stock Exchange, Inc. The Company is scheduled to designate all of the nominees for Outside Director as Independent Directors and to report this designation to the exchanges mentioned above.*

2. *Violation of laws and regulations or the articles of incorporation or the fact of unfair execution of business during the term of office of other companies and the acts taken by the nominee to prevent the occurrence of the violations, etc. and the acts taken in response after such occurrence is as follows.*

   At SNOW BRAND SEED Co., Ltd, a subsidiary of MEGMILK SNOW BRAND Co., Ltd., at which Mr. Ikuo Nishikawa serves as Outside Director, it came to light that the subsidiary engaged in the sale of multiple kinds of seeds by false-labeling in violation of the Plant Variety Protection and Seed Act, and in February 2018 the subsidiary was issued a Report Collection Order by the Minister of Agriculture, Forestry, and Fisheries in accordance with the Act. Mr. Nishikawa was not aware of this situation until this case came to light, but he had been providing opinions and advice from the standpoint of compliance on a regular basis such as at Board of Director and Audit and Supervisory Committee, etc. After the discovery of the violation, he appropriately fulfilled his duties by presenting his opinion for the strict compliance and prevention of recurrence through actions at the Board of Director and Audit and Supervisory Committee, etc.

3. *The current Outside Directors, Mr. Tadashi Onodera, Mr. Michiaki Ogasawara, Mr. Hirotaka Takeuchi, Mr. Ikuo Nishikawa and Ms. Eriko Kawai have each executed an agreement to limit liability to the Company. Each agreement stipulates that the maximum amount of liability is 10 million yen or the minimum amount of liability provided in Paragraph 1 of Article 425 of the Companies Act, whichever is higher. In case the election of those nominees for Outside Director is duly approved, the Company will continue to be a party to such agreement with each Outside Director. Also, the Company plans to enter into a similar agreement to limit the liability of Mr. Katsuyuki Nishikawa as Outside Director.*

[References]

The Company is scheduled to appoint the following directors as members and chairman of the Nominating Committee, the Audit Committee and the Compensation Committee respectively, through resolutions of the Board of Directors and each committee to be held after the conclusion of the Ordinary General Meeting of Shareholders. A majority of each committee will be Outside Directors as described below.

Name	Title	Nominating Committee	Audit Committee	Compensation Committee
Takashi Hibino	Chairman of the Board and Corporate Executive Officer	○		○
Seiji Nakata	Member of the Board, Representative Corporate Executive Officer and President	○		○
Sachiko Hanaoka	Member of the Board		○	
Tadashi Onodera	Member of the Board (Outside) Independent Officer	◎		○
Michiaki Ogasawara	Member of the Board (Outside) Independent Officer	○	○	
Hirotaka Takeuchi	Member of the Board (Outside) Independent Officer	○		◎
Ikuo Nishikawa	Member of the Board (Outside) Independent Officer		◎	○
Eriko Kawai	Member of the Board (Outside) Independent Officer	○	○	
Katsuyuki Nishikawa	Member of the Board (Outside) Independent Officer	○	○	

(Note) ◎ indicates the director is a Chairman of such committee and ○ indicates the director is a member of such committee.

Business Report

(From April 1, 2018 to March 31, 2019)

I. Status of the Group's Business Activities

The Group strives to improve the corporate value of the Group through its core business – the securities business. The outline of the Group's performance in the current fiscal year (FY2018) is as follows.

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

1. Economic and Market Environment

Driven by domestic demand, our country's economy in the current fiscal year continued to be on a track to gradual recovery. However, from July to September in 2018, personal consumption and inbound demand remained subdued and business activities by companies in the production and transportation fields were temporarily limited because of successive natural disasters such as intense heat, heavy rain, typhoon and large earthquake. In addition, during the second half of FY2018, exportation and production declined due to the slowdown of the overseas economy and the economic growth rate remained low. Real GDP generally continued to be flat and our country's economy remained at a standstill overall. The unemployment rate remained low and wages have gradually increased, and the improvement of the employment and income environment continued. Notwithstanding the effect of the series of natural disasters, home appliance sales and demand for travel and eating-out have increased and personal consumption recovered. Housing investment showed some signs of recovery in the second half of FY2018 because of the gradual actualization of last minute demand ahead of the consumption tax hike scheduled in October 2019, although it has shown a declining trend in the construction of houses for rent. On the other hand, regarding capital investment by the companies, investments in rationalizing and labor-saving, updating facilities, and research and development have increased due to strong corporate profits, low interest rates and a tight labor market. However, in the second half of FY2018, exportation and production declined mainly in information-related production and capital goods due to the slowdown of the overseas economy. Exportation to Asian countries such as China has especially declined. In addition, business confidence of companies worsened and companies showed a cautious attitude toward capital investment due to uncertainty regarding trade negotiations between the US and China and Brexit.

In the Japanese stock market, stock prices have continued to be affected by overseas market events. In the first half of FY2018, stock prices maintained an upward trend due to the expanding economies of developed countries such as Japan, the US and the EU. From the end of September to the beginning of October, the Nikkei Stock Average reached 24,000 yen for the first time in 8 months, hitting its highest level since November 1999. In December, however, as a result of the global stock price plunge, the Nikkei Stock Average fell below 20,000 yen for the first time in 15 months because of the uncertainty regarding trade negotiations between the US and China and the rise of concern regarding a potential global economic slowdown, including in China. Following the start of 2019, the central banks of the US and the EU adopted monetary policies in consideration of the direction of the economy and China announced large-scale economic measures and excessively pessimistic views about economic prospects receded. As a result, stock prices resumed an upward trend and the Nikkei Stock Average was 21,205.81 yen at the end of FY2018.

In the bond market, the Bank of Japan maintained a monetary policy that targets long-term interest rates in addition to short-term interest rates and interest rates remained at a very low level. In July 2018, the Bank of Japan changed its policy and allowed long-term rates to change to some extent and 10-year Japanese Government Bond yields rose and stayed around 0.1% after August. However, at the start of December, global interest rates fell due to the rise of concern about the global economy and Japanese interest rates fell drastically, being stuck in a negative range after February 2019. As a result, 10-year Japanese Government Bond yields at the end of FY2018 were negative 0.082%

2. Outline of the Consolidated Performance

(1) Profits and Losses of the Group

(Billions of yen)

	Fiscal 2018 As of March 31, 2019	Change (%) from Previous Term
Operating Revenue	720.5	1.1%
Net Operating Revenue	441.2	△12.7%
Ordinary Income	83.1	△46.6%
Profit attributable to owners of parent	63.8	△42.3%

(Millions of yen)

	Net Operating Revenues			Ordinary Income		
	Fiscal 2017 (81st term)	Fiscal 2018 (82nd term)	Change from Previous Term	Fiscal 2017 (81st term)	Fiscal 2018 (82nd term)	Change from Previous Term
Retail	214,247	185,865	△13.2%	51,331	24,674	△51.9%
Wholesale	171,192	158,903	△7.2%	45,373	25,400	△44.0%
Asset Management	49,390	48,232	△2.3%	29,119	28,359	△2.6%
Investment	27,401	1,766	△93.6%	24,499	△1,093	-
Others	43,118	46,473	-	5,353	5,817	-
Total	505,350	441,240	△12.7%	155,676	83,159	△46.6%

(2) Assets, Debts and Net Assets of the Group

(Billions of yen)

	Fiscal 2018 As of March 31, 2019	Change from Previous Term
Total Assets	21,126.7	△8.3
Debts	19,870.2	105.7
Shareholder's equity (Net Assets)	1,256.4	△114.0
Shareholders' equity (Net assets) per share (Yen)	794.54	7.98

3. Outcome of the Group's Business Activities

Performance by each Operating Division

(1) Retail Business

Daiwa Securities Co. Ltd., aiming at "Quality No.1", tries to improve its credibility with customers by rapidly implementing business reforms such as "improving quality of products and services", "optimized sales representatives" and "closer relationship to customers".

In FY 2018, Daiwa NPS® (Note) was introduced for all branches to measure customer satisfaction, and Daiwa Securities Co. Ltd. focused on expanding the assessment system for branches based upon customer satisfaction.

In July 2018, due to growing uncertainty regarding the stock market, Daiwa Securities Co. Ltd., started offering the first investment trust designed to provide a guaranteed return of principal at redemption on a yen basis in our country "Goldman Sachs Bond/ Global Diversified Fund". In same month, Daiwa Securities Co. Ltd., started offering "Daiwa Annual Gifting Service", in "Daiwa Fund Wrap Premium", which not only enables customers to provide for

secure and easy advancement by family members, but also facilitates the stable increase of those assets. By providing its services for all kinds of customers for their needs, assets of wrap accounts exceeded 2 trillion yen.

Daiwa Securities Co. Ltd. provides yen and foreign currency deposit accounts as a bank agency of Daiwa Next Bank Co. Ltd. (its deposit balance as of the end of FY2018 was approximately 3.6 trillion yen) and offers competitive interest rates and provides highly convenient services to its wide range of customers through its nationwide network of branches.

Furthermore, "Inheritance Consultants", who are experts on inheritance matters and providing comprehensive consulting services to meet the needs of customers, were introduced at all the branches, and "Anshin Planners (Peace of mind planners)", who mainly serve elderly customers, were placed in 41 branches at the end of the FY2018 and 70 branches as of April 2019.

In addition, aiming at a closer relationship with customers, Daiwa Securities Co. Ltd. opened new sales offices with low cost and small scale. At the end of FY2018, the number of domestic branches was 160, including 43 sales offices.

(Note) NPS® stands for Net Promoter Score. It is an index that measures the loyalty of customers to a company. It is a registered trademark of Bain & Company, Fred Reichheld and Satmetrix Systems.

(2) Wholesale Business

The wholesale business of the Group is comprised of the Global Markets business and the Global Investment Banking business.

In the Global Markets business, Daiwa Securities Co. Ltd. conducts sales and trading of equities, bonds, forex and financial derivative products to and with institutional investors and corporate clients and also provides products and sales support to the retail business division. FY2018 was a volatile year because the Nikkei Stock Average hit its highest level in 27 years and then went into a prolonged correction to the end of FY2018 due to trade friction between the US and China and concern about a slowdown of the global economy, and revenue dropped in FY2018. On the other hand, close cooperation between retail and wholesale, especially in the equity-related business, to provide timely products for customers' needs and market climate contributed to profits.

In the Global Investment Banking business, Daiwa Securities Co. Ltd. is involved in underwriting, M&A advisory and structured finance, etc.

In the domestic underwriting business, Daiwa Securities Co. Ltd. served as joint global coordinator on the PO (Public Offering) of Renesas Electronics Corporation and IPO (Note 1) of Mercari, Inc., and served as a lead managing director on the IPO of SoftBank Corp. Also, it served as book runner and Green Bond Structuring Agent (Note 2) for the first domestic Publicly Offered Hybrid Bond (Note 3) issued by Tokyo Tatemono Co., Ltd.

Furthermore, in the M&A advisory business, Daiwa Securities Co. Ltd. served as an advisor of Idemitsu Kosan Co., Ltd. regarding the business integration between Idemitsu Kosan Co., Ltd and Showa Shell Sekiyu K. K. The companies in the Group worked together and advised on many M&A transactions. Daiwa Securities Co. Ltd., DCS Advisory LLC. in the US and Daiwa Corporate Advisory SAS in France worked together and served as advisors of Taisho Pharmaceutical Co., Ltd. regarding the subsidiary acquisition of UPSA SAS, which is a French pharmaceuticals company and the acquisition of assets related to the business from Bristol-Myers Squibb Company by Taisho Pharmaceutical Co., Ltd.. In this way, the Group was involved with even more M&A transactions through the collaboration of the companies in the Group.

In order to enhance the M&A advisory business globally, especially in Europe, the Company purchased the Spanish company Montalban Atlas Capital, S.L.

(Note 1) IPO (Initial Public Offering) is a type of public offering in which shares are sold to the public for the first time.

(Note 2) A Green Bond Structuring Agent is a person who helps others to issue green bonds through setting up a framework for green bonds and providing advice to get second opinions.
(Note 3) Publicly Offered Hybrid Bond is a *publicly offered subordinated bond.*

(3) Asset Management Business

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

Daiwa Asset Management Co. Ltd. increased its assets through the "World Fintech Innovation Fund", etc. by 104.6 billion yen. Its net assets of Publicly Offered Stock Investment Trusts increased by 939.8 billion yen in the FY2018 to 14.6162 trillion yen at the end of FY2018 mainly due to capital inflow to the Exchange-Traded Fund.

Daiwa SB Investments Ltd. worked on improving its management ability in the investment advisory business for domestic and overseas pension funds, etc.

Aiming at being an asset management company that provides the highest quality of investment management performance and services, Daiwa SB Investments Ltd. merged with Sumitomo Mitsui Asset Management Company, Limited and changed its name to Sumitomo Mitsui DS Asset Management Company, Limited as of April 1, 2019.

In the real estate asset management business, Daiwa Real Estate Asset Management Co. Ltd. and Mi-Casa Asset Management Inc. merged aiming at stabilization of management bases and increasing competitiveness by concentration of management resources of the group. It continued to acquire new properties, increase the yield of portfolio through change of properties and increase the value of existing properties. Its assets under management expanded to 907.4 billion yen at the end of FY2018.

(4) Investment Business

In July 2018, Daiwa Corporate Investment Co., Ltd. established "DCI Venture Support Investment Limited Partnership" which invests mainly in domestic venture businesses. It invested in venture companies in various stages inside and outside of Japan and recovered investments through the listing of existing investments, etc.

Daiwa PI Partners Co. Ltd. invested in mortgage loans and provided investments to corporations at home and abroad. Also, it realized exits from existing investments, such as non-performing loans and corporate investments.

In addition, Daiwa Energy & Infrastructure Co. Ltd. was established in July 2018 to expand and accelerate the energy infrastructure related business in conducted by Daiwa PI Partners Co. Ltd. It invested in renewable energy business.

(5) Others

Daiwa Institute of Research Ltd. developed an economic indicator prediction model using AI (Artificial Intelligence) and started to release information on its predictive value on monthly economic indicators and actively engaged in studying and researching cutting-edge technology and utilizing such technology.

The Company decided to acquire 100% of the shares of ORIX Living Corporation, an operator of private nursing homes and private residential senior homes, in order to provide a new solution to the elderly customer with their family and expand the scale of managed assets in the real estate asset management business.

Furthermore, Daiwa Capital Markets Deutschland GmbH, which was established by the Group in Frankfurt, Germany, was granted a securities trading license by the German regulator in August 2018 in order to enable the Group to continue to provide its full range of products and services to all EEA counterparties after the United Kingdom leaves the EU.

4. Status of the Capital Investment of the Group

The Group has been making capital investments for the purpose of "Customer-first Operations", providing products and services responding to customer needs, propulsion of Digital Transformation (Note 1) which aims at improvement of efficiency of existing business, business innovation and business process innovation in order to engage in high-value-added business, establishing basic infrastructure indispensable for business continuation, corresponding to legal system, and enhancing the risk management system.

In FY2018, the Group made 40.6 billion yen in IT-related capital investments to expand products and services (such as the "Daiwa Annual Gifting Service" and a log-in system for smartphone applications by biometrics authentication), expand operational efficiency by voice recognition or AI, system, for installing basis of API (Note 2) to provide high-value financial services, engagement toward global financial regulations, and for further strengthen precautions against cyber-attacks, etc.

Further, Daiwa Securities Co. Ltd. opened new branch offices in Fujigaoka, Futamatagawa, Kaihinmakuhari, Kashii, Kuwana, Tajimi, Goi and Kuki.

(Note 1) Digital Transformation means responding to business situation change, innovating business itself, organization, business process, corporate culture as well as products, services and business models, and establishing superiority in competition on the basis of needs of customers and society through utilization of data and digital technologies.

(Note 2) API (Application Programming Interface) is a system which provides connection between systems in standard forms.

5. Status of Financing of the Group

The Group issued the 32nd series unsecured bonds (green bonds) of 10 billion yen (paid on November 29, 2018) and the 33rd series unsecured bonds of 12 billion yen (paid on November 29, 2018).

6. Five-year trend of Consolidated Performance and Assets

(Billions of yen)

	78th term (Apr 1, 2014-Mar 31, 2015)	79th term (Apr 1, 2015-Mar 31, 2016)	80th term (Apr 1, 2016-Mar 31, 2017)	81st term (Apr 1, 2017-Mar 31, 2018)	82nd term (Apr 1, 2018-Mar 31, 2019)
Operating revenue	659.3	653.7	616.4	712.6	720.5
Net operating revenue	532.2	514.8	472.7	505.3	441.2
Ordinary income	184.5	165.1	135.6	155.6	83.1
Profit attributable to owners of parent	148.4	116.8	104.0	110.5	63.8
Shareholders' equity (Net assets)	1,434.6	1,313.0	1,343.4	1,370.5	1,256.4
Total assets	23,001.5	20,420.8	19,827.2	21,135.0	21,126.7
Shareholders' equity (Net assets)per share (Yen)	725.27	720.86	745.80	786.56	794.54
Profit per share (Yen)	87.07	68.25	61.53	66.88	39.95
Return on Equity(ROE) (%)	12.8%	9.5%	8.4%	8.8%	5.1%
Number of consolidated Subsidiaries	50	50	52	59	60

Number of affiliates accounted for using the equity method	8	10	11	10	10

(Note) "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No.28, February 16, 2018) has been applied from the beginning of the FY2018. Total assets of the 81st term has applied retroactively the Standard.

7. Issues to be Addressed by the Group

In FY2018, despite the Nikkei Stock Average hitting the highest level in 27 years, the securities and financial markets have since been in a prolonged correction, making it a very volatile year.

It was an important year in which we took new steps forward, following the basic policies of "Providing high-value-added solutions through our "Quality No.1" consulting capabilities" and "Providing new value as an integrated securities group with a hybrid business model in accordance with the Group's - "Passion for the Best" 2020 - Medium-Term Management Plan.

In addition, by the introduction of Daiwa NPS®, we deepened our "customer-first operations", and were able to achieve a certain level of results in the expansion of the customer base. Furthermore, this was a year in which we laid the steady foundation for expanding our business portfolio into areas including renewable energy, infrastructure, agriculture and healthcare, in order to generate new value as a Group.

In recent years, the uncertain global situation and the spreading digital transformation have driven dramatic change in the management environment, not only for the financial industry, but for all industries. Companies are required to respond to such changes to foster innovations, and to continue to take on challenges without fear of failure.

In FY2019, the second year of the Group's Medium-Term Management Plan, we will continue to pursue the quality of our "customer-first operations", while maintaining our efforts to create and expand "new value" by fusing new business areas with the traditional securities business.

By actively taking initiatives to achieve SDGs (Sustainable Development Goals) and simultaneously creating both economic and social value, which is to say by creating shared values, the Daiwa Securities Group contributes to the realization of a sustainable and fulfilling society and peoples' life.

The Action Plans for Each Business Division

Retail Division

1) Establish a sales structure based on customer satisfaction
2) Provide service solutions for customer attributes that match the customers' various needs
3) Sustainable expansion of the revenue base
4) Expand the business by utilizing external channels and resources

Wholesale Division

1) Promote the company's shift to achieve higher corporate value
2) Provide products and services that capture customer needs
3) Support changes in business structure and in Japan's industrial structure
4) Provide pan-Asian business support as a regional Asian brokerage firm

Asset Management Division

1) Pursue customer profits by strengthening and enhancing management capabilities
2) Strengthen development of products that capture a wide range of customer needs
3) Enhance product lineups contributing to the customers' financial asset management and strengthen the communication of information and support capabilities
4) Expand alternative investment products centered around real estate

Investment Division

1) Contribute to the fund ecosystem by unearthing and nurturing new industries
2) Expand investment in Asia
3) Develop socially responsible investments
4) Pursue investment returns through further evolution of management capabilities

Other (Daiwa Institute of Research Group)

1) Contribute to the strengthening of the business by collaborating with the Group as the think tank of the hybrid securities group
2) Transmit visionary, economic and financial information that guides customers in an uncertain future led by accelerating digitalization
3) Contribute to the business of customers by providing competitive solutions speedily
4) Expand the business through the creation of "new value" by utilizing advanced technology

Other (Daiwa Next Bank)

1) Develop customer-oriented products and services by utilizing the securities-banking business model
2) Construct mechanisms for building the future revenue base of the entire Group
3) Pursue a portfolio management strategy that can adapt to changes in market environments in a timely manner
4) Sustainable growth achieved by securing healthy earnings results

8. Status of the Group

(1) The Group's Primary Business

The Group's primary business is the investment/financial business, with securities-related business at its core. Specifically, the Group 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 business.

(2) Status of Major Subsidiaries and Affiliates

Company Name	Location	Capital (millions of yen)	Ratio of Voting Rights (Directly owned)	Main Business
Daiwa Securities Co. Ltd.	Chiyoda-ku, Tokyo	100,000	100.0% (100.0%)	Securities-related business Investment advisory and agency business
Daiwa Asset Management Co. Ltd.	Chiyoda-ku, Tokyo	15,174	100.0% (100.0%)	Investment management business Investment advisory and agency business
Daiwa Institute of Research Holdings Ltd.	Koto-ku, Tokyo	3,898	100.0% (100.0%)	Integration and management of Subsidiaries
Daiwa SB Investments Ltd. (Note 1) (Note 2)	Chiyoda-ku, Tokyo	2,000	49.0% (49.0%)	Investment management business Investment advisory and agency business
Daiwa Securities Business Center Co, Ltd.	Koto-ku, Tokyo	100	100.0% (100.0%)	Back office operation
Daiwa Property Co., Ltd.	Chuo-ku, Tokyo	100	100.0% (99.4%)	Lending and borrowing of real estate
Daiwa Next Bank, Ltd.	Chiyoda-ku, Tokyo	50,000	100.0% (100.0%)	Banking business

Company Name	Location	Capital (millions of yen)	Ratio of Voting Rights (Directly owned)	Main Business
Daiwa Institute of Research Ltd.	Koto-ku, Tokyo	1,000	100.0% (—)	Information service
Daiwa Institute of Research Business Innovation Ltd.	Koto-ku, Tokyo	3,000	100.0% (—)	Information service
Daiwa Corporate Investment Co., Ltd.	Chiyoda-ku, Tokyo	100	100.0% (—)	Investment business
Daiwa PI Partners Co. Ltd.	Chiyoda-ku, Tokyo	12,000	100.0% (—)	Investment business
Daiwa Energy & Infrastructure Co. Ltd.	Chiyoda-ku, Tokyo	500	100.0% (—)	Investment business
Daiwa Real Estate Asset Management Co. Ltd.	Chuo-ku, Tokyo	200	100.0% (100.0%)	Investment management business Investment advisory and agency business
Daiwa Office Investment Corporation (Note 1)	Chuo-ku, Tokyo	247,876	38.3% (12.1%)	Investment in specified assets
Daiwa Capital Markets Europe Limited	London, U.K.	GBP732 million	100.0% (—)	Securities-related business
Daiwa Capital Markets Hong Kong Limited	Hong Kong, China	HKD100 million USD276 million	100.0% (—)	Securities-related business
Daiwa Capital Markets Singapore Limited	Singapore, Singapore	SGD140 Million	100.0% (—)	Securities-related business
Daiwa Capital Markets America Holdings Inc.	New York, U.S.A.	USD621 Million	100.0% (—)	Integration and management of subsidiaries
Daiwa Capital Markets America Inc.	New York, U.S.A.	USD100 Million	100.0% (—)	Securities-related business

(Note 1) Daiwa SB Investments Ltd. and Daiwa Office Investment Corporation are affiliated companies.
(Note 2) Daiwa SB Investments Ltd. merged with Sumitomo Mitsui Asset Management Company, Limited to form Sumitomo Mitsui DS Asset Management Company, Limited as of April 1, 2019.

(3) Situation of Specified Wholly-Owned Subsidiary at the end of FY2018

Company Name	Location	Book value of the specified wholly-owned subsidiary at the end of FY2018
Daiwa Securities Co. Ltd.	9-1, Marunouchi 1-Chome, Chiyoda-ku, Tokyo	635,569 million yen

(Note) The amount of total assets of the Company at the end of FY2018 is 2,434,724 million yen.

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

Not applicable.

(5) Status of Major Business Alliances

The Company used to operate a joint venture, Daiwa SB Investments Ltd., with Sumitomo Mitsui Financial Group Inc. in the asset management business. On September 28, 2018, the Company, Sumitomo Mitsui Financial Group, Inc., Mitsui Sumitomo Insurance Company, Limited and Sumitomo Life Insurance Company reached an agreement for merger of the asset management business, including

the joint venture above. According to the agreement Daiwa SB Investments Ltd. merged with Sumitomo Mitsui Asset Management Company, Limited to form Sumitomo Mitsui DS Asset Management Company, Limited as of April 1, 2019.

(6) The Group's Primary Business Locations

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

②Main Subsidiary's Business Locations

Daiwa Securities Co. Ltd.

Hokkaido / Tohoku	Sapporo Branch, Sendai Branch, and 8 other branches
Kanto (excluding Tokyo)	Yokohama Branch, Yokohama-eki Nishiguchi Branch, Chiba Branch, Omiya Branch, and 34 other branches
Tokyo	Head Office, Ginza Branch, Shinjuku Branch, Shibuya Branch, Ikebukuro Branch, and 36 other branches
Chubu / Hokuriku	Nagoya Branch, Shizuoka Branch, and 22 other branches
Kinki	Kyoto Branch, Osaka Branch, Umeda Branch, Nanba Branch, Kobe Branch, and 18 other branches
Chugoku / Shikoku	Hiroshima Branch, and 12 other branches
Kyushu / Okinawa	Fukuoka Branch, and 10 other branches

(7) Status of Employees

①The Group's Employees

Number of employees	Change from previous fiscal year
15,196	405

(Note 1) The number of employees reflects the number of the people who actually work in the Group.
(Note 2) The annual average number of part-time workers is 915.

②The Company's Employees

Number of employees	Average age	Average years of service
4〔617〕	〔41.9 years〕	〔15.1 years〕

(Note 1) The number of employees reflects the number of the people who actually work in the Company. The number of employees who work for both the Company and Daiwa Securities Co. Ltd. is noted in brackets.
(Note 2) Average age and average years of service above show the average age and years of the employees including those who work concurrently for the Company and Daiwa Securities Co. Ltd.
(Note 3) In calculating the average years of service above, we include the years of service in other companies in the Group.

(8) Major Lenders

Name of Lender	Type of Loan	Balance (Millions of yen)
Sumitomo Mitsui Banking Corporation	Short-Term Borrowings	30,000
	Long-Term Borrowings	142,198
Mizuho Bank Ltd.	Short-Term Borrowings	54,396
	Long-Term Borrowings	104,198

MUFG Bank, Ltd.	Short-Term Borrowings	23,814
	Long-Term Borrowings	60,644
Resona Bank Ltd.	Long-Term Borrowings	33,000
Yamaguchi Bank Corporation	Short-Term Borrowings	5,549
	Long-Term Borrowings	21,928

(Note) We state above the main borrowings from outside of the Group (excluding call money, etc.).

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

Not applicable.

(Note): This business report is prepared in accordance with the provisions of the Companies Act (Act No. 86 of 2005), the Ordinance for Enforcement of the Companies Act (Ministry of Justice Ordinance No. 12 of 2006) and the Accounting Regulation Ordinance (Ministry of Justice Ordinance No. 13 of 2006). We stated the status of the Group instead of the status of the Company alone, where possible.

II. Summary of the Company (as of March 31, 2019)

1. Status of Shares

(1) Total number of authorized shares: 4,000,000,000 shares

Total number of authorized shares in a class of each type of shares is as follows:

Type of Shares	Total Number of Authorized Class Shares
Common Stock	4,000,000,000
First kind Preferred Stock	100,000,000
Second kind Preferred Stock	100,000,000
Third kind Preferred Stock	100,000,000

(2) Total number of issued and outstanding shares: 1,699,378,772 shares of Common Stock (including treasury stock)

(3) Total number of Shareholders: 157,073

(4) Major Shareholders (top ten)

Name	Number of Shares of Common Stocks held (% of total outstanding shares)
The Master Trust Bank of Japan, Ltd. (Trust Account)	99,637 thousand shares (6.36%)
Japan Trustee Services Bank, Ltd. Trust Account	66,454 thousand shares (4.24%)
Barclays Capital Securities Ltd.	34,291 thousand shares (2.18%)
Nippon Life Insurance Company	31,164 thousand shares (1.98%)
Taiyo Life Insurance Company	31,140 thousand shares (1.98%)
Japan Trustee Services Bank, Ltd. (Trust Account 5)	31,110 thousand shares (1.98%)
JAPAN POST HOLDINGS Co., Ltd	30,000 thousand shares (1.91%)
JP MORGAN CHASE BANK 385151	27,317 thousand shares (1.74%)
STATESTREET BANK WEST CLIENT - TREATY 505234	25,142 thousand shares (1.60%)
Japan Trustee Services Bank, Ltd. (Trust Account 7)	21,793 thousand shares (1.39%)

(Note 1) Treasury stock of 133,081,441 shares is excluded for calculating the percentages in the list of major shareholders above.

(Note 2) The Company holds its own shares as treasury stock (133,081 thousand shares) as of March 31, 2019 and the Company is excluded from the above list of major shareholders.

(5) Other Significant Matters relating to the Shares

The Company has changed the number of the shares per unit from 1,000 to 100 as of June 1, 2018.

2. Status of Stock Acquisition Rights, etc.

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

1) Stock Acquisition Rights issued under Article 280-20 and Article 280-21 of the previous Commercial Code

Name (Issue Date)	Number (Class and Number of shares)	Amount to be paid in upon issuance	Amount to be paid in upon exercise	Period of exercise
Stock Acquisition Rights issued in June 2005 (June 24, 2005)	175 (Common stock 175,000 shares)	Gratuitous grant	1,000 yen (1 yen per share)	From July 1, 2005 to June 30, 2025

2) Stock Acquisition Rights issued under Article 236, Article 238, and Article 239 of the Companies Act

Name (Issue Date)	Number (Class and Number of Shares)	Amount to be paid in upon issuance	Amount to be paid in upon exercise	Period to exercise
Stock Acquisition Rights issued in July 2006 (July 1, 2006)	119 (Common stock 119,000 shares)	Gratuitous grant	1,000 yen (1 yen per share)	From July1, 2006 to June 30, 2026
Stock Acquisition Rights issued in July 2007 (July 1, 2007)	160 (Common stock 160,000 shares)	Gratuitous grant	1,000 yen (1 yen per share)	From July 1, 2007 to June 30, 2027
Stock Acquisition Rights issued in July 2008 (July 1, 2008)	202 (Common stock 202,000 shares)	Gratuitous grant	1,000 yen (1 yen per share)	From July 1, 2008 to June 30, 2028
Stock Acquisition Rights issued in July 2009 (July 1, 2009)	450 (Common stock 450,000 shares)	Gratuitous grant	1,000 yen (1 yen per share)	From July 1, 2009 to June 30, 2029
Stock Acquisition Rights, Series 6 (November 9, 2009)	1,706 (Common stock 1,706,000 shares)	Gratuitous grant	496,000 yen (496 yen per share)	From July 1, 2014 to June 19, 2019
Stock Acquisition Rights issued in July 2010 (July 1, 2010)	820 (Common stock 820,000 shares)	Gratuitous grant	1,000 yen (1 yen per share)	From July 1, 2010 to June 30, 2030
Stock Acquisition Rights, Series 7 (September 1, 2010)	3,088 (Common stock 3,088,000 shares)	Gratuitous grant	380,000 yen (380 yen per share)	From July 1, 2015 to June 25, 2020
Stock Acquisition Rights issued in July 2011 (July 1, 2011)	1,036 (Common stock 1,036,000 shares)	Gratuitous grant	1,000 yen (1 yen per share)	From July 1, 2011 to June 30, 2031
Stock Acquisition Rights, Series 8 (September 5, 2011)	2,903 (Common stock 2,903,000 shares)	Gratuitous grant	326,000 yen (326 yen per share)	From July 1, 2016 to June 24, 2021
Stock Acquisition Rights issued in February 2013 (February 12, 2013)	738 (Common stock 738,000 shares)	Gratuitous grant	1,000 yen (1 yen per share)	From February 12, 2013 to June 30, 2032

Stock Acquisition Rights, Series 9 (February 12, 2013)	5,459 (Common stock 5,459,000 shares)	Gratuitous grant	598,000 yen (598 yen per share)	From July 1, 2017 to June 26, 2022
Stock Acquisition Rights issued in February 2014 (February 10, 2014)	375 (Common stock 375,000 shares)	Gratuitous grant	1,000 yen (1 yen per share)	From February 10, 2014 to June 30, 2033
Stock Acquisition Rights, Series 10 (February 10, 2014)	3,963 (Common stock 3,963,000 shares)	Gratuitous grant	1,062,000 yen (1,062 yen per share)	From July 1, 2018 to June 25, 2023
Stock Acquisition Rights issued in February 2015 (February 9, 2015)	441 (Common stock 441,000 shares)	Gratuitous grant	1,000 yen (1 yen per share)	From February 9, 2015 to June 30, 2034
Stock Acquisition Rights, Series 11 (February 9, 2015)	5,418 (Common stock 5,418,000 shares)	Gratuitous grant	931,000 yen (931 yen per share)	From July 1, 2019 to June 25, 2024
Stock Acquisition Rights issued in February 2016 (February 16, 2016)	567 (Common stock 567,000 shares)	Gratuitous grant	1,000 yen (1 yen per share)	From February 16, 2016 to June 30, 2035
Stock Acquisition Rights, Series 12 (February 16, 2016)	4,484 (Common stock 4,484,000 shares)	Gratuitous grant	733,000 yen (733 yen per share)	From July 1, 2020 to June 24, 2025
Stock Acquisition Rights issued in February 2017 (February 8, 2017)	571 (Common stock 571,000 shares)	Gratuitous grant	1,000 yen (1 yen per share)	From February 8, 2017 to June 30, 2036
Stock Acquisition Rights, Series 13 (February 8, 2017)	7,448 (Common stock 7,448,000 shares)	Gratuitous grant	767,000 yen (767 yen per share)	From July 1, 2021 to June 27, 2026
Stock Acquisition Rights issued in February 2018 (February 8, 2018)	599 (Common stock 599,000 shares)	Gratuitous grant	1,000 yen (1 yen per share)	From February 8, 2018 to June 30, 2037
Stock Acquisition Rights, Series 14 (February 8, 2018)	7,462 (Common stock 7,462,000 shares)	Gratuitous grant	815,000 yen (815 yen per share)	From July 1, 2022 to June 27, 2027
Stock Acquisition Rights, Series 15 (August 10, 2018)	74,695 (Common stock 7,469,500 shares)	Gratuitous grant	68,600 yen (686 yen per share)	From July 1, 2023 to June 26, 2028
Total	122,704 (Common stock 55,478,500 shares)			

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

(Note 2) As to the Stock Acquisition Rights issued in June 2005, July 2006, July 2007, July 2008, July 2009, July 2010, July 2011, February 2013, February 2014, February 2015, February 2016, February 2017 and February 2018, it was stipulated in the applicable issue terms and grant agreement that each holder of these stock acquisition rights may exercise its rights from the next day after he/she loses all of the positions as Director or Corporate Executive Officer, or Executive Officers of the Company and its subsidiaries which are determined by the Board of Directors of the Company or the Corporate Executive Officers to whom the determination has been delegated by a resolution of the Board of Directors of the Company; provided, however, that he/she can exercise his/her rights from the day 30 days before the end of his/her exercise period subject to other conditions for exercise of such rights.

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

(Note 4) The number of stock acquisition rights above includes the stock acquisition rights held by the Company.

(Note 5) As for Stock Acquisition Rights, Series 15, the number of shares underlying one share option is 100 because the share unit of common stock has been changed to 100.

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

Name of Stock Acquisition Rights	Number of holders (Directors and Corporate Executive Officers)	Number of Rights
Stock Acquisition Rights issued in June 2005	3	17
Stock Acquisition Rights issued in July 2006	4	13
Stock Acquisition Rights issued in July 2007	5	16
Stock Acquisition Rights issued in July 2008	6	23
Stock Acquisition Rights issued in July 2009	8	58
Stock Acquisition Rights, Series 6	1	2
Stock Acquisition Rights issued in July 2010	10	105
Stock Acquisition Rights, Series 7	1	1
Stock Acquisition Rights issued in July 2011	10	157
Stock Acquisition Rights issued in February 2013	10	119
Stock Acquisition Rights, Series 9	5	63
Stock Acquisition Rights issued in February 2014	11	64
Stock Acquisition Rights, Series 10	4	24
Stock Acquisition Rights issued in February 2015	13	81
Stock Acquisition Rights, Series 11	2	13
Stock Acquisition Rights issued in February 2016	14	107
Stock Acquisition Rights, Series 12	1	5
Stock Acquisition Rights issued in February 2017	15	111
Stock Acquisition Rights issued in February 2018	15	119

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

(Note 2) The officers at the end of current fiscal year did not hold Stock Acquisition Rights, Series 8, 13, 14, and 15.

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

Name of Stock Acquisition Rights	Class of holders	No. of holders	No. of rights
Stock Acquisition Rights, Series 15	Directors of Subsidiaries	8	450
	Employees of Subsidiaries	3,771	72,745
	Directors and Employees of Affiliates	62	1,500

	Total	3,841	74,695

(Note 1) The numbers above are those as of the issue date of each stock acquisition right.

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

(Note 3) No stock acquisition right as a stock option was allocated to the Audit & Supervisory Board Members of subsidiaries.

3. The Corporate Governance System of Daiwa Securities Group Inc.

The Group clearly separates clearly separates the supervisory and executive functions of its management to create a highly transparent and objective corporate governance system. As with Corporate Executive Officers of the Company, employees responsible for head office functions also hold similar roles for the securities subsidiary. Under this structure, the Group is pursuing a management structure that improves the efficiency of head office operations and that maximizes synergies between Group companies.

Basic Stance on Corporate Governance

With group management based on a holding company structure, the Group aims to achieve a highly transparent and objective governance structure that conforms to international standards. The Group has built a unified group management system that elicits synergies among group companies with highly efficient and specialized oversight of group companies.

The Company has adopted a company with Three Committees System (a company with nominating committee, etc.) with the objective of supervising management through:

(a) Better decision-making agility by having the Board of Directors assign significant authority to Corporate Executive Officers while clarifying the division of duties among Corporate Executive Officers;

(b) More effective supervisory functions at the Board of Directors from the appointment of Outside Directors with highly specialized skills, and better transparency in management from the establishment of three committees: the Nominating Committee, Audit Committee and Compensation Committee with Outside Directors a majority of their members and serving as chairpersons; and

(c) Highly independent and ethical Outside Directors providing advice from an outside perspective to the Board of Directors and the three committees based on their knowledge and experiences.

Major Initiatives in Corporate Governance

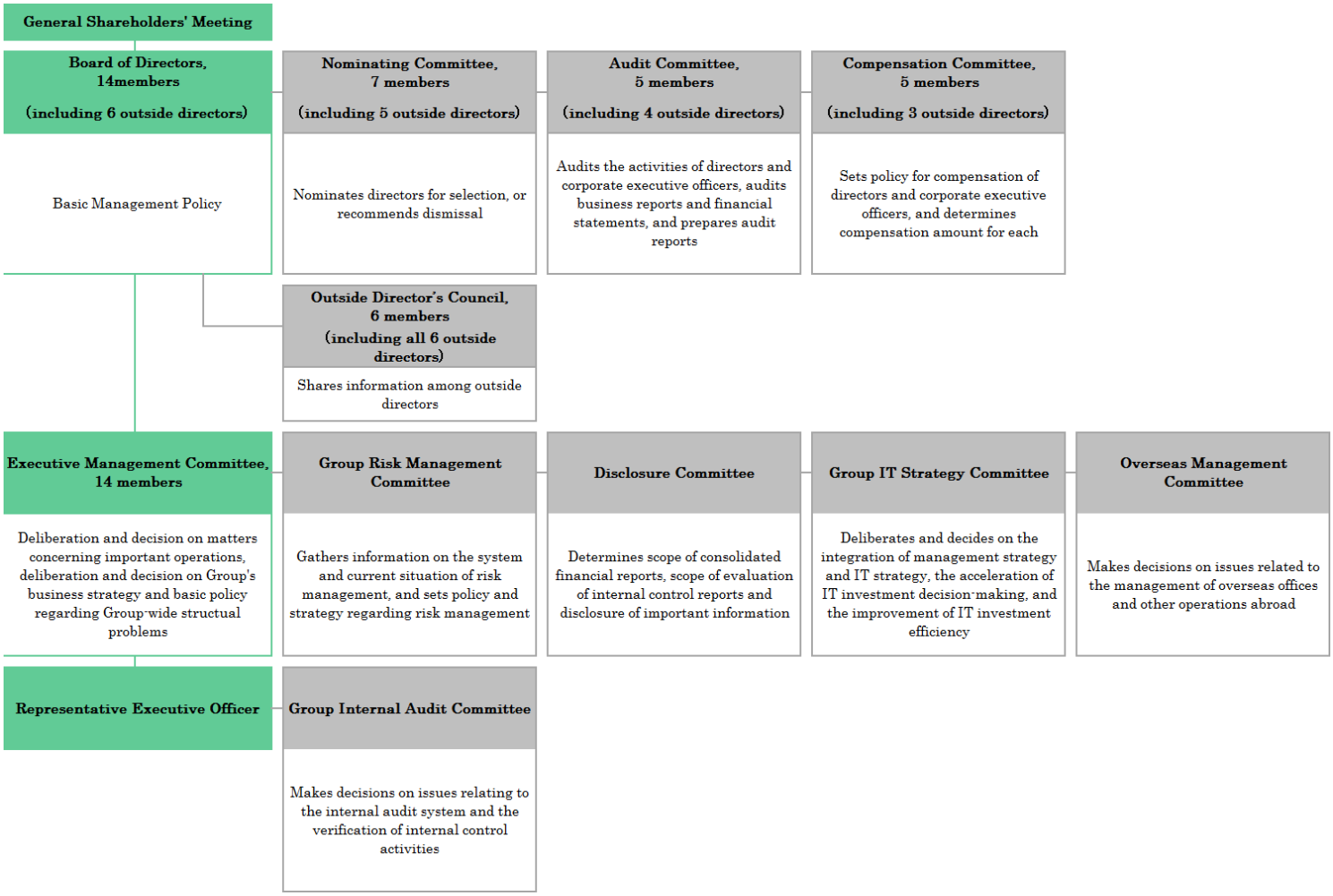
- Published the Corporate Governance Report detailing our response to the Corporate Governance Code
- Decided more than two members and more than one third of the Board of Directors should be independent Outside Directors
- Established the Outside Directors Council in October 2015 for the purpose of increasing communication among Outside Directors
- Have elected one additional Outside Director and 6 out of 14 Board of Directors as Outside Directors since FY2016. Strengthened management transparency and oversight functions by increasing the ratio of Outside Directors on the Nominating Committee and the Audit Committee
- Appointed Outside Directors as all of the chairpersons of the three committees since FY2017while taking steps to further improve the governance system

History of Daiwa's Corporate Governance

June 1998	Elected Outside Auditors
April 1999	Became the first listed Japanese company to adopt a holding company structure
	Established the Advisory Board
	Established the Group Management Committee
June 2000	Established the Compensation Committee
June 2002	Elected Outside Directors
	Shortened Directors' terms of office from 2 years to 1 year
July 2003	Established the Internal Control Committee
June 2004	Shifted to a Committee System (currently, a company with Three Committees System)

October 2015	Complied with the Corporate Governance Code
	Established the Outside Directors Council
April 2017	Appointed Outside Directors as chairperson of all three Committee

Corporate Governance System at Daiwa Securities Group (as of March 31, 2019)



Roles and Status of the Three Committees

To create a highly transparent and objective corporate governance system, all of the chairpersons of the three committees (Nominating Committee, Audit Committee and Compensation Committee) are Outside Directors.

Nominating Committee	
Main Roles	Determining the agenda for the election and dismissal of Directors which will be submitted to the Shareholders' Meeting.
Status of FY2018	In FY2018, the Nominating Committee met four times to discuss matters, including the composition of the Board of Directors with consideration of corporate governance, the basic policy for nominating candidates for Director, and the selection of Director candidates. The Nominating Committee selects candidates for Director in light of the Group's selection standards for Directors. These standards include criteria to ensure the independence of Outside Directors.
Members	Tadashi Onodera (Chairman, Outside Director)

	Takashi Hibino Seiji Nakata Keiichi Tadaki (Outside Director) Michiaki Ogasawara (Outside Director) Hirotaka Takeuchi (Outside Director) Eriko Kawai (Outside Director)

Audit Committee	
Main Roles	Auditing the legalities and appropriateness of the activities of Directors and Corporate Executive Officers.
Status of FY2018	In FY2018, the Audit Committee met 12 times. The committee evaluated the activities of Directors and Corporate Executive Officers, audited documentation, including financial statements and business reports, and prepared an audit report for the period under review.
Members	Keiichi Tadaki (Chairman, Outside Director) Morimasa Matsuda Michiaki Ogasawara (Outside Director) Ikuo Nishikawa (Outside Director) Eriko Kawai (Outside Director)

Compensation Committee	
Main Roles	Setting policy for compensation of Directors and Corporate Executive Officers and determining the compensation amount for each.
Status of FY2018	In FY2018, the Compensation Committee met six times to discuss the compensation policy and to determine the compensation of each Director and Corporate Executive Officer. It also studied a Group-wide incentive plan aimed at improving consolidated earnings results.
Members	Hirotaka Takeuchi (Chairman, Outside Director) Takashi Hibino Seiji Nakata Tadashi Onodera (Outside Director) Ikuo Nishikawa (Outside Director)

Measures to Enhance the Effectiveness of the Board of Directors

The Company conducts effectiveness evaluations of the Board of Directors annually to enhance the effectiveness of the Board of Directors.

The Company undertakes a survey of all of the Directors about the role, duty, structure, management methods and the status of discussion of the Board of Directors. Based on the results of the survey, specialized agencies conduct interviews, and the Company analyzes and evaluates the results of those interviews. The results of the evaluation are reported to the Board of Directors and discussed by the Directors in order to implement the PDCA cycle. The Company endeavors to maintain and enhance the effectiveness of the Board of Directors using such PDCA cycle.

Responses to Issues at Evaluation of the Board of Directors in the Past

[Held more in-depth discussions regarding strategy and planning]

During formulation of the new Medium-Term Management Plan, opinions were exchanged and discussions were held by the Board of Directors and Outside Directors Council. Many of the opinions from the Outside Directors were based on the knowledge and experiences of the Outside Directors and were reflected in the plan.

[Clarified the role and diversified the members of the Board of Directors]
During officer training, outside speakers were invited to hold lectures regarding corporate governance. Discussions were also held during the Outside Directors Council together with outside lecturers.
New Outside Directors with extensive international experience and experience and results in the field of finance were appointed.

[Enhanced the understanding of issues (financial expertise, etc.)]
Distributed glossaries related to each issue to the Outside Directors
Had the responsible officers and managers provide prior explanations in specialized fields related to risk and regulation, for example, to encourage a deeper understanding among the Outside Directors.

4. Status of the Company's Officers

(1) Status of Directors

Title	Name	Area of Responsibility and Significant Concurrent Positions
Chairman of the Board	Takashi Hibino	See "(2) Corporate Executive Officers"
Member of the Board	Seiji Nakata	See "(2) Corporate Executive Officers"
Member of the Board	Toshihiro Matsui	See "(2) Corporate Executive Officers"
Member of the Board	Kazuo Takahashi	See "(2) Corporate Executive Officers"
Member of the Board	Koichi Matsushita	See "(2) Corporate Executive Officers"
Member of the Board	Keiko Tashiro	See "(2) Corporate Executive Officers"
Member of the Board	Mikita Komatsu	See "(2) Corporate Executive Officers"
Member of the Board	Morimasa Matsuda	Audit & Supervisory Board Member of Daiwa Securities Co. Ltd. Audit & Supervisory Board Member of Daiwa Asset Management Co. Ltd. Audit & Supervisory Board Member of Daiwa Institute of Research Business Innovation Ltd. Audit & Supervisory Board Member of Daiwa Real Estate Asset Management Co. Ltd.
Member of the Board	Keiichi Tadaki	See "(3) Outside Officers"
Member of the Board	Tadashi Onodera	See "(3) Outside Officers"
Member of the Board	Michiaki Ogasawara	See "(3) Outside Officers"
Member of the Board	Hirotaka Takeuchi	See "(3) Outside Officers"
Member of the Board	Ikuo Nishikawa	See "(3) Outside Officers"
Member of the Board	Eriko Kawai	See "(3) Outside Officers"

(Note 1) Members of the Board, Keiichi Tadaki, Tadashi Onodera, Michiaki Ogasawara, Hirotaka Takeuchi, Ikuo Nshikawa and Eriko Kawai are Outside Directors as defined under Article 2, Item 15 of the Companies Act. The Company reports to the Tokyo Stock Exchange, Inc. and the Nagoya Stock

Exchange, Inc. that those Directors are Independent Directors.

(Note 2) Ikuo Nishikawa is a certified public accountant and has considerable knowledge of finance and accounting.

(Note 3) As a "company with a nominating committee, etc.", the Company formed the following three committees, composed of the following Directors.

Nominating Committee	*Tadashi Onodera (Chairman), Takashi Hibino, Seiji Nakata, Keiichi Tadaki, Michiaki Ogasawara,Hirotaka Takeuchi, Eriko Kawai*
Audit Committee	*Keiichi Tadaki (Chairman), Morimasa Matsuda, Michiaki Ogasawara, Ikuo Nishikawa, Eriko Kawai*
Compensation Committee	*Hirotaka Takeuchi (Chairman), Takashi Hibino, Seiji Nakata, Tadashi Onodera, Ikuo Nishikawa*

(Note 4) The Company selected Morimasa Matsuda as a full-time Audit Committee Member to hear from the Corporate Executive Officers, receive reports from the Internal Audit Department, gather information through the audit of subsidiaries, and attend the meetings continuously and effectively.
Morimasa Matsuda resigned Audit Committee Member as of March 31, 2019.

(Note 5) Morimasa Matsuda resigned as an Audit & Supervisory Board Member of Daiwa Securities Co. Ltd., Daiwa Asset Management Co. Ltd., Daiwa Institute of Research Business Innovation Ltd. and Daiwa Real Estate Asset Management Co. Ltd. as of March 31, 2019.

(2) Status of Corporate Executive Officers

Title	Name	Area of Responsibility and Significant Concurrent Positions
President/ Representative Corporate Executive Officer	Seiji Nakata	Chief Executive Officer (CEO) and Head of Retail of the Company and Representative Director/ President of Daiwa Securities Co. Ltd.
Deputy President/ Representative Corporate Executive Officer	Toshihiro Matsui	Chief Operating Officer (COO), Head of Planning and Wholesale of the Company and Representative Director/ Deputy President of Daiwa Securities Co. Ltd.
Deputy President	Kazuo Takahashi	Deputy Head of Wholesale of the Company and Representative Director/ Deputy President of Daiwa Securities Co. Ltd.
Deputy President	Koichi Matsushita	Deputy Head of Wholesale and Retail of the Company and Representative Director/ Deputy President of Daiwa Securities Co. Ltd.
Deputy President	Nobuyuki Iwamoto	Head of Asset Management of the Company and Representative Director of Daiwa Asset Management Co. Ltd.
Deputy President	Yoriyuki Kusaki	Head of Think-tank of the Company, Representative Director/ President of Daiwa Institute of Research Holdings Ltd., Daiwa Institute of Research Ltd., and Daiwa Institute of Research Business Innovation Ltd.
Senior Executive Managing Director	Keiko Tashiro	Head of Overseas of the Company and Senior Executive Managing Director of Daiwa Securities Co. Ltd.

Title	Name	Area of Responsibility and Significant Concurrent Positions
Senior Executive Managing Director	Mikita Komatsu	Chief Financial Officer (CFO) and Deputy Head of Overseas of the Company, Senior Executive Managing Director of Daiwa Securities Co. Ltd., and Member of the Board of Daiwa Real Estate Asset Management Co. Ltd.
Senior Executive Managing Director	Masahisa Nakagawa	Chief Information Officer (CIO) of the Company and Senior Executive Managing Director of Daiwa Securities Co. Ltd.
Executive Managing Director	Atsushi Mochizuki	Head of Personnel of the Company and Executive Managing Director of Daiwa Securities Co. Ltd.
Executive Managing Director	Akihiko Ogino	Head of Legal and Deputy Head of Planning of the Company and Executive Managing Director of Daiwa Securities Co. Ltd.
Executive Managing Director	Junichi Arihara	Chief Risk Management Officer (CRO) and Chief Data Officer (CDO) of the Company and Executive Managing Director of Daiwa Securities Co. Ltd.
Corporate Executive Officer	Yoshifumi Otsuka	Head of Internal Audit of the Company and Executive Managing Director of Daiwa Securities Co. Ltd.
Corporate Executive Officer	Takashi Hibino	Representative Director/ Chairman of the Board of Daiwa Securities Co. Ltd. and Outside Director of Imperial Hotel, Ltd.

(Note 1) Corporate Executive Officers Seiji Nakata, Toshihiro Matsui, Kazuo Takahashi, Koichi Matsushita, Keiko Tashiro, Mikita Komatsu and Takashi Hibino also serve as Directors.

(Note 2) Deputy President Nobuyuki Iwamoto and Executive Managing Director Atsushi Mochizuki resigned as of March 31, 2019. As of April 1, 2019, Nobuyuki Iwamoto resigned as Representative Director of Daiwa Asset Management Co. Ltd.

(Note 3) Shinsuke Niizuma, Kana Shirakawa and Eiji Sato took their new positions as Corporate Executive Officers as of April 1, 2019. As of the said day, the responsibilities of the Corporate Executive Officers were changed as follows.

Deputy President/ Representative Corporate Executive Officer	*Toshihiro Matsui*	*Chief Operating Officer (COO) and Head of Wholesale*
Deputy President /Corporate Executive Officer	*Koichi Matsushita*	*Head of Asset Management*
Senior Executive Managing Director	*Mikita Komatsu*	*Deputy Head of Wholesale*
Senior Executive Managing Director	*Shinsuke Niizuma*	*Deputy Head of Retail*
Senior Executive Managing Director	*Akihiko Ogino*	*Head of Planning and Legal and Executive Head of Personnel*
Executive Managing Director	*Kana Shirakawa*	*Head of Personnel and Chief Health Officer (CHO)*

Corporate Executive Officer Eiji Sato Chief Financial Officer (CFO), Deputy Head of Planning and Deputy Head of Overseas

Representative Director and Deputy President of Daiwa Securities Co. Ltd. Koichi Matsushita and Member of the Board of Daiwa Real Estate Asset Management Co. Ltd. Mikita Komatsu resigned as of March 31, 2019,

As of April 1, 2019, the following officers were inaugurated into the following positions:

Keiko Tashiro as a Representative Director and Deputy President of Daiwa Securities Co. Ltd.;

Shinsuke Niizuma and Akihiko Ogino as Senior Executive Managing Directors of Daiwa Securities Co. Ltd.;

Junichi Arihara as a Member of the Board and Executive Managing Director Daiwa Securities Co. Ltd.;

Yoshifumi Otsuka and Kana Shirakawa as Executive Managing Directors of Daiwa Securities Co. Ltd; and.

Koichi Matsushita as a Representative Director of Daiwa Asset Management Co. Ltd.

(3) Outside Officers

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

Name	Significant Concurrent Positions
Keiichi Tadaki	Outside Audit & Supervisory Board Member of Nippon Life Insurance Company
	Outside Audit & Supervisory Board Member of Fujita Corporation
	Outside Audit & Supervisory Board Member of Miroku Jyoho Service Co., Ltd.
	Outside Director of Japan Reliance Service Corporation
	Special Counsel of T and T Partners Law Office
Tadashi Onodera	Advisor of KDDI Corporation
	Outside Director of Kyocera Corporation
Michiaki Ogasawara	Adviser of Sompo Japan Nipponkoa Insurance Inc.
	Advisor of Sumitomo Corporation
Hirotaka Takeuchi	Professor of the Harvard Business School
	Outside Director of Integral Corporation
	Outside Director of P&E Directions, Inc.
	Outside Director of BrightPath Biotherapeutics Co., Ltd.
	Outside Director of Mitsui & Co., Ltd.
	Director of t-lab
	Principal of Global Academy K. K.
Ikuo Nishikawa	Outside Director of Megumilk Snow Brand Co., Ltd.
	Outside Audit & Supervisory Board Member of Mitsubishi Corporation
	Visiting Professor of Keio University Faculty of Business and Commerce
Eriko Kawai	Professor of Graduate School of Advanced Integrated Studies in Human Survivability, Kyoto University
	Director of the Outlook Foundation
	Director of the Grew Bancroft Foundation
	Outside Audit & Supervisory Board Member of CMIC HOLDINGS Co., Ltd.

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

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

Name	Major activities (Status of attendance & remarks)
Keiichi Tadaki	Attended all 10 Board of Directors' meetings and all 12 Audit Committee meetings held in FY2018. Made remarks on the bills and contributed to discussions in such meetings, based mainly on his experience as a government officer and as an attorney.
Tadashi Onodera	Attended 9 of 10 Board of Directors' meetings held in FY2018. Made remarks on the bills and contributed to discussion in such meetings, based mainly on his experience as a business executive.
Michiaki Ogasawara	Attended 9 of 10 Board of Directors' meetings and 11 of 12 Audit Committee meetings held in FY2018. Made remarks on the bills and contributed to discussion in such meetings, based mainly on knowledge and experience acquired in his career as a government officer.
Hirotaka Takeuchi	Attended 9 of 10 Board of Directors' meetings held in FY2018. Made remarks on the bills and contributed to discussion in such meetings, based mainly on his knowledge and experience relating to management strategies.
Ikuo Nishikawa	Attended all 10 Board of Directors' meetings and all 12 Audit Committee meetings held in FY2018. Made remarks on the bills and contributed to discussion in such meetings, based mainly on knowledge and experience acquired in his career as a certified public accountant.
Eriko Kawai	After being appointed as a Director, attended all 8 Board of Directors' meetings and all 10 Audit Committee meetings held in FY2018. Made remarks on the bills and contributed to discussion in such meetings, based mainly on knowledge and experience relating to the financial business.

(Note) Keiichi Tadaki, Michiaki Ogasawara, Ikuo Nishikawa and Eriko Kawai are members of the Audit Committee.

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

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

(4) **Remuneration paid to Directors and Corporate Executive Officers**

	Directors		Corporate Executive Officers		Total	
Amounts of Remuneration, etc.	Number Paid	Amount Paid	Number Paid	Amount Paid	Number Paid	Amount Paid
Paid based on Resolution of the Compensation Committee	Persons 9	¥million 160	Persons 15	¥million 1,081	Persons 24	¥million 1,241

(Note 1) The paid amounts above include the estimated amounts to be paid as performance-linked remuneration for FY2018.

(Note 2) The paid amounts above include the stock acquisition rights granted as restricted stock to the Directors and Corporate Executive Officers valued at 186 million yen in total.

(Note 3) The total remuneration, etc. paid to the seven (7) Outside Directors was 121 million yen.

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

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

Compensation for Directors and Corporate Executive Officers is composed of base remuneration, performance-linked remuneration and stock-linked remuneration, which is determined by the Compensation Committee based on the following fundamental policies.

* To create effective incentives, which contribute to the increase of shareholders' value through sound business development and also lead to the improvement of business performance in the short-term and in the medium/long-term.
* To maintain a remuneration level which is competitive enough to recruit and retain people not only in Japan but also in the world as a global securities company group.
* To ensure the execution and supervision functions operate effectively as a company with a nominating committee, etc.

Remuneration of directors and Corporate Executive Officers consists of base remuneration, performance-linked remuneration and stock-linked remuneration, which are specifically as below.

1) Base remuneration

A fixed amount calculated based on his/her position, duties and role.

2) Performance-linked remuneration

Determined depending on the level of individual contribution, mainly on the basis of consolidated ROE and consolidated ordinary income, which is settled as Performance KPIs of the Medium-Term Management Plan, while also comprehensively taking into account achievement status of the managerial goals set in the Medium-Term Management Plan and the other relevant factors.

It does not apply to Directors who do not serve as Corporate Executive Officers.

3) Stock-linked remuneration

To increase the link between remuneration and shareholders' value, the Company grants, as stock-linked remuneration, restricted stock, etc., the value of which corresponds to a certain percentage of base remuneration.

It does not apply to Outside Directors.

5. Status of Independent Auditors

(1) Name: KPMG AZSA LLC

(2) Amount of Fees, etc.

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

84 million yen

2) The total amount of benefits to be paid by the Company and its subsidiaries to the independent auditor.

494 million yen

(Note 1) We did not distinguish clearly, in the audit engagement contract between the Company and the independent auditor, and also cannot distinguish practically, the amounts of audit fees for audit services under the Companies Act and for audit service under the Financial Instruments and Exchange Act of Japan. Therefore, the fees, etc. above are the aggregated amount of both.

(Note 2) The Audit Committee consented to the audit fees after reviewing the adequacy of the fees in FY 2018, by examining the appropriateness of the audit plan explained by the independent auditor and also by confirming the calculation basis of the fee estimate such as working hours and hourly rate through the procedure of analysis and evaluation of actual records in previous fiscal years, comparison to other companies, etc.

(Note 3) The Company and its subsidiaries pay fees to the independent auditor for its services such as the assessment of control risk as to business commissioned to third parties and also the compliance concerning segregation of customers' assets, in addition to the service stipulated in Article 2, Paragraph 1 of the Certified Public Accountant Law (audit and attestation service).

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

1) Discharge in the cases stipulated in law

The Audit Committee shall discharge an independent auditor with the consent of all members of the committee, in the case where the independent auditor falls under any of the items of paragraph 1 of Article 340 of the Companies Act.

2) Discharge or refusal of reappointment in other cases

The Audit Committee evaluates the independent auditor's general competency, independence, quality control system, etc. every year. In the case where the Audit Committee, after such evaluation, deems that the adequacy of the independent auditor is questionable or deems it reasonable to retain another independent auditor from the viewpoint of efficacy, etc., the Audit Committee will determine content of a bill to be voted upon at a shareholders meeting as to discharge or refuse reappointment of an Independent Auditor.

(4) Other

Among major subsidiaries of the Company, Daiwa Capital Markets Europe Limited, Daiwa Capital Markets America Holdings Inc. and other foreign subsidiaries are audited by certified public accountants or audit corporations (including those who have comparable qualifications in foreign countries) other than the independent auditor of the Company in relation to the audits stipulated in the Companies Act or the Financial Instruments and Exchange Act (including foreign laws equivalent to those).

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

6. Policies for Determination of Distribution of Surpluses

The Company aims to continuously raise shareholder value, including profit-sharing.

The Company will generally pay dividends semiannually as the mid-term dividend and the year-end dividend at a pay-out ratio of at least 50% based on the consolidated financial performance. The Company will also, taking account of stability, consider increasing returns to its shareholders in various ways including share buybacks when it has sufficient accumulated capital to pursue further growth.

Based on the basic policies above, we have decided that the distributions of surplus for FY2018 are 12 yen per share as the mid-term dividend (resolved at the Board of Directors' meeting held on October 29, 2018) and 9 yen per share as the year-end dividend. Accordingly, the annual dividend will be 21 yen per share.

[References] SDGs of Daiwa Securities Group Inc.

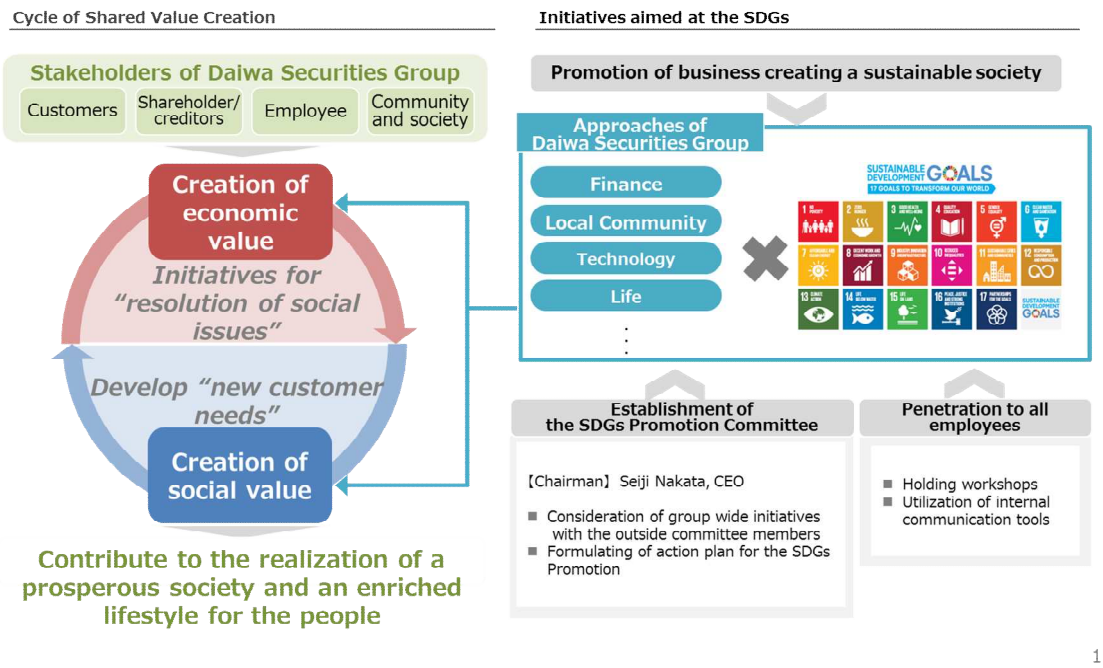
The Group recognizes the SDGs as overarching goals to lead the world. Through the Group's business, we will work actively toward the realization of a prosperous society and the improvement of people's lives by simultaneously pursuing both the Company's economic value and solutions to social challenges.

Sustainable Development Goals (SDGs)

SDGs are universal goals for the next 15 years adopted at the UN summit in Sept. 2015. SDGs set 17 goals and 169 targets to realize a sustainable world. SDGs discuss the behavior of not only the developing countries but also developed countries including Japan, and ensure "No one will be left behind".

The SDGs as Management Strategy -Passion for SDGs-

The Group will simultaneously create both economic and social value, which can be described as shared value, by solving social issues through our business and fulfilling our customers' needs.



Major Promotion

(1) Impact investment (Note)

As a financial institution, Daiwa Securities Co. Ltd. has supported the alleviation of problems in society by underwriting and selling various types of impact investment bonds.

Daiwa Securities Co. Ltd.'s share of impact investment bonds for retail investors in the Japanese market: 52% (cumulative from March 2008 to the end of March 2018).

At the same time, the Company takes actions to develop the market such as issuing the first green bond in November 2018.

(Note) Impact investing means the method of investment that limits use of funds to assets with the intention of addressing social issues such as poverty and environmental problems, in addition to producing economic benefit.

(2) Major impact investment bonds sold by Daiwa Securities Co. Ltd.

1) Vaccine Bonds for distributing vaccines to children in developing countries
2) Water Bonds for supporting projects related to sustainable water supply
3) Green Bonds for supporting projects related to solving environmental issues

(3) Expanding solutions to business succession

Daiwa ACA Business Succession Fund, established in October 2018, prompts to the innovation of technology and service with continuity through the succession of eminent technology and service of the small and medium-sized companies to the next generation. Through the Fund, the Group will promote the sustainable economic development of our country.

(4) Promoting industrialization of agriculture

New technologies to achieve high efficiency for agricultural production, by mobilizing ICT technology, are gaining attention to solve such problems as aging of the agricultural labor force and the lack of successors in the agricultural sector become major issues.

In November 2018, the Group established Daiwa Food & Agriculture Co. Ltd, a new company aiming at introducing new technologies by providing risk capital and supporting the promotion of large-scale, efficient agriculture. The Group will take actions for solving social problem in the agriculture sector.

(5) Practical use of Fintech

In April 2018, the Group established Fintertech Co. Ltd., a new company aimed at creating next-generation financial services.

We will develop new financial services to meet diverse customer needs, such as a service using blockchain technology and crowd funding, etc.

(6) Initiative for accelerating introduction of renewable power generation

In July 2018, the Group established Daiwa Energy & Infrastructure Co. Ltd. (DEI) as a new vehicle for greater promotion of investment and lending, primarily for renewable energy.

The Group has established a certain presence in the energy and infrastructure sectors by the investments through Daiwa PI Partners Co. Ltd., one of our group companies, in renewable power generation. The Group has now set out to establish DEI for strengthening its energy and infrastructure businesses and to accelerate the expansion even further.

(7) Entry into the healthcare-related field

In October 2018, the Group acquired ACA Healthcare Inc. as a subsidiary and made a full-scale entrance into the healthcare-related field by investing in hospital and nursing care facilities. Such company will take actions to address the problems of an aging society as Daiwa ACA Healthcare Inc.

In addition, in March 2019, the Group decided to acquire ORIX Living Corporation, which manages facilities for the elderly and develops new facilities and will take actions to expand in the field of health care.

(8) Efforts to solve the poverty issues among children living in Japan

We support NPOs working for stopping the chain of poverty and improving the living environment of children in Japan with the Public Resources Foundation, etc.

Consolidated balance sheets

(Millions of yen)

	Fiscal 2018 As of Mar. 31, 2019	[References] Fiscal 2017 As of Mar. 31, 2018
Assets		
Current assets:	**20,405,580**	**20,478,476**
Cash and deposits	4,153,271	3,694,283
Cash segregated as deposits	324,559	348,912
Notes and accounts receivable-trade	18,741	19,479
Securities	812,341	987,210
Trading products:	6,716,066	6,667,033
Trading securities and other	3,785,250	4,170,557
Derivatives	2,930,815	2,496,475
Operational investment securities	110,034	115,332
Allowance for investment loss	(155)	(505)
Operating loans	1,564,856	1,442,939
Work in process	901	479
Margin transaction assets:	175,034	262,963
Loans on margin transactions	157,309	231,486
Cash collateral pledged for securities borrowing on margin transactions	17,724	31,476
Loans secured by securities:	5,973,771	6,496,752
Cash collateral pledged for securities borrowed	5,119,636	6,472,791
Loans on Gensaki transactions	854,135	23,961
Advances paid	28,503	17,549
Short-term loans receivable	350	388
Accrued income	39,229	35,880
Other	488,391	390,020
Allowance for doubtful accounts	(317)	(244)
Non-current assets:	**721,126**	**656,565**
Property, plant and equipment:	168,089	124,190
Buildings	44,864	43,871
Equipment	19,666	17,394
Land	69,521	57,049
Construction in progress	34,037	5,875
Intangible assets:	115,937	105,776
Goodwill	10,605	11,170
Leasehold right	3,217	3,218
Software	76,491	62,363
Other	25,622	29,023
Investments and other assets:	437,100	426,598
Investment securities	374,484	367,196
Long-term loans receivable	5,505	4,932
Guarantee deposits	17,448	17,527
Deferred tax assets	6,915	6,162
Other	33,408	31,450
Allowance for doubtful accounts	(662)	(671)
Total assets	**21,126,706**	**21,135,041**

(Millions of yen)

	Fiscal 2018 As of Mar. 31, 2019	[References] Fiscal 2017 As of Mar. 31, 2018
Liabilities		
Current liabilities:	**17,081,971**	**17,035,108**
Notes and accounts payable-trade	7,116	7,065
Trading products:	4,747,777	5,030,817
Trading securities and other	2,040,196	2,830,472
Derivatives	2,707,580	2,200,345
Trade date accrual	255,804	407,184
Margin transaction liabilities:	69,981	71,344
Borrowings on margin transactions	3,675	3,007
Cash received for securities lending on margin transactions	66,306	68,336
Loans payable secured by securities:	5,947,969	5,775,897
Cash received on debt credit transaction of securities	4,934,115	5,645,028
Borrowings on Gensaki transaction	1,013,853	130,868
Deposits from banking business	3,632,575	3,388,444
Deposits received	276,700	256,858
Guarantee deposits received	372,591	420,039
Short-term loans payable	1,341,415	1,091,771
Commercial papers	100,000	105,000
Current portion of bonds	190,772	261,494
Income taxes payable	5,978	9,211
Provision for bonuses	28,436	34,862
Other	104,852	175,115
Non-current liabilities:	**2,784,365**	**2,725,467**
Bonds payable	1,361,918	1,315,349
Long-term loans payable	1,336,787	1,327,780
Deferred tax liabilities	6,071	9,203
Net defined benefit liabilities	43,441	41,758
Provision for loss on litigation	25,573	24,485
Other	10,572	6,889
Reserves under special laws:	**3,938**	**3,945**
Reserve for financial products transaction liabilities	3,938	3,945
Total liabilities	**19,870,276**	**19,764,521**
Net assets		
Shareholders' equity:	**1,196,476**	**1,209,535**
Capital stock	247,397	247,397
Capital surplus	230,633	230,713
Retained earnings	805,761	785,730
Treasury shares	(87,320)	(54,310)
Deposit for subscriptions to treasury shares	5	3
Accumulated other comprehensive income:	**48,000**	**63,597**
Valuation difference on available-for-sale securities	47,668	61,176
Deferred gains or losses on hedges	(5,611)	(129)
Foreign currency translation adjustment	5,942	2,550
Subscription rights to shares	**8,741**	**8,790**
Non-controlling interests	**3,211**	**88,596**
Total net assets	**1,256,430**	**1,370,520**
Total liabilities and net assets	**21,126,706**	**21,135,041**

Consolidated statements of income

(Millions of yen)

	Fiscal 2018 Apr. 1, 2018 - Mar. 31, 2019	[References] Fiscal 2017 Apr. 1, 2017 - Mar. 31, 2018
Operating revenue:	**720,586**	**712,601**
Commission received:	283,027	313,625
Commission to consignees	58,336	73,797
Commission for underwriting, secondary distribution and solicitation for selling and others for professional investors	41,810	35,180
Fee for offering, secondary distribution and solicitation for selling and others for professional investors	26,047	45,807
Other fees received	156,833	158,840
Net trading income	92,218	109,005
Net gain on private equity and other securities	(232)	26,912
Financial revenue	291,005	190,444
Other operating revenue	54,567	72,613
Financial expenses	**242,468**	**148,348**
Other operating expenses	**36,876**	**58,901**
Net operating revenue	**441,240**	**505,350**
Selling, general and administrative expenses:	**373,914**	**370,292**
Trading related expenses	71,933	72,448
Personnel expenses	185,436	185,865
Real estate expenses	37,394	35,910
Office cost	26,518	26,552
Depreciation	25,343	24,336
Taxes and dues	10,740	10,732
Provision of allowance for doubtful accounts	84	-
Other	16,461	14,446
Operating income	**67,326**	**135,058**
Non-operating income:	**16,562**	**21,925**
Dividend income	4,844	4,655
Share of profit of entities accounted for using equity method	8,397	13,235
Foreign exchange gains	172	409
Other	3,147	3,625
Non-operating expenses:	**729**	**1,306**
Interest expenses	27	31
Loss on investments in partnership	-	153
Bond issuance cost	85	710
Other	616	410
Ordinary income	**83,159**	**155,676**
Extraordinary income:	**14,320**	**10,209**
Gain on sales of non-current assets	149	853
Gain on sales of investment securities	13,128	5,780
Gain on step acquisitions	-	1,498
Reversal of reserve for financial products transaction liabilities	6	-
Recoveries of write-off claims	-	481
Gain on reversal of subscription rights to shares	688	894
Compensation for transfer	347	-
Other	-	701
Extraordinary loss:	**2,396**	**12,022**
Loss on sales and retirement of non-current assets	430	483
Loss on valuation of investment securities	526	68
Loss on change in equity	178	-
Transfer to reserve for financial products transaction liabilities	-	15
Office transfer expenses	592	2,020
Business restructuring cost	-	193
Cost of product compensation related	631	-
Provision for loss on litigation	-	8,996
Other	37	244
Income before income taxes	**95,083**	**153,864**
Income taxes-current	27,664	34,693
Income taxes-deferred	3,587	3,848
Profit	**63,832**	**115,322**
Profit attributable to non-controlling interests	**18**	**4,742**
Profit attributable to owners of parent	**63,813**	**110,579**

Balance sheet

(Millions of yen)

	Fiscal 2018 As of Mar. 31, 2019
Assets	
Current assets:	**410,938**
Cash and deposits	29,933
Short-term loans receivable	341,623
Accounts receivable	28,491
Accrued income	3,957
Other	6,932
Non-current assets:	**2,023,786**
Property, plant and equipment:	75,075
Buildings	349
Equipment	2,303
Land	6,895
Construction in progress	65,527
Intangible assets:	8,854
Software	6,599
Other	2,254
Investments and other assets:	1,939,856
Investment securities	150,393
Stock of subsidiaries and affiliates	854,586
Investments in other securities of subsidiaries and affiliates	73,938
Long-term loans receivable	854,188
Guarantee deposits	4,853
Other	2,142
Allowance for doubtful accounts	(244)
Total assets	**2,434,724**

(Millions of yen)

	Fiscal 2018 As of Mar. 31, 2019
Liabilities	
Current liabilities:	**302,986**
Short-term loans payable	179,147
Current portion of bonds	61,648
Accrued expenses	5,158
Loans payable secured by securities	47,749
Income taxes payable	405
Provision for bonuses	767
Other	8,108
Non-current liabilities:	**1,214,794**
Bonds payable	735,675
Long-term loans payable	464,187
Deferred tax liabilities	13,201
Other	1,729
Total liabilities	**1,517,781**
Net assets	
Shareholders' equity:	**876,650**
Capital stock	247,397
Capital surplus:	226,751
Legal capital surplus	226,751
Retained earnings:	489,816
Legal retained earnings	45,335
Other retained earnings	444,481
Reserve for advanced depreciation	1,860
Retained earnings brought forward	442,620
Treasury shares	(87,320)
Deposit for subscriptions to treasury shares	5
Valuation and translation adjustments:	**31,550**
Valuation difference on available-for-sale securities	31,550
Subscription rights to shares	**8,741**
Total net assets	**916,943**
Total liabilities and net assets	**2,434,724**

Statement of income

(Millions of yen)

	Fiscal 2018 Apr. 1, 2018 - Mar. 31, 2019
Operating revenue:	**105,221**
Dividends from subsidiaries and affiliates	92,130
Interest on loans receivable from subsidiaries and affiliates	13,016
Other	73
Operating expenses:	**34,136**
Selling, general and administrative expenses:	**20,058**
Trading related expenses	2,323
Personnel expenses	6,220
Real estate expenses	1,711
Office cost	3,192
Depreciation	2,084
Taxes and dues	1,762
Other	2,763
Financial expenses	**14,078**
Operating income	**71,084**
Non-operating income:	**6,243**
Dividend income	3,964
Compensation income	1,394
Other	884
Non-operating expenses:	**225**
Bond issuance cost	169
Other	56
Ordinary income	**77,102**
Extraordinary income:	**10,070**
Gain on sales of investment securities	9,382
Gain on reversal of subscription rights to shares	688
Extraordinary loss:	**556**
Loss on valuation of investment securities	497
Other	59
Income before income taxes	**86,616**
Income taxes-current	(174)
Income taxes-deferred	286
Profit	**86,505**

Independent Auditor's Report

May 14, 2019

The Board of Directors
Daiwa Securities Group Inc.

KPMG AZSA LLC

Kanako Ogura (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Tomomi Mase (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Koji Fukai (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

We have audited the consolidated financial statements, comprising the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in net assets, a summary of significant accounting policies and other explanatory information of Daiwa Securities Group Inc. for the consolidated fiscal year from April 1, 2018 to March 31, 2019 in accordance with Article 444, Paragraph 4 of the Companies Act.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Other Matter

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

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

Independent Auditor's Report

May 14, 2019

The Board of Directors
Daiwa Securities Group Inc.

KPMG AZSA LLC

Kanako Ogura (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Tomomi Mase (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Koji Fukai (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

We have audited the financial statements, comprising the balance sheet, the statement of income, the statement of changes in net assets, a summary of significant accounting policies and other explanatory information, and the supplementary schedules of Daiwa Securities Group Inc. for the 82nd fiscal year from April 1, 2018 to March 31, 2019 in accordance with Article 436,Paragraph 2, Item 1 of the Companies Act.

Management's Responsibility for the Financial Statements and Others

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

Auditor's Responsibility

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

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

schedules.

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

Opinion

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

Other Matter

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

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

Audit Report

The Audit Committee has audited the execution of duties by the Directors and the Corporate Executive Officers for the 82nd fiscal year from April 1, 2018 to March 31, 2019. We report the methods and the results of the audit as follows.

1. Methods used in audits and content of audits

The Audit Committee has audited the contents of the resolutions of the Board of Directors regarding the matters stipulated in Article 416, Paragraph 1, Item 1(b) and 1(e) of the Companies Act and the systems (internal control systems) organized based on such resolutions, by receiving reports regarding the development and maintenance of the systems from the Directors, the Corporate Executive Officers and employees at fixed intervals, requesting explanation when necessary, and also by the following methods.

① In conformity with the audit standards of the Audit Committee decided by the Committee and in accordance with audit policies, assignment of duties, etc. and in cooperation with the internal control department, the Audit Committee attended significant meetings, received reports from Directors and Corporate Executive Officers, etc. about their performance of their duties, requested explanation when necessary, inspected the contents of the important approval documents and other important documents, and investigated the status of the Company's business and assets. As to subsidiaries, the Audit Committee communicated and exchanged information with and, when necessary, received business reports from subsidiaries' Directors, Audit & Supervisory Board Members, etc..

② The Audit Committee observed and verified whether the Independent Auditor was maintaining its independence and was carrying out its audits in an appropriate manner. The Audit Committee also received reports from the Independent Auditor on the execution of its duties and, when necessary, requested explanations regarding those reports. Fuirther, the Audit Committee received notification from the Independent Auditor that it had established the "System for Ensuring the Proper Execution of its Duties" (as enumerated in Article 131 of the Accounting Regulation Ordinance) in compliance with the "Quality Control Standards Relating to Auditing" (adopted by the Business Accounting Council on October 28, 2005). When necessary, the Audit Committee requested explanations regarding the notification.

Based on the methods above, the Audit Committee has examined the business report and its supplementary schedules, the consolidated statutory report (the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in net assets, a summary of significant accounting policies and other explanatory information) and the statutory report (the balance sheet, the statement of income, the statement of changes in net assets, a summary of significant accounting policies and other explanatory information) and its supplementary schedules .

2. Results of the Audit

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

- In our opinion, the business report and its supporting schedules fairly present the situation of the Company and are in compliance with the provisions of applicable laws, regulations and the Articles of Incorporation.
- In our opinion, none of the actions taken by Directors and Corporate Executive Officers in executing their duties were fraudulent and none of their actions materially violated the provisions of applicable laws, regulations or the Articles of Incorporation.
- In our opinion, the content of the resolution by the Board of Directors regarding the organization of the internal control system was appropriate and, furthermore, there are no material matters to be disclosed in relation to the contents of the business report regarding internal control systems, or the actions of Directors and Coporate Executive Officers with respect to executing internal control systems.

(2) Results of the audit of the consolidated statutory report

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

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

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

May 15, 2019

Audit Committee
Daiwa Securities Group Inc.

Committee Chairperson
Keiichi Tadaki

Committee Member
Michiaki Ogasawara

Committee Member
Ikuo Nishikawa

Committee Member
Eriko Kawai

(Note 1) Mr. Keiichi Tadaki, Mr. Michiaki Ogasawara, Mr. Ikuo Nishikawa, Ms. Eriko Kawai are the Outside Directors provided under the provisions of Article 2, Item 15 and Article 400, Paragraph 3 of the Companies Act.
(Note 2) Mr. Morimasa Matsuda resigned as an Audit Committee Member as of March 31, 2019.

<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

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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)
Derivative transactions other than trading (※)			
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