

Financial Section

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Twelve-Quarter Financial Summary

Daiwa Securities Group Inc. and Consolidated Subsidiaries

	FY2013			
	1Q	2Q	3Q	4Q
MARKET DATA				
Nikkei 225 (end of each quarter, yen)	13,677.32	14,455.80	16,291.31	14,827.83
TSE average daily trading value (billions of yen)	3,513	2,355	2,629	2,766
Net purchases (sales) by investors on two major securities exchanges* (billions of yen)				
Institutions	(1,393)	58	10	9
Individuals	(2,284)	(1,854)	(4,355)	1,507
Foreigners	4,575	1,629	5,166	(1,833)
Securities companies	(211)	(26)	(214)	40
Ten-year Japanese government bond yield (end of each quarter, %)	0.855	0.680	0.735	0.640
Foreign exchange rates: Yen per U.S. dollar (end of each quarter)	99.05	97.79	104.99	103.21

* The two major exchanges refer to the Tokyo Stock Exchange and the Nagoya Stock Exchange. Data of the 1Q of FY2013 is for the three major exchanges (Tokyo Stock Exchange, Osaka Securities Exchange and Nagoya Stock Exchange).

OPERATING PERFORMANCE				Millions of yen
Operating revenues	¥183,082	¥148,899	¥163,448	¥147,398
Commissions	90,347	69,471	76,133	65,984
Brokerage commission	31,788	18,583	22,665	16,596
Underwriting commission	7,742	7,758	8,292	5,812
Distribution commission	19,475	11,979	13,216	11,296
Other commission	31,340	31,150	31,958	32,279
Net gain on trading	42,163	34,133	45,190	35,012
Profit on equity trading	21,795	5,752	13,557	6,209
Profit on bond and foreign exchange trading	20,368	28,381	31,632	28,803
Net gain on private equity and other investments	7,937	6,178	335	3,002
Interest and dividend income	29,402	26,004	27,599	24,968
Service fees and other revenues	13,232	13,110	14,190	18,430
Interest expenses	17,788	12,399	15,799	14,346
Cost of service fees and other revenues	10,021	9,342	9,296	11,884
Net operating revenues	155,272	127,157	138,352	121,168
Selling, general and administrative expenses	92,965	86,999	90,137	87,255
Commissions and other expenses	19,076	18,412	19,123	17,747
Employees' compensation and benefits	46,686	42,173	44,403	43,785
Occupancy and rental	9,031	8,824	9,149	9,256
Data processing and office supplies	6,105	6,362	6,199	6,036
Depreciation and amortization	7,001	6,832	6,597	6,120
Taxes other than income taxes	2,027	1,463	1,651	1,461
Others	3,035	2,930	3,014	2,848
Operating income	62,307	40,158	48,214	33,912
Non-operating income	3,546	3,267	2,940	5,233
Non-operating expenses	766	396	649	722
Ordinary income	65,087	43,028	50,505	38,423
Extraordinary gains	3,811	1,490	2,081	2,280
Extraordinary losses	3,486	1,366	2,693	3,585
Income before income taxes	65,413	43,152	49,893	37,118
Profit attributable to owners of parent	57,297	35,534	43,409	33,215

Note: Quarterly figures have not been audited by an independent auditor.

FY2014				FY2015			
1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
15,162.10	16,173.52	17,450.77	19,206.99	20,235.73	17,388.15	19,033.71	16,758.67
2.206	2.244	2,959	2,905	3,060	3,140	2,820	3,026
750	10	2,168	592	(569)	3,347	993	3,005
(1,787)	(1,311)	(2,041)	(1,407)	(2,752)	1,124	(1,964)	1,423
906	700	1,078	(161)	2,819	(4,083)	1,173	(5,012)
(90)	(91)	(179)	(128)	(191)	79	(74)	96
0.565	0.525	0.330	0.400	0.455	0.350	0.270	-0.050
101.37	109.71	119.44	119.91	122.41	120.24	120.38	112.35

Millions of yen				Millions of yen			
¥148,701	¥155,656	¥179,583	¥175,454	¥191,389	¥158,126	¥153,616	¥150,579
68,686	70,954	76,029	75,445	80,041	76,460	69,215	62,701
14,082	16,585	20,010	19,271	21,035	18,417	15,922	14,950
11,172	10,214	9,678	6,487	9,031	9,560	6,031	3,930
10,569	10,162	10,293	10,025	11,226	9,439	8,237	5,839
32,861	33,991	36,046	39,660	38,748	39,043	39,023	37,980
37,579	39,016	38,806	41,817	49,043	23,681	29,910	28,688
5,716	3,804	10,597	4,676	10,606	1,929	6,645	4,249
31,862	35,212	28,209	37,140	38,437	21,751	23,265	24,439
1,916	1,543	3,384	570	3,704	1,490	12,327	979
26,578	29,789	34,612	34,954	37,830	35,335	33,587	42,697
13,940	14,351	26,750	22,667	20,768	21,158	8,575	15,511
16,530	15,381	27,660	20,497	23,978	24,288	19,551	21,710
9,680	10,110	11,674	15,640	12,746	10,258	9,264	17,095
122,490	130,163	140,248	139,316	154,663	123,579	124,799	111,772
88,164	88,889	91,408	92,918	95,574	91,281	89,331	88,329
17,870	18,569	18,762	18,473	18,871	18,304	17,805	17,357
43,618	44,157	46,061	47,935	49,358	45,616	44,626	43,691
9,212	9,169	9,076	9.55	9,287	9,686	9,235	9,151
6,332	6,104	6,485	6,521	6,501	6,578	7,002	6,689
6,030	6,140	6,141	5,772	5,953	5,921	6,038	5,920
1,883	1,738	1,808	1,556	2,895	2,148	2,078	1,765
3,215	3,009	3,073	3,107	2,707	3,025	2,545	3,753
34,326	41,274	48,840	46,398	59,088	32,297	35,468	23,442
5,985	3,604	2,735	4,068	4,706	3,499	2,636	5,314
607	639	519	889	681	340	154	128
39,705	44,239	51,056	49,578	63,113	35,456	37,950	28,628
500	1,863	519	2,514	3,143	633	3,787	1,897
476	1,146	4,186	2,250	330	290	86	3,991
39,728	44,956	47,389	49,842	65,926	35,799	41,651	26,535
34,380	37,085	38,502	38,522	44,836	24,347	26,354	21,311

Macroeconomic Conditions in FY2015

Overseas Markets

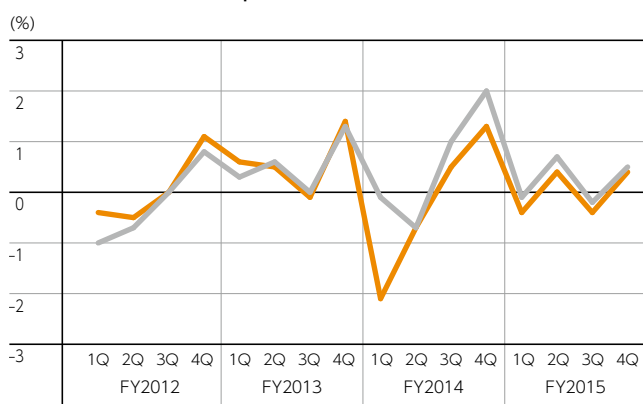
In FY2015, there were signs that the pace of global economic growth was slowing moderately. Confusion reigned across financial markets as a succession of crises emerged. This included delays in the repayment of Greek sovereign debt in the April-June 2015 quarter and the sharp decline in stock prices in China. In the July-September 2015 quarter, the People's Bank of China cut its reference rate for the yuan triggering a simultaneous downturn in worldwide stock prices. While confusion in financial markets became less acute during the October-December 2015 quarter, concerns surrounding a further slowdown in the pace of economic growth in China resurfaced during the January-March 2016 quarter, plunging global financial markets once again into uncertainty.

In the US, trends were brisk during the April-June 2015 quarter. In addition to a pickup in the pace of consumer spending, there were signs that the household sector was regaining strength led mainly by steady housing sales. While the rate of real GDP growth slowed from the April-June 2015 quarter, consumer spending remained firm on the back of weak crude oil prices and the strong dollar. Turning to the corporate sector, there were indications of an improvement in business sentiment especially in non-manufacturing fields. This largely reflected the underlying strength of brisk consumer spending. In contrast, the manufacturing sector continued to stall during the October-December 2015 and January-March 2016 quarters. This was mainly due to appreciation in the value of the US dollar. On the financial front, the Federal Reserve Board (FRB) responded to the recovery in domestic economic conditions led mainly by an improvement in the employment environment by

deciding to raise interest rates in December 2015. However, entering 2016, the increase in interest rates in the US led to growing instability in the financial markets of emerging nations. Impacted also by such factors as the strong dollar, signs of uncertainty descending upon the previously brisk US economy began to emerge. As a result, the FRB decided to slightly slow the pace of interest rate increase compared with initial assumptions.

In Europe, the economy overall continued to experience a moderate recovery buoyed by the monetary easing policies adopted by the European Central Bank (ECB), the favorable flow-on effects of the decline in crude oil prices and other factors. The rate of real GDP growth in the eurozone in the April-June 2015 quarter came in at +0.4% compared with the previous quarter owing mainly to export growth on the back of such factors as the weak euro. However, exports slumped entering the July-September 2015 quarter reflecting the slowdown in the pace of economic growth in China and other factors. Sluggish trends in export activity persisted into the October-December 2015 quarter. On a positive note, eurozone economies were supported by firm consumer spending. These overall trends continued into the January-March 2016 quarter, with the rate of real GDP growth coming in at +0.5% compared with the previous quarter. In terms of consumer prices, the rate of inflation measured by the consumer price index continued to hover around 0% compared with the previous year. This is far removed from the level targeted by the ECB. Under these circumstances, the ECB decided to adopt additional easing measures in December 2015 and again in March 2016. On the political front, the Greek crisis resurfaced. Buffeted by delays in finance repayments to the International Monetary Fund (IMF), both the

GDP Growth Rate in Japan

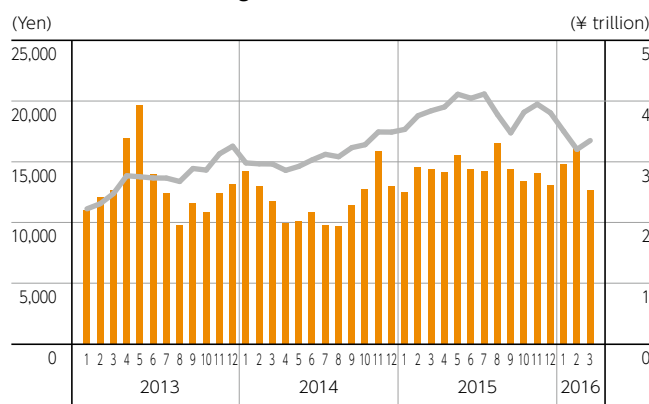


— Real GDP — Nominal GDP

Note: The above data comprises seasonally adjusted annual rates. Growth rates may not correspond to rates calculated based on total production.

Source: Cabinet Office, Government of Japan

Nikkei 225 and Trading Value of TSE



— Nikkei 225 at month-end (left) ■ TSE average daily trading value (right)

Source: Tokyo Stock Exchange, Daiwa Institute of Research

nation's real economy and financial market suffered severe blows. Austerity opponents gained a majority of the vote in a national referendum held in July 2015. In the final analysis, the Greek government accepted a proposal put forward by its creditors temporarily averting a major crisis. Turning to conditions in the Middle East, measures aimed at addressing the sudden surge in refugees caused a major problem for the eurozone. In the UK, the decision was made to hold a national referendum to decide whether the nation would withdraw from or remain in the European Union (EU) in June 2016 following the victory by the conservative party in a general election held in May 2015.

Economic growth in emerging nations continued to slow. Weak conditions in China spread through to other countries causing an overall downturn in developing countries. While the actions taken by the People's Bank of China to successively lower the deposit reserve ratio requirement during the first half of 2015 helped support the economy, the Shanghai Composite Index, China's representative stock price indicator, saw a sharp decline from June. Impacted by this sudden drop in stock prices, collective efforts were made to provide underlying support to the stock market. Among a host of measures, the Chinese government firmly established a policy of controlling initial public offerings (IPOs) and instructed domestic major securities firms to invest in exchange-traded funds (ETFs). In August 2015, the People's Bank of China decided to cut its reference rate for the yuan and to implement additional monetary easing measures. In this regard, a series of economic initiatives were announced focusing mainly on financial remedies. As concerns surrounding a slowdown in the Chinese economy spread rapidly throughout the world, global stock prices declined. Buoyed by the policy announcements by the People's Bank of China to stabilize the yuan market, anxiety toward the Chinese economy slightly eased. However, China's rate of real GDP growth for the July-September 2015 quarter came in at +6.9%. This was the second consecutive quarter that the rate fell below the government's target of +7.0%. In the ensuing period, the rate of real GDP growth has continued to fall coming in at +6.8% and +6.7% for the October-December 2015 and January-March 2016 quarters, respectively. Based on these trends, China remains unable to dispel uncertainties regarding its future.

Japan

The moderate recovery in the Japanese economy came to a cyclical end, entering a temporary lull period. While mining and manufacturing production is exhibiting seesawing trends, the tertiary industry activity index, an indicator of activity in the non-manufacturing sector, continues to show definitive signs of a positive albeit modest turnaround.

The strength of consumer spending, which has a major impact on GDP, is waning. While disposable incomes continue to benefit from such factors as growing pressure to lift salaries on the back of tight labor supply and demand as well as mounting calls to increase wage levels and bonuses commensurate with improvements in corporate-sector earnings, inclement weather has had a negative effect on consumer spending from the latter half of the April-June 2015 quarter. Despite a temporary reprieve from this downward pressure from the July-September 2015 quarter, consumer spending continues to remain sluggish. This largely reflects the deterioration in consumer sentiment as a result of such factors as the increase in food prices and the slump in seasonal purchases owing mainly to the warm October-December 2015 winter period. Unable to dispel this sense of stagnation throughout the January-March 2016 quarter, trends in consumer spending continue to hinder a recovery in the Japanese economy. Looking at housing investment activity, average trends remain flat. Over the first half of FY2015, the favorable disposable income environment and the low levels of housing loan interest rates helped increase housing investment. In the second half, however, the rise in housing prices pushed down investment activity. Corporate capital investment is showing signs of a modest recovery. According to the Bank of Japan's "Tankan" survey, conducted in March 2016, the sense of overcapacity in the manufacturing sector has eased and the capacity shortage reported by the non-manufacturing sector is becoming increasingly marked. Turning to public works, the recent round of increased investment has come to an end. Activity in the public sector has entered a period of moderate decline.

Casting an eye on external demand, the amount of exports is declining owing mainly to a drop in export volumes. By region, the downturn in exports to the US is especially noticeable. Moreover, exports to Asia

slipped into a decline from June 2015. This reflects the impact of a slowdown in the rate of economic growth in China. Meanwhile, exports mainly of consumer goods to the eurozone have recovered primarily on the back of the pickup in consumer spending. On the import front, amounts peaked in July 2015 and then slipping into a decline.

On the financial front, the Bank of Japan announced its introduction of a negative interest rate policy as a part of its quantitative and qualitative easing measures in January 2016. Due to the tightened balance between supply and demand as a result of the massive purchase of long-term treasuries by the Bank of Japan, coupled with the impact of the Bank's negative interest rate policy, long-term interest rates have become firmly entrenched in a negative zone. In the foreign currency exchange market, the value of the US dollar increased while the yen decreased from the latter half of May 2015. This was mainly due to improvements in the US economy. Thereafter, towards the end of the year, the yen-dollar rate hovered between the ¥120 to ¥125 range. From the start of the New Year, the value of the yen saw a sharp rise. This was largely due to concerns surrounding overseas economic risks.

As of the end of March 2016, the Nikkei 225 closed at ¥16,758.67, down by ¥2,448.32 compared with the end of March 2015. The yield on ten-year JGBs stood at -0.050% (a decline of 0.450 of a percentage point compared with the end of March 2015). The exchange rate was US\$1.00 = ¥112.43 (a ¥7.78-per-dollar increase compared with the end of March 2015).

Analysis of Consolidated Income Statements

Total Operating Revenues and Net Operating Revenues

Total consolidated operating revenues in FY2015 edged down by 0.9% compared with FY2014, to ¥653.7 billion. Net consolidated operating revenues decreased by 3.3% year on year, to ¥514.8 billion.

Commissions received were down by 0.9% compared with the previous fiscal year, to ¥288.4 billion. Brokerage commission edged up by 0.5% compared with the previous fiscal year, to ¥70.3 billion, supported by robust conditions in the equities market during the first half of the year with stock trading hovering at a high level. Meanwhile, underwriting activity declined compared with the previous fiscal year. With this, underwriting commission decreased by 24.0% year on year, to ¥28.5 billion. Buoyed by growth in wrap account assets under custody, investment advisory and account management fees surged by 72.5% compared with the previous fiscal year, to ¥20.4 billion.

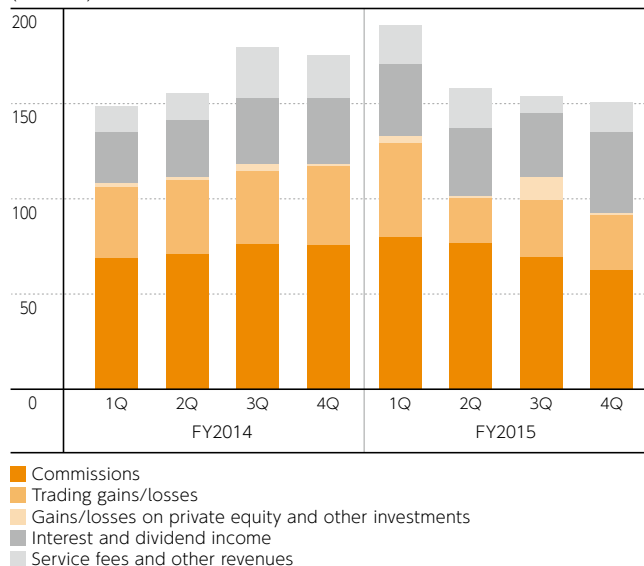
The net gain on private equity and other investments increased substantially climbing by 149.5% compared with the previous fiscal year, to ¥18.5 billion. This was mainly due to the sale of existing large-scale investments.

Breakdown of Net Operating Revenues

	Millions of yen		
	FY2014	FY2015	YoY
Operating revenues	¥659,396	¥653,712	-0.9%
Commissions	291,116	288,419	-0.9%
Brokerage commission	69,951	70,325	0.5%
Underwriting commission	37,553	28,553	-24.0%
Distribution commission	41,052	34,743	-15.4%
Other commission	142,560	154,796	8.6%
Net gain on trading	157,220	131,324	-16.5%
Net gain on private equity and other investments	7,416	18,503	149.5%
Interest and dividend income	125,934	149,451	18.7%
Service fees and other revenues	77,710	66,015	-15.0%
Interest expenses	80,070	89,530	11.8%
Cost of service fees and other revenues	47,106	49,367	4.8%
Net operating revenues	¥532,220	¥514,815	-3.3%

Breakdown of Consolidated Income

(¥ billion)



Note: Quarterly figures have not been audited by an independent auditor.

Net Gains/Losses on Trading

While fixed income trading throughout the period under review was brisk, net gain on trading declined by 16.5% compared with the previous fiscal year, to ¥131.3 billion. This was largely the result of a downturn in the flow of customers' equities trading.

Net trading gains and financial income, calculated on a managerial accounting basis, fell by 26.9% compared with the previous fiscal year, to ¥38.0 billion. This was primarily due to the downturn in Japanese stock trading activity. Fixed income, currency and commodities (FICC) revenues increased by 1.5% compared with the previous year, to ¥134.0 billion. This reflected continuous and successful efforts to accurately grasp investors' needs against the backdrop of prolonged instability in market condition.

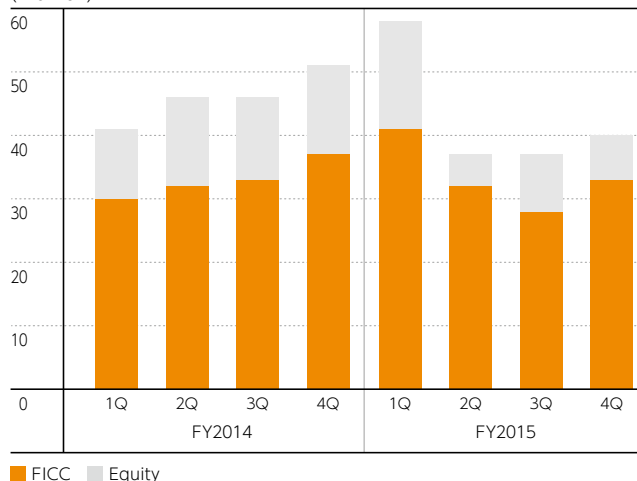
Revenues (Trading Gain/Loss) from Equity and FICC (Net Gain (Loss) on Trading + Net Financial Income, on Managerial Accounting Basis)

	Billions of yen		
	FY2014	FY2015	YoY
Equity	¥ 52.0	¥ 38.0	-26.9%
FICC	132.0	134.0	1.5%
Total	¥184.0	¥172.0	-6.5%

Note: Revenues from equity and FICC have not been audited by an independent auditor.

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

(¥ billion)



Note: Revenues from equity and FICC have not been audited by an independent auditor.

Selling, General and Administrative (SG&A) Expenses, Ordinary Income and Profit Attributable to Owners of Parent Company

SG&A expenses edged up by 0.9% year on year in FY2015, to ¥364.5 billion. Trading-related expenses declined by 1.8% compared with the previous fiscal year, to ¥72.3 billion. This was mainly due to the drop in commissions paid to distribution and other companies in line with the decline in the net assets under management at Daiwa Asset Management Co. Ltd. By the same token, real estate expenses including fixtures increased by 0.9% year on year, to ¥37.3 billion. Office costs climbed by 5.2% compared with the previous fiscal year, to ¥26.7 billion owing largely to higher systems-related office expenses. Accounting for each of these factors, ordinary income contracted by 10.5% year on year, to ¥165.1 billion.

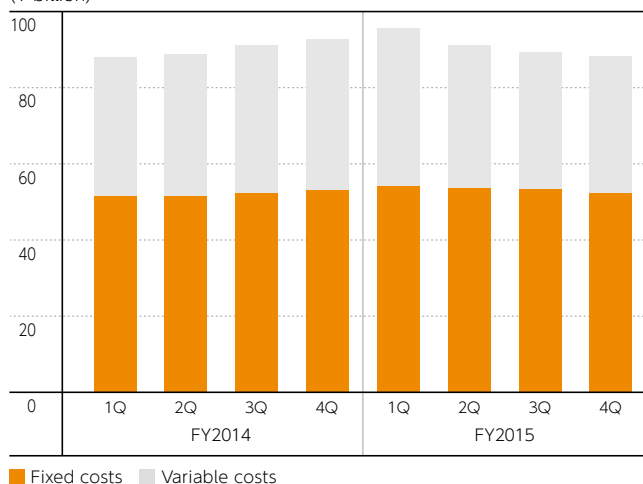
After posting such items as gain on sales of investment securities and gain on change in equity, extraordinary gains came to ¥9.4 billion. Extraordinary losses totaled ¥4.6 billion after taking into account various entries including impaired asset write-offs and business restructuring costs. After deducting corporate income taxes and profit attributable to non-controlling interests, profit attributable to owners of parent declined by 21.3% compared with the previous fiscal year, to ¥116.8 billion.

Breakdown of SG&A and Income

	Millions of yen		
	FY2014	FY2015	YoY
SG&A	¥361,380	¥364,517	0.9%
Trading-related expenses	73,677	72,339	-1.8%
Personnel expenses	181,773	183,293	0.8%
Real estate expenses	37,009	37,360	0.9%
Office cost	25,444	26,772	5.2%
Depreciation	24,085	23,834	-1.0%
Taxes and dues	6,987	8,888	27.2%
Allowance for doubtful accounts	109	673	518.6%
Other	12,297	11,358	-7.6%
Operating income	170,840	150,298	-12.0%
Non-operating income/ expenses	13,739	14,851	8.1%
Ordinary income	184,578	165,148	-10.5%
Extraordinary gains/losses	(2,662)	4,764	—
Income before income taxes	181,916	169,913	-6.6%
Income taxes	27,444	46,935	71.0%
Profit attributable to owners of parent	¥148,491	¥116,849	-21.3%

Cost Structure

(¥ billion)



Note: Quarterly figures have not been audited by an independent auditor.

Segment Information

Retail Division

Continued growth in wrap account assets under custody contributed to an increase in stable revenues in the Retail Division. However, the volume of transactions in the stock market declined because the global securities and financial markets were shaken due to concerns surrounding the slowdown of the Chinese economy and plummeting oil prices. As a result, net operating revenues fell by 6.1% compared with the previous fiscal year, to ¥217.9 billion. Ordinary income in the Retail Division declined by 21.4% year on year, to ¥61.0 billion.

Wholesale Division

Fixed income trading revenues were brisk during the period under review. In contrast, results were negatively impacted by such factors as the year-on-year decline in revenues from investment banking. As a result, net operating revenues in the Wholesale Division decreased by 1.4% compared with the previous fiscal year, to ¥178.0 billion. Ordinary income declined by 7.6% year on year, to ¥48.8 billion.

Asset Management Division

The balance of net assets under management declined owing mainly to appreciation in the value of the yen and decline in stock prices. In addition, results were affected by such factors as the change in status of Daiwa Office Investment Corporation from a consolidated subsidiary to an affiliated company. Taking each of these factors into account, net operating revenues in the Asset Management Division decreased by 8.4% compared with the previous fiscal year, to ¥50.5 billion. Ordinary income declined by 6.7% year on year, to ¥29.9 billion.

Investment Division

Large-scale investment exits contributed to results in the Investment Division in FY2015. Net operating revenues jumped by 136.2% compared with the previous fiscal year, to ¥19.7 billion. Ordinary income surged by 167.4% year on year, to ¥17.3 billion.

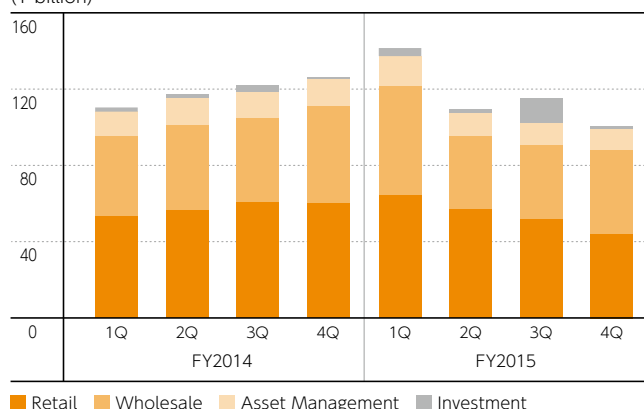
Segment Information

	Net Operating Revenues			Ordinary Income		
	FY2014	FY2015	YoY	FY2014	FY2015	YoY
	Millions of yen					
Retail	¥232,034	¥217,923	-6.1%	¥ 77,757	¥61,080	-21.4%
Wholesale	180,568	178,015	-1.4%	52,888	48,878	-7.6%
Asset Management	55,140	50,529	-8.4%	32,143	29,990	-6.7%
Investment	8,352	19,730	136.2%	6,506	17,397	167.4%
Others	56,126	48,618	—	15,284	7,801	—
Consolidated total	¥532,220	¥514,815	-3.3%	¥184,578	¥165,148	-10.5%

Note: Individual balances of assets figures for each segment are not available.

Breakdown of Net Operating Revenues by Segment

(¥ billion)



Note: Quarterly figures have not been audited by an independent auditor.

Overseas Operations

Ordinary income figures for each region showed a ¥3.2 billion loss in Europe and a ¥4.1 billion loss in Asia and Oceania, but a ¥2.6 billion profit in the Americas, where operations have been profitable for three consecutive fiscal years. As a result, the Group booked an ordinary loss of ¥4.6 billion in its overseas operations in FY2015. In addition to implementing cost-cutting measures at low-performing businesses, continued robust results in the fixed income business in the Americas provided the momentum for improvement. From the third quarter to the fourth quarter of FY2015, the ordinary loss from overseas operations narrowed.

Ordinary Income (Loss) from Overseas Operations, Broken Down by Region

	Millions of yen	
	FY2014	FY2015
Europe	¥(2,187)	¥(3,240)
Asia & Oceania	(2,768)	(4,130)
Americas	1,050	2,686
Total	¥(3,905)	¥(4,684)

Note: Ordinary income (loss) from overseas operations has not been audited by an independent auditor.

Analysis of Consolidated Balance Sheets and Cash Flow Statements

Assets

At the end of FY2015, the consolidated balance sheets showed a decrease of ¥2,580.7 billion in total assets compared with the end of the previous fiscal year, to ¥20,420.8 billion. Current assets decreased by ¥2,339.1 billion year on year, to ¥19,851.5 billion. This included an ¥803.1 billion year-on-year decrease in trading assets, to ¥7,501.2 billion. Collateralized short-term financing agreements declined by ¥1,478.0 billion year on year, to ¥5,250.1 billion and securities fell by ¥538.7 billion year on year, to ¥2,091.0 billion. The balance of fixed assets decreased by ¥241.6 billion compared with the end of the previous fiscal year, to ¥569.2 billion.

Liabilities and Net Assets

Total liabilities at the end of FY2015 stood at ¥19,107.8 billion, a decrease of ¥2,459.0 billion from the end of FY2014. Current liabilities declined by ¥2,526.0 billion compared with the end of the previous fiscal year, to ¥16,827.8 billion. Breaking down current liabilities by category, trading liabilities decreased by ¥713.4 billion year on year, to ¥5,300.8 billion and collateralized short-term financing agreements declined by ¥1,651.3 billion compared with the end of the previous fiscal year, to ¥5,901.7 billion. Deposits for banking business increased by ¥182.9 billion year on year, to ¥2,928.6 billion. Short-term borrowings decreased by ¥191.8 billion compared with the end of the previous fiscal year, to ¥820.0 billion. Long-term liabilities stood at ¥2,275.9 billion at the end of FY2015, an increase of ¥66.8 billion compared with the end of FY2014. Specifically, long-term debt climbed by ¥58.5 billion year on year, to ¥1,004.9 billion.

Net assets as of the end of FY2015 stood at ¥1,313.0 billion, a decrease of ¥121.6 billion compared with the previous fiscal year-end. The sum of common stock issues and capital surplus was ¥479.2 billion. This was essentially unchanged from the previous fiscal year-end. After adding profit attributable to

owners of parent in FY2015 and deducting cash dividends applicable to FY2015, retained earnings came to ¥683.9 billion, an increase of ¥60.1 billion year on year. Accounting for the acquisition of treasury stock, treasury stock at cost increased by ¥14.1 billion compared with the end of the previous fiscal year, to ¥29.9 billion. Valuation difference on available-for-sale securities decreased by ¥37.2 billion year on year, to ¥98.4 billion. This largely reflected the downturn in the market values of securities held. The continued appreciation in the value of the yen decreased foreign currency translation adjustments by ¥22.0 billion compared with the previous fiscal year-end, to ¥21.0 billion. Non-controlling interests declined ¥103.6 billion year on year, to ¥84.2 billion.

Analysis of Cash Flows

Net cash flows provided by operating activities came to ¥221.7 billion compared with ¥725.9 billion in FY2014. This mainly reflected changes in the value of trading assets and liabilities, the value of collateralized short-term financing agreements and the balance of deposits for the banking business. Net cash flows provided by investing activities totaled ¥415.6 billion compared with net cash flows used in investing activities of ¥13.2 billion in FY2014. The major components included increase in time deposits, decrease in time deposits, purchases, sales and redemptions of investment securities and purchases of property and equipment. Net cash flows used in financing activities were ¥229.7 billion compared with net cash flows provided by financing activities of ¥343.3 billion in FY2014. This reflected changes in the balance of short-term borrowings as well as both the increase and decrease in long-term debt. After adjusting for the effect of exchange rate changes and other factors, the balance of cash and cash equivalents as of the end of FY2015 stood at ¥3,273.6 billion.

Liquidity

Maintaining Financial Efficiency and Stability

Daiwa Securities Group operates securities-related businesses that require it to maintain very large balances of both assets and liabilities. Therefore, it is essential that the Group develops a policy for obtaining the funds needed to maintain the necessary liquidity to support operations in the most efficient way possible.

Methods used by the Group to obtain unsecured funds include corporate bonds, medium-term notes, borrowing from financial institutions, commercial paper, call money, banking deposits, as well as secured gensaki transactions (repurchase agreements) and repo operations. The Group seeks an appropriate balance of these diverse methods to maintain an effective and stable supply of operating funds.

To ensure financial stability and business continuity, even in the case of sudden changes in the business environment, the Group takes care to maintain an ample reserve of liquidity at all times. Particularly in light of the global financial uncertainty and credit concerns of recent years, the Group has endeavored to maintain ample liquidity on hand by obtaining funds from the market and by borrowing from financial institutions.

Furthermore, the Group strives to diversify the maturities and sources of its borrowing, to limit the difficulties it might face should market turmoil prevent it from raising new capital or refinancing existing debt.

The Group has established a liquidity management system that consists of the regulatory consolidated liquidity coverage ratio as well as its own liquidity management indicators. Under this system, the Group performs daily checks to ascertain that the liquidity portfolios in place are sufficient to cover the repayment of unsecured short-term funds due within a certain time period as well as the estimated outflow of funds under stress in an appropriate time frame—here a number of stress scenarios are adopted. Also, if stressful conditions are expected to continue for a long period of one year or more, in order to maintain its asset holdings, the Group measures and monitors long-term fundraising conditions. In addition to calculating data, steps are also taken to conduct an analysis so that the Group can continue its business operations even when it becomes impossible to procure funds without collateral for a whole year.

The status of the Group's short-term unsecured capital procurement and liquidity portfolio as of the end of FY2015 is presented as follows.

Unsecured Capital Procurement Conditions and Liquidity Portfolio at the Group (As of March 31, 2016)

	Billions of yen
Short-term borrowings from banks and other financial institutions	¥ 183.0
Other short-term borrowings	405.0
Commercial paper	137.7
Current portion of bonds	232.5
Short-term unsecured capital procurement	¥ 958.4
Cash	¥1,636.3
Government bonds, government-backed bonds, other	212.4
Liquidity portfolio	1,848.7
Other bonds	438.7
Publicly listed shares, other	476.1
Others	5.0
Supplementary liquidity portfolio	919.8
Liquidity portfolio and other total	¥2,768.5

Note: The above does not include assets and liabilities in the banking business.

As of March 31, 2016, the Group's liquidity portfolio stood at ¥1,848.7 billion. This total increases to ¥2,768.5 billion after including the supplementary liquidity portfolio and represents an amount 288.9% higher than the amount of short-term unsecured capital procurement as of the end of FY2015.

Group-Wide Capital Management

Daiwa Securities Group maintains the basic policy of ensuring adequate liquidity. Guided by this policy, Daiwa Securities Group Inc., the holding company of the Group, takes steps to manage and monitor the liquidity of capital on an integrated basis.

Assuming that there may be difficulties in procuring new capital or replacing existing capital during periods of both inherent and market stress, the Company carefully monitors the adequacy of its liquidity portfolio in connection with short-term unsecured capital procurement. In addition, the Company expeditiously distributes and provides capital to Group companies as and when required while at the same time promoting the efficient and integrated procurement and management of capital by putting in place a structure that is capable of accommodating requirements within the Group.

Contingency Funding Plan

Daiwa Securities Group has prepared a contingency plan to ensure that it is fully prepared to address liquidity risk. This plan provides for a system through which the Group can respond speedily to maintain liquidity. Elements of this system include a mechanism for reporting the severity of internal stress factors, such as a fall in creditworthiness, and external stress factors, such as turmoil in financial markets.

The Group's contingency plan has been formulated taking into account the severity of stress across the entire Group and is reviewed periodically to expeditiously address changes in the financial environment.

In the case of Daiwa Securities Co. Ltd., Daiwa Next Bank, Ltd., and overseas securities subsidiaries, where the impact of changes in financial markets is substantial and the importance of ensuring capital liquidity is high, individual capital liquidity contingency plans are formulated, which are reviewed on a regular basis.

Daiwa Securities Group Inc. periodically checks and adjusts the contingency plans of all Group subsidiaries, and when necessary, points out conceivable crisis scenarios which should be addressed, requiring changes to the subsidiaries' funding and contingency plans. It also takes proactive measures to increase liquidity and reduce assets when conditions dictate, to be prepared for any eventuality.

Credit Ratings by Major Credit Ratings Agencies

Daiwa Securities Group Inc. and Daiwa Securities Co. Ltd. have been assigned long-term and short-term credit ratings by major credit ratings agencies. These ratings take into account the impact of multiple factors on the Group's creditworthiness.

Factors considered by the ratings agencies include current macroeconomic conditions, the business environment of the securities markets, management strategy, Group management structure, the competitive position of the Group within the market, profitability, profit volatility, cost structure elasticity, risk management structure, liquidity conditions, capital policy, adequacy of capital, corporate governance, and other issues. The securities issued by Daiwa Securities Group Inc. and Daiwa Securities Co. Ltd. to obtain funds have also been assigned credit ratings by leading agencies. As of July 7, 2016, the credit ratings assigned were as follows:

Daiwa Securities Group Inc.

Credit ratings agencies	Long-term	Short-term
Moody's Japan	Baa1	—
Standard & Poor's Ratings Japan	A-	A-2
Rating and Investment Information (R&I)	A	a-1
Japan Credit Rating Agency (JCR)	A+	—

Daiwa Securities

Credit ratings agencies	Long-term	Short-term
Moody's Japan	A3	P-2
Standard & Poor's Ratings Japan	A	A-1
Fitch Ratings	A-	F1
Rating and Investment Information (R&I)	A	a-1
Japan Credit Rating Agency (JCR)	A+	—

Consolidated Balance Sheets

DAIWA SECURITIES GROUP INC.
March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2016	2015	2016
Cash and cash deposits:			
Cash and cash equivalents (Note 5)	¥ 3,273,640	¥ 2,920,510	\$ 29,228,929
Cash segregated as deposits for regulatory purposes (Note 5)	323,762	349,094	2,890,732
Time deposits (Notes 5 and 9)	66,144	65,270	590,571
	3,663,546	3,334,874	32,710,232
Receivables:			
Loans receivable from customers (Note 5)	432,785	287,010	3,864,152
Loans receivable from other than customers	5,243	5,509	46,813
Receivables related to margin transactions (Notes 3 and 5)	203,377	240,972	1,815,866
Other (Note 22)	533,290	466,019	4,761,517
Less: Allowance for doubtful accounts (Note 5)	(723)	(324)	(6,455)
	1,173,972	999,186	10,481,893
Collateralized short-term financing agreements (Notes 4, 5 and 22)	5,250,136	6,728,201	46,876,214
Trading assets (Notes 5, 6 and 9)	7,501,243	8,304,369	66,975,384
Securities (Notes 5, 7 and 9)	2,086,090	2,629,848	18,625,804
Private equity investments			
Private equity and other investments (Notes 5 and 7)	127,210	156,157	1,135,804
Less: Allowance for possible investment losses (Note 5)	(11,053)	(36,634)	(98,688)
	116,157	119,523	1,037,116
Other assets:			
Property and equipment, at cost (Note 19)	235,468	585,288	2,102,393
Less: Accumulated depreciation (Note 19)	(110,906)	(126,754)	(990,232)
	124,562	458,534	1,112,161
Goodwill	7,972	4,821	71,179
Other intangible fixed assets	76,908	72,262	686,679
Investment securities (Notes 5, 7 and 9)	324,456	241,643	2,896,929
Deferred tax assets (Note 14)	15,082	13,845	134,661
Other	81,438	95,859	727,123
Less: Allowance for doubtful accounts	(744)	(1,379)	(6,643)
	629,674	885,585	5,622,089
	¥20,420,818	¥23,001,586	\$182,328,732

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Debt:			
Short-term borrowings (Notes 5, 9 and 12)	¥ 613,093	¥ 872,877	\$ 5,474,045
Commercial paper (Note 5)	137,720	388,380	1,229,643
Long-term debt (Notes 5, 9 and 12)	2,651,224	2,530,370	23,671,643
	3,402,037	3,791,627	30,375,331
Payables:			
Payables to customers and counterparties (Notes 5 and 11)	828,200	790,232	7,394,643
Payables related to margin transactions (Notes 3, 5 and 9)	54,387	55,052	485,598
Deposits for banking business (Note 5)	2,928,631	2,745,681	26,148,491
Other (Note 5)	29,720	73,328	265,357
	3,840,938	3,664,293	34,294,089
Collateralized short-term financing agreements (Notes 4, 5 and 22)	5,901,795	7,553,191	52,694,598
Trading liabilities (Notes 5 and 6)	5,300,862	6,014,288	47,329,125
Trade account payables, net (Note 5)	427,257	288,309	3,814,795
Accrued and other liabilities:			
Income taxes payable	40,499	13,805	361,598
Deferred tax liabilities (Note 14)	21,445	51,915	191,473
Accrued bonuses	30,059	35,439	268,384
Retirement benefits (Note 13)	39,144	36,935	349,500
Other (Note 22)	99,807	113,177	891,134
	230,954	251,271	2,062,089
Statutory reserves (Note 15)	3,970	3,926	35,446
Total liabilities	19,107,813	21,566,905	170,605,473
Contingent liabilities (Note 16)			
Net assets			
Owners' equity (Note 17)			
Common stock, no par value:			
Authorized—4,000,000 thousand shares			
Issued—1,749,379 thousand shares as of March 31, 2016	247,397	247,397	2,208,902
Capital surplus	231,889	231,284	2,070,438
Retained earnings	683,940	623,756	6,106,607
Treasury stock at cost	(29,971)	(15,771)	(267,599)
Deposit for subscriptions to treasury stock	2	3	18
	1,133,257	1,086,669	10,118,366
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	98,484	135,688	879,321
Deferred gains or losses on hedges	(32,993)	(26,815)	(294,580)
Translation adjustment	21,083	43,116	188,241
	86,574	151,989	772,982
Stock subscription rights (Note 18)	8,959	8,205	79,991
Non-controlling interests	84,215	187,818	751,920
Total net assets	1,313,005	1,434,681	11,723,259
	¥20,420,818	¥23,001,586	\$182,328,732

See accompanying notes.

Consolidated Statements of Income

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Operating revenues:			
Commissions	¥288,419	¥291,116	\$2,575,170
Net gain on trading (Note 24)	131,324	157,220	1,172,536
Net gain on private equity and other investments	18,503	7,416	165,205
Interest and dividend income (Note 22)	149,451	125,934	1,334,384
Service fees and other revenues	66,015	77,710	589,419
	653,712	659,396	5,836,714
Interest expense (Note 22)	89,530	80,070	799,375
Cost of service fees and other revenues	49,367	47,106	440,776
Net operating revenues (Note 21)	514,815	532,220	4,596,563
Selling, general and administrative expenses (Notes 13 and 25)	364,517	361,380	3,254,617
Operating income	150,298	170,840	1,341,946
Other income (expenses):			
Provision for statutory reserves, net (Note 15)	(44)	(454)	(393)
Other, net (Note 26)	19,659	11,530	175,527
	19,615	11,076	175,134
Income before income taxes	169,913	181,916	1,517,080
Income taxes (Note 14):			
Current	57,739	21,716	515,526
Deferred	(10,804)	5,728	(96,464)
	46,935	27,444	419,062
Profit	122,978	154,472	1,098,018
Profit attributable to non-controlling interests	(6,129)	(5,981)	(54,723)
Profit attributable to owners of parent	¥116,849	¥148,491	\$1,043,295
	Yen		U.S. dollars (Note 1)
Per share amounts:			
Net income	¥68.25	¥87.07	\$0.61
Diluted net income	67.68	86.28	0.60
Cash dividends applicable to the year	29.00	30.00	0.26

See accompanying notes.

Consolidated Statements of Comprehensive Income

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Profit	¥122,978	¥154,472	\$1,098,018
Other comprehensive income:			
Valuation difference on available-for-sale securities	(37,462)	48,048	(334,482)
Deferred gains (losses) on hedges	(5,821)	(13,982)	(51,973)
Translation adjustment	(22,184)	28,914	(198,071)
Share of other comprehensive income of associates accounted for using equity method	(244)	(446)	(2,179)
Total other comprehensive income	(65,711)	62,534	(586,705)
Comprehensive income	¥ 57,267	¥217,006	\$ 511,313

	Millions of yen		Thousands of U.S. dollars (Note 1)
Comprehensive income attributable to:			
Comprehensive income attributable to owners of the parent	¥51,434	¥210,659	\$459,232
Comprehensive income attributable to non-controlling interests	5,833	6,347	52,081

See accompanying notes.

Consolidated Statements of Changes in Net Assets

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2016 and 2015

		Owners' equity					Accumulated other comprehensive income					Millions of yen	
	Number of shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Deposit for subscriptions to treasury stock	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Translation adjustment	Stock subscription rights	Non-controlling interests		
Balance at March 31, 2014	1,749,379	¥247,397	¥230,765	¥528,407	¥(17,817)	¥ 2	¥ 87,845	¥(12,935)	¥ 14,911	¥7,363	¥ 167,525		
Cash dividends paid				(53,142)									
Profit attributable to owners of parent				148,491									
Change in treasury stock, net			519		2,046								
Other						1							
Net changes of items other than owners' equity							47,843	(13,880)	28,205	842	20,293		
Balance at March 31, 2015	1,749,379	247,397	231,284	623,756	(15,771)	3	135,688	(26,815)	43,116	8,205	187,818		
Cash dividends paid				(56,665)									
Profit attributable to owners of parent				116,849									
Change in treasury stock, net			498		(14,200)								
Change in interests of parent arising from transactions with non-controlling shareholders			107										
Other						(1)							
Net changes of items other than owners' equity							(37,204)	(6,178)	(22,033)	754	(103,603)		
Balance at March 31, 2016	1,749,379	¥247,397	¥231,889	¥683,940	¥(29,971)	¥ 2	¥ 98,484	¥(32,993)	¥ 21,083	¥8,959	¥ 84,215		

	Thousands of U.S. dollars (Note 1)									
	Owners' equity					Accumulated other comprehensive income				
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Deposit for subscriptions to treasury stock	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Translation adjustment	Stock subscription rights	Non-controlling interests
Balance at March 31, 2015	\$2,208,902	\$2,065,036	\$5,569,250	\$(140,813)	\$27	\$1,211,500	\$(239,420)	\$ 384,964	\$73,259	\$1,676,946
Cash dividends paid			(505,938)							
Profit attributable to owners of parent			1,043,295							
Change in treasury stock, net		4,446		(126,786)						
Change in interests of parent arising from transactions with non-controlling shareholders		956								
Other					(9)					
Net changes of items other than owners' equity						(332,179)	(55,160)	(196,723)	6,732	(925,026)
Balance at March 31, 2016	\$2,208,902	\$2,070,438	\$6,106,607	\$(267,599)	\$18	\$ 879,321	\$(294,580)	\$ 188,241	\$79,991	\$ 751,920

See accompanying notes.

Consolidated Statements of Cash Flows

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Cash flows from operating activities:			
Profit attributable to owners of parent	¥ 116,849	¥ 148,491	\$ 1,043,295
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	30,941	28,790	276,259
Allowance for doubtful accounts, net	(202)	762	(1,804)
Statutory reserves, net	44	454	393
Losses (gains) related to investment securities	(1,982)	376	(17,696)
Losses (gains) related to fixed assets	1,729	1,125	15,438
Loss (gain) on sales of shares of subsidiaries and associates	(1,117)	—	(9,973)
Losses (gains) on change in equity	(3,093)	(1,456)	(27,616)
Deferred income taxes	(10,804)	5,728	(96,464)
Non-controlling interests	6,129	5,981	54,723
Changes in operating assets and liabilities:			
Receivables and payables related to margin transactions	36,931	26,371	329,741
Other receivables and other payables	(77,838)	64,731	(694,982)
Collateralized short-term financing agreements	(147,486)	356,167	(1,316,839)
Trading assets and liabilities	150,713	(214,029)	1,345,652
Private equity and other investments	18,330	(12,199)	163,661
Deposits for banking business	182,950	547,962	1,633,482
Other, net	(80,348)	(233,288)	(717,395)
Total adjustments	104,897	577,475	936,580
Net cash flows provided by (used in) operating activities	221,746	725,966	1,979,875
Cash flows from investing activities:			
Increase in time deposits	(124,161)	(11,660)	(1,108,580)
Decrease in time deposits	119,009	4,561	1,062,580
Purchase of securities	(813,080)	(802,355)	(7,259,643)
Proceeds from sales and redemption of securities	1,326,499	862,564	11,843,741
Payments for purchases of property and equipment	(46,761)	(60,968)	(417,509)
Proceeds from sales of property and equipment	150	24,244	1,339
Payments for purchases of intangible fixed assets	(30,114)	(24,807)	(268,875)
Payments for purchases of investment securities	(33,644)	(9,087)	(300,393)
Proceeds from sales and redemption of investment securities	20,568	7,318	183,643
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(3,180)	—	(28,393)
Payments of loans receivable	(1,682)	(3,262)	(15,018)
Collection of loans receivable	1,688	650	15,071
Other, net	355	(463)	3,171
Net cash flows provided by (used) in investing activities	415,647	(13,265)	3,711,134

		Millions of yen	Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Cash flows from financing activities:			
Decrease in short-term borrowings and commercial paper	(499,956)	296,388	(4,463,893)
Increase in long-term debt	891,226	784,616	7,957,375
Decrease in long-term debt	(575,943)	(704,563)	(5,142,348)
Payments of cash dividends	(56,665)	(53,142)	(505,938)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(1,464)	—	(13,071)
Proceeds from share issuance to minority shareholders	24,909	20,995	222,402
Other, net	(11,834)	(908)	(105,661)
Net cash flows provided by (used in) financing activities	(229,727)	343,386	(2,051,134)
Effect of exchange rate changes on cash and cash equivalents	(7,496)	17,762	(66,929)
Net increase in cash and cash equivalents	400,170	1,073,849	3,572,946
Cash and cash equivalents at beginning of year	2,920,510	1,846,617	26,075,982
Increase in cash and cash equivalents from newly consolidated subsidiary	—	44	—
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(47,040)	—	(419,999)
Cash and cash equivalents at end of year	¥3,273,640	¥2,920,510	\$29,228,929

See accompanying notes.

Notes to Consolidated Financial Statements

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2016 and 2015

1. Basis of financial statements

The consolidated financial statements include the accounts of Daiwa Securities Group Inc. ("the Company"), established in Japan, and its subsidiaries (collectively "Daiwa"). Daiwa's principal subsidiaries include:

- Daiwa Securities Co. Ltd. ("Daiwa Securities")
- Daiwa Asset Management Co. Ltd. ("DAM")
- Daiwa Institute of Research Holdings Ltd.
- Daiwa Corporate Investment Co., Ltd.

Daiwa Securities operates a retail and a wholesale business. The retail business is operated through a network of 145 branches and sales offices as well as non-face-to-face channels, including the Internet and a full-fledged call center to provide online and telephone-based securities-related services. The wholesale business is operated as an encompassing global capital markets business and global investment banking business. DAM is the asset management company of Daiwa.

Daiwa is primarily engaged in the business of a securities broker-dealer, pursuant to which Daiwa provides services including brokerage, trading, underwriting, strategic advice, product development, and structured finance. In addition, Daiwa provides asset management, investment business and other business through a network in major capital markets.

The Company and its domestic consolidated subsidiaries maintain their official accounting records in yen and in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in accordance with generally accepted accounting principles in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of

International Financial Reporting Standards ("IFRS"). The financial statements prepared by foreign subsidiaries in accordance with IFRS or the generally accepted accounting principles in the United States (U.S. GAAP) tentatively can be used for the consolidation process with adjustment to certain items such as amortization of goodwill. The accounts of other overseas consolidated subsidiaries are maintained in accordance with generally accepted accounting principles and practices prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been prepared by adjusting the difference in accounting policies from Japanese GAAP, if any.

The accompanying consolidated financial statements have been restructured and translated into English (with some additional explanations described solely for the convenience of the readers outside of Japan) from the consolidated financial statements prepared by the Company in accordance with Japanese GAAP and filed to the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not considered necessary for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 2016, which was ¥112 to U.S. \$1. The convenience translations should not be construed as representations that the yen amounts have been, could have been, or could be, converted into U.S. dollars at this or any other rate of exchange.

2. Significant accounting policies

Consolidation—The consolidated financial statements include the accounts of the Company and the entities which are controlled by the Company, directly or indirectly. Control exists generally when Daiwa holds more than 50% of the voting rights of the entity. Also, control is regarded to exist when Daiwa holds 40% or more of the voting rights of an entity and there are certain facts and circumstances which indicate that Daiwa controls the decision making body of the entity.

Investee entities which meet the conditions of "Guidance on Determining a Subsidiary and an Affiliate" (Accounting Standards Board of Japan ("ASBJ") Guidance No. 22) are excluded from the consolidation even though Daiwa has control of them such as when the investee entity is held for principal investment or venture capital

investment business purposes where the objective for Daiwa in having control of the investee entity is merely to seek capital gain opportunities and Daiwa does not intend to operate its business with the entity as a part of the group.

Daiwa accounts for its investment by the equity method of accounting if Daiwa does not have control of an entity but can exercise significant influence over the entity's operating and financial policies. The ability to exercise such significant influence is generally regarded to exist when Daiwa holds 20% or more but 50% or less of the voting rights of the entity, or 15% or more of the voting rights coupled with certain facts and circumstances which indicate that Daiwa can exercise significant influence over the entity's operating and financial

policies. As with the policy and considerations for consolidation, investee entities are excluded from the scope of the equity method even though Daiwa holds significant influence when the investee entity is held as part of the principal investment or for venture capital investment business purposes.

Goodwill is amortized under the straight-line method within 20 years. In case of no materiality, it is amortized in a lump sum when it accrues.

Material inter-company balances, transactions and profits have been eliminated in consolidation.

Statements of cash flows—The Company defines cash equivalents as highly liquid investments with original maturities of three months or less.

Trading assets and trading liabilities—Trading assets and liabilities including securities and financial derivatives for trading purposes held by securities companies are stated on a trade date basis at fair value in the consolidated balance sheets. Gains and losses, including unrealized gains and losses, related to transactions for trading purposes are reported as “Net gain on trading” in the accompanying consolidated statements of income. Fair value is determined based on market prices, quoted prices, internal pricing models (utilizing indicators of general market conditions or other economic measurements), or management’s estimates of amounts to be realized on settlement, assuming current market conditions and an orderly disposition over a reasonable period of time. Securities owned for non-trading purposes, shown in the accompanying consolidated balance sheets as “Cash and cash equivalents,” “Securities,” “Private equity and other investments” and “Investment securities” are discussed below.

Securities other than trading assets and trading liabilities—Daiwa examines the intent of holding investments and classifies those investments as (a) securities intended to be held for trading purposes by non-securities companies which are carried at fair value with recognized unrealized gain or loss included in the consolidated statements of income, (b) debt securities intended to be held to maturity (“Held-to-maturity debt securities”) which are carried at amortized cost, and (c) all other securities not classified in any of the above categories (“Available-for-sale securities”). Marketable available-for-sale securities are stated at their fair values based on quoted market closing prices with unrealized gain or loss reported in a separate component within the

net assets on a net-of-tax basis, or other non-marketable investments (non-marketable “Available-for-sale securities”) are carried at cost. Investment business partnerships which are regarded as equivalent to securities by Article 2 (2) of the Financial Instruments and Exchange Act are reported as “Private equity and other investments” and “Investment securities” in the accompanying consolidated balance sheets. The share of net income of investment business partnerships has been reflected in the consolidated statements of income and the share of net unrealized gains and losses held by investment business partnerships is directly reported in a separate component within the net assets on a net-of-tax basis in proportion to the Company and its subsidiaries’ share of the investment business partnership. The cost of those investments is determined by the moving average method.

Daiwa holds, as a common practice in Japan, non-marketable equity securities generally for the purpose of maintaining good relationships with the investee companies and promoting Daiwa’s securities businesses.

Impairment is assessed for investments including private equity holdings. For marketable securities, if the year-end market value declines 30% or more but less than 50% from the carrying value for individual securities, an impairment loss is recognized if there is no chance of recoverability in value. Recoverability is assessed based on whether the decline is temporary by considering the movements of the market price over the last twelve months and the financial conditions of the issuer. If the year-end market value declines 50% or more from the carrying value, then an impairment loss is recognized immediately. For non-marketable equity investments, Daiwa generally compares the carrying amount and the net asset value of the issuing company attributable to Daiwa’s holding share, and recognizes an impairment loss if the net asset value attributable to Daiwa’s holding share is significantly lower than the carrying value and such decline is considered other than temporary. For non-marketable investments in “Private equity and other investments” in the accompanying consolidated financial statements, Daiwa reviews the financial conditions of the issuers and provides for allowance for possible investment losses, if necessary.

Derivatives used for non-trading purpose—Daiwa records derivative financial instruments at fair value except for certain cases as described below, and recognizes changes in the fair value as gains or losses unless the derivative financial instruments are used for hedging purposes. Valuation gains or losses on hedging

instruments are deferred in a separate component within the net assets until the gains or losses on the underlying hedged instruments are realized. Plain vanilla hedging interest swap agreements satisfying the required conditions under Japanese GAAP are not required to be marked-to-market. Interest received or paid on such exempt interest rate swap agreements for hedging purposes are accrued without being marked-to-market under special treatment. Also, certain forward foreign exchange contracts are exempted from marked-to-market valuation. The premium or discount on such exempt forward foreign exchange contracts used for hedging purposes is allocated to each fiscal term without being marked-to-market under special treatment.

Collateralized short-term financing agreements—Collateralized short-term financing agreements consist of securities purchased under agreements to resell ("Resell transactions") or securities sold under agreements to repurchase ("Repurchase transactions"), and securities borrowed or loaned. Repurchase transactions and resell transactions are carried at their contractual amounts. Securities borrowed or loaned are stated at the amount of cash collateral advanced or received.

Allowance for doubtful accounts—Allowance for doubtful accounts is provided for probable losses on loans and receivables, based on the actual historical default rate for general loans, and based on individually assessed amounts for doubtful and default loans.

Property and equipment—Property and equipment are stated at the acquisition cost. Daiwa computes depreciation principally by the straight-line method over estimated useful lives.

Intangible fixed assets—Intangible fixed assets are generally amortized by the straight-line method. Daiwa computes the amortization over estimated useful lives. The useful lives of software of in-house use, which is the most significant intangible fixed asset, are generally five years.

Impairment—Non-current assets, principally property and equipment, leased assets used under finance lease contracts, intangible fixed assets, and goodwill are reviewed for impairment whenever events or changes in circumstances indicate that a carrying amount of an asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount to future undiscounted

net cash flows expected to be generated by the asset or certain asset group. If an asset is considered to be impaired, then an impairment loss is recognized for the difference between the carrying amount and the recoverable amounts of the asset or the related asset group.

Bonuses—Accrued bonuses for employees and directors represent liabilities estimated as of the balance sheet date.

Share-based payment—Daiwa allocates the share-based compensation costs, which are measured at fair value of the options at grant date, over the period in which the related requisite service is rendered.

Retirement benefits—The Company and domestic subsidiaries have unfunded retirement benefit plans for eligible employees, under which the benefit amount is determined annually based on the performance during the year in which the related service is rendered, plus interest earned to date. Accordingly this liability does not change subsequently due to the changes in compensation level in the subsequent years. The annually earned benefits and the related interest to the accumulated benefits are expensed annually.

The Company and most domestic consolidated subsidiaries also have defined contribution plans for which annual contribution is charged to expense.

Retirement benefits for directors and corporate auditors are recognized based on the amount as calculated in accordance with the internal rule.

Accounting standard for revenue and cost recognition of long-term construction contracts—Concerning some consolidated domestic subsidiaries which engage in made-to-order software, when the outcome of individual contracts is deemed certain during the course of the activity, the domestic subsidiaries apply the percentage-of-completion method to the work, otherwise the completed-contract method is applied. The percentage/stage of completion at the end of the reporting period is measured by the proportion of the cost incurred to the estimated total cost.

Income taxes—Income taxes consist of corporation, enterprise and inhabitant taxes. The provision for current income taxes is computed based on the pre-tax income of the Company and each of its consolidated subsidiaries with certain adjustments, as appropriate. Deferred tax assets and liabilities are recognized for the

future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards, if any. A valuation allowance is recognized for any portion of the deferred tax assets if it is considered not realizable based on its tax planning, other studies, and reference to certain set requirements under Japanese GAAP.

Translation of foreign currencies—The Company and its domestic consolidated subsidiaries translate assets and liabilities in foreign currencies into yen at the year-end exchange rate, and translate income and expenses in foreign currencies into yen using generally the applicable exchange rate on the day when the related transaction occurred. Any gains and losses resulting from such translation are included in current income or expense. The balance sheets of overseas consolidated subsidiaries and affiliates are translated into yen using the year-end exchange rates. Income and expenses are translated at the average exchange rates of the applicable year. Differences in yen amounts arising from the use of different rates are included in adjustments on foreign currency translation in "Net assets" in the accompanying consolidated balance sheets.

Net income per share—Net income per share of common stock is based on the average number of common shares outstanding. Diluted net income per share is computed based on the average number of common shares outstanding for the year with an adjustment for dilutive stock subscription rights based on the number of shares of common stock that would have been issued provided that the outstanding dilutive stock subscription rights were converted at the beginning of the year.

Changes in accounting policies—Effective from April 1, 2015, the Company has applied "Accounting Standards for Business Combinations" (ASBJ Statement No. 21; Sep. 13, 2013), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22; Sep. 13, 2013), "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7; Sep. 13, 2013), etc., and changes in the proportion held by non-controlling interests have been changed to recognize directly in equity in case of continuingly retaining control, and acquisition-related costs have been changed to be accounted for as expenses in

the fiscal year in which they occurred. As to the business combinations conducted on or after April 1, 2015, the Company has changed the method to re-allocate the adjusted acquisition costs after defining provisional accounting treatment onto the consolidated financial statements of the period in which the business combinations were conducted. Moreover, the indications of Net income, etc., and Minority interests have been changed to Non-controlling interests. To reflect this change, the Company's comparative consolidated financial statements for the year ended March 31, 2015, has been reclassified.

In Consolidated statements of cash flows for the year ended March 31, 2016, the Company has changed definition of some cash flows as follows; cash flows from "Payments or proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation" are treated as "Cash Flows from financing activities", also "Related cost payments with purchase of shares of subsidiaries resulting in change in scope of consolidation and related cost payments with changes in ownership interests in subsidiaries that do not result in change in scope of consolidation" are treated as "Cash Flows from operating activities".

With regard to the application of Accounting Standards for Business Combinations, etc., the Company has applied its methods prospectively from the beginning of the fiscal year ended March 31, 2016, based on the transitional period treatments defined in Clause 58-2 (4), Accounting Standards for Business Combinations, Clause 44-5 (4), Accounting Standard for Consolidated Financial Statements, and Clause 57-4 (4), Accounting Standard for Business Divestitures.

The effect on the consolidated financial statements from this change is immaterial.

Unapplied accounting standard —

- Revised Guidance on Accounting Standard for Recoverability of Deferred Tax Assets (ASBJ Guidance No.26, March 28, 2016)

This accounting standard introduces some changes to the treatment of deferred tax assets. This accounting standard will be effective from the beginning of annual periods ending on March 31, 2017. The Company is currently in the process of determining the effects of this new standard on the consolidated financial statements.

3. Margin transactions

Margin transactions at March 31, 2016 and 2015 consisted of the following:

	2016	Millions of yen 2015	Thousands of U.S. dollars 2016
Assets:			
Customers' margin loans	¥183,654	¥221,524	\$1,639,768
Cash deposits as collateral for securities borrowed	19,723	19,448	176,098
	¥203,377	¥240,972	\$1,815,866
Liabilities:			
Payable to securities finance companies	¥ 3,790	¥ 9,327	\$ 33,839
Proceeds of securities sold for customers' accounts	50,597	45,725	451,759
	¥ 54,387	¥ 55,052	\$ 485,598

Customers' margin loans are stated at amounts equal to the purchase amounts of the relevant securities, which are collateralized by customers' securities and customers' deposits. Proceeds of securities sold for customers' accounts are stated at the sales amounts.

4. Collateralized short-term financing agreements

Collateralized short-term financing agreements at March 31, 2016 and 2015 consisted of the following:

	2016	Millions of yen 2015	Thousands of U.S. dollars 2016
Assets:			
Securities purchased under agreements to resell	¥ 65,861	¥ 334	\$ 588,045
Securities borrowed	5,184,275	6,727,867	46,288,169
	¥5,250,136	¥6,728,201	\$46,876,214
Liabilities:			
Securities sold under agreements to repurchase	¥ 7,999	¥ 3,190	\$ 71,420
Securities loaned	5,893,796	7,550,001	52,623,178
	¥5,901,795	¥7,553,191	\$52,694,598

5. Financial instruments

1. Concerning the situation of financial instruments

(1) Policy for dealing with financial instruments

Daiwa, the primary businesses of which are investment and financial services businesses with a core focus on securities-related business, is involved in trading and brokerage of securities and derivative products, underwriting and secondary offering of securities, treating of public offerings for subscription and secondary offering of securities, treating of private offerings for subscription of securities, and banking and other businesses related to the securities and financial fields.

Daiwa holds financial assets and liabilities as follows to execute its businesses such as trading securities and others, derivatives, operational investment securities, loans and investment securities, etc., and raises its

capital utilizing a variety of financial instruments such as corporate bonds, medium-term notes, borrowing from financial institutions, deposits, etc. Under the basic policy for financing that enough liquidity for continuing business should be effectively secured, Daiwa is maintaining an appropriate balance between assets and liabilities by diversifying financial measures and maturity dates, and realizing effective and stable financing when it decides to raise capital. Also, Daiwa uses interest rate swaps and foreign currency swaps, etc., for the purpose of hedging against fluctuation in interest rates and foreign currencies in terms of financial assets and liabilities.

Daiwa entirely and efficiently manages the variety of risks incurred by holding financial assets and liabilities and maintains sound finances.

(2) Contents and risk of financial instruments

Daiwa holds financial instruments in the trading business as follows: (a) trading securities and others (stocks and warrants, bonds and investment trusts), loans secured by securities and loans payable secured by securities, margin transaction assets and liabilities, (b) derivatives, traded on exchanges, such as stock index futures, bond futures, interest rate futures and options for those, (c) derivatives (OTC derivatives), not traded on exchanges, such as interest rate and foreign exchange swaps, forward foreign exchange contracts, currency options, bond options, FRA and OTC securities derivatives, etc. And Daiwa holds operational investment securities, etc. in the investments business, loans and securities, etc. in the banking business, and investment securities the business relationship, etc.

The major risks implied in these financial instruments are market risk and credit risk. Market risk means the risk of suffering losses from fluctuations in the value of holding financial instruments and transactions in accordance with changes of market prices of stock prices, interest rates, currency exchange rates, and commodity prices, etc., and from the market environment in which no transaction can be executed because of an excessive decrease of liquidity or one in which market participants are forced to trade in extremely unfavorable conditions. Credit risk means the risk of suffering losses from defaults or credit change of counterparties or issuers of financial instruments.

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

Daiwa is raising its capital utilizing corporate bonds, medium-term notes, borrowing from financial institutions, deposits, etc., as well as holding its financial instruments, and is exposed to liquidity risk. Liquidity risk indicates the risk of suffering losses such that cash management may be impossible and remarkably higher financing costs than usual may be requested as a result of an abrupt change of market environment or unexpected credit crunch of Daiwa, etc.

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

(3) Risk management system concerning financial instruments

At the meeting of the Board of Directors, the Company has resolved the "Risk Management Rule," which states the basic policy of risk management, types of risks that should be managed and responsible executive officers and department for each major risk and conducted risk management of the entire Group. Each subsidiary conducts risk management suitable for each business profile and size in accordance with the basic policy of risk management. And the Company monitors the structure and process of subsidiaries' risk management. Also, the Group Risk Management Committee as a sub-committee of the Executive Committee of the Company receives reports on matters such as risk exposure obtained by monitoring of subsidiaries and issues concerning the risk management system of each subsidiary and discusses them. Major subsidiaries regularly hold risk management committee meetings, etc., and strengthen each risk management system.

(i) Management of risk of financial instruments held for trading purpose**(a) Management of market risk**

Daiwa manages its trading business by establishing the limit for VaR which indicates the estimate of the maximum loss amount under a certain probability, position and sensibility etc., considering the financial situation, the business plan and budget of each division. The risk management department of the Company monitors the market risk of Daiwa and informs the management of the Company on a daily basis. In order to cover the capacity limit of VaR calculated by the statistical hypothesis based on the data obtained for a certain period, the Company applies the stress

test with a scenario assuming the impact of an abrupt change in the market and the hypothetical stress events.

(Quantitative information concerning market risk)

Major subsidiaries engaged in securities business utilize the historical simulation method (holding period: 1 day, confidence interval: 99%, observation period: 520 business days) to calculate VaR of trading financial investments. Total VaR as of March 31, 2016 (fiscal year-end) was ¥1.4 billion (\$12.5 million). In the meantime, Daiwa executes backtesting which compares calculated VaR and the actual profit/loss to verify its effectiveness. However the VaR statistically figures the risk based on historical market fluctuation and may be sometimes unable to completely grasp the risk in the environment that the market unexpectedly changes beyond the estimation.

(b) Management of credit risk

The credit risk generated in the trading business of Daiwa consists of counterparty risk and issuer risk. To manage the counterparty risk, Daiwa has established the credit limit for each counterparty based on internal credit ratings of counterparties in advance and monitors the observance of such credit limit. To manage the issuer risk of financial instruments held as the market maker, Daiwa mainly monitors the fluctuation risk of the credit spread. In addition, Daiwa is periodically monitoring the influence from the large-lot credit.

Since the margin transactions generate credit to customers in Daiwa, deposits which were set as collateral will be charged to the customers. In connection with the securities loan transaction, Daiwa has tried to reduce credit risk by establishing credit limit for counterparties, charging necessary collaterals with daily mark to market.

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

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

The subsidiaries which engage in the investment business investigate each investment through the investment committee etc., and make decisions. The subsidiaries regularly monitor the state of invested companies and inform the results to the risk management committee, etc.

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

In connection with investment securities as long-term holding for the business relationship, etc., Daiwa decides to acquire or sell the securities in accordance with the policy defined by the relevant company's rules. Also, Daiwa regularly monitors the situation of risk and informs the management of the Company of the results.

(Quantitative information concerning market risk)

(a) Financial assets and liabilities (excluding the financial assets and liabilities held by the subsidiaries which engage in the banking business)

The main financial assets that are influenced by market risk are operational investment securities in the investment business and investment securities for the business relationship. As of March 31, 2016, fair value of the listed equities in operational investment securities and investment securities would fluctuate by ¥16.5 billion (\$147.0 million) if the indices, such as TOPIX, were to change by 10%.

Also, the main financial liabilities in Daiwa that are influenced by market risk are "bonds and notes" and long-term debt. As of March 31, 2016, if all other risk variables were assumed to be unchanged and the interest rate supposed to be changed by 10 basis points (0.1%), the fair value of "bonds and notes" and long-term debt would fluctuate by ¥2.0 billion (\$17.9 million) and ¥0.3 billion (\$2.7 million), respectively.

(b) Financial assets and liabilities held by the subsidiary that engages in the banking business

The subsidiary that engages in the banking business utilizes VaR in managing market risk (i.e. the risk of loss

caused by changes in fluctuation of value of assets and liabilities (including off-balance liabilities) due to fluctuation of interest, exchange stocks and other risk factors in the market and the risk of loss which caused by changes in income from assets and liabilities).

When measuring VaR, we convert the number calculated by the historical simulation method (holding period: 20 days, confidence interval: 99%, observation period: 750 business days) to a number for 125 days holding period. That number as of March 31, 2016, is ¥14.6 billion (\$130 million).

The subsidiary periodically does the backtesting of the VaR calculated by risk measuring model and the virtual profits and losses in order to verify the effectiveness of the model. By the backtesting in fiscal year 2015, we estimate that our risk measurement model grasps the market risk. However, the VaR statistically estimates the risk based on historical market fluctuation and may be sometimes unable to completely grasp the risk in an environment in which the market unexpectedly changes beyond the estimation.

(iii) Management of liquidity risk

Daiwa conducts its business with a core focus on the securities-related business utilizing a lot of assets and liabilities and establishes the basic policy which clarifies to efficiently secure enough liquidity for continuing its business.

The methods of raising capital of Daiwa include unsecured fundraising such as corporate bonds, medium-term notes, borrowing from financial institutions, commercial paper, call money, and deposits, and secured fundraising such as Gensaki transactions and repurchase agreements, etc. By those methods, Daiwa realizes effective and stable capital raise.

In terms of financial stability, preparing for a case that the environment vastly changes, Daiwa endeavors in ordinary times to secure a stable reserve to prevent the business from being disturbed. Especially in recent years, Daiwa has increased liquidity through raising capital from the market and borrowing from financial institutions, preparing for a worldwide financial crisis and credit crunch. Also, Daiwa tries to diversify the maturity of raised capital and sources of funding preparing for an event in which it becomes difficult to raise new capital and to reschedule the existing capital raising due to a financial crisis occurring.

The Company has been required to comply with the regulation of Daiwa's consolidated liquidity coverage ratio. The Company has organized its liquidity management system using original tools for liquidity

management. This means that Daiwa monitors every day if the liquidity portfolio, which should cover financing proceeds without collateral that has a maturity date within a certain period as well as the estimated cash outflow caused by realization of one of the stress scenarios prepared in advance during the same period, is maintained or not. Daiwa has established a system that enables to continue its business even if Daiwa could not raise funds for a year or so.

The Company collectively manages and monitors the liquidity of Daiwa under the basic policy to secure the appropriate liquidity of Daiwa as a whole. The Company always monitors whether the liquidity portfolio is sufficiently secured against short-term raised capital without collateral preparing for the case that it becomes difficult to raise new capital and to reschedule the existing raising of capital due to the occurrence of some stress which is specific to the Company or influences the entire market. Also, Daiwa has established a system that enables the Company to flexibly supply capital to the group companies if necessary, and achieves efficient and unified raising of capital and capital management. This enables Daiwa to raise and manage capital integrally.

Daiwa has also established a contingency funding plan as one of the measures of dealing with liquidity risk. This plan states basic policy concerning the report lines depending upon the urgency of stress internally originated including credit crunch, and externally originated including an abrupt change of market environment, and the method of raising capital. This enables Daiwa to prepare a system for securing liquidity through a swift response.

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

Moreover, Daiwa Securities, Daiwa Next Bank, Ltd. and foreign securities subsidiaries, which are sensitive to influence by financial markets and for which the importance of securing the liquidity of capital is significant, each decide their own contingency funding plans and are periodically revising their plans as well.

The Company periodically monitors the maintenance of its subsidiaries' contingency funding plans. The Company revises, if necessary, the capital raising plan or contingency funding plan itself with crisis scenarios assumed and tries to preliminarily execute countermeasures, both increasing the liquidity and reducing assets at the same time.

(4) Supplementary explanation for the fair value of financial instruments

The fair value of financial instruments includes the values based on market prices and the values

theoretically calculated if no market price is available. Such theoretical prices may be changed with different conditions because a certain condition is applied to calculate theoretical prices.

2. Fair values of financial instruments

The figures stated on the consolidated balance sheets as of March 31, 2016 and 2015, fair value and the difference of those are as below. Any item for which it is extremely difficult to obtain its fair value is not included in the table below (see Note 2).

	Millions of yen					
	2016			2015		
	Amounts on consolidated balance sheets	Fair value	Difference	Amounts on consolidated balance sheets	Fair value	Difference
Assets						
(1) Cash and cash equivalents	¥ 3,273,640	¥ 3,273,640	¥ —	¥ 2,920,510	¥ 2,920,510	¥ —
(2) Cash segregated as deposits for regulatory purposes	323,762	323,762	—	349,094	349,094	—
(3) Time deposits	66,144	66,144	—	65,270	65,270	—
(4) Loans receivable from customers	432,785			287,010		
Allowance for doubtful accounts	(374)			(30)		
	432,411	432,213	(198)	286,980	287,703	723
(5) Receivables related to margin transactions	203,377	203,377	—	240,972	240,972	—
(6) Collateralized short-term financing agreements	5,250,136	5,250,136	—	6,728,201	6,728,201	—
(7) Trading assets	7,501,243	7,501,243	—	8,304,369	8,304,369	—
(8) Securities, private equity and other investments and investment securities						
(a) Held-to-maturity debt securities	10	10	0	—	—	—
(b) Subsidiaries companies' stocks and related companies' stocks	111,239			27,318		
Allowance for possible investment loss	(6,911)			(6,911)		
	104,328	157,197	52,869	20,407	21,088	681
(c) Available-for-sale securities	2,324,214	2,324,214	—	2,879,606		
Total assets	¥19,479,265	¥19,531,936	¥ 52,671	¥21,795,409	¥21,796,813	¥ 1,404
Liabilities						
(9) Short-term borrowings	¥ 613,093	¥ 613,093	¥ —	¥ 872,877	¥ 872,877	¥ —
(10) Commercial paper	137,720	137,720	—	388,380	388,380	—
(11) Long-term debt	2,651,224	2,660,092	(8,868)	2,530,370	2,558,615	(28,245)
(12) Deposits for banking business	2,928,631	2,929,889	(1,258)	2,745,681	2,745,553	128
(13) Payables to customers and counterparties	828,200	828,200	—	790,232	790,232	—
(14) Payables related to margin transactions	54,387	54,387	—	55,052	55,052	—
(15) Payables—other	29,720	29,720	—	73,328	73,328	—
(16) Collateralized short-term financing agreements	5,901,795	5,901,795	—	7,553,191	7,553,191	—
(17) Trading liabilities	5,300,862	5,300,862	—	6,014,288	6,014,288	—
(18) Trade account payables, net	427,257	427,257	—	288,309	288,309	—
Total liabilities	¥18,872,889	¥18,883,015	¥(10,126)	¥21,311,708	¥21,339,825	¥(28,117)
Derivatives used for non-trading						
Derivatives to which hedge accounting is not applied	¥ 2,638	¥ 2,638	¥ —	¥ (1,180)	¥ (1,180)	¥ —
Derivatives to which hedge accounting is applied	(25,458)	(19,993)	5,465	(12,107)	6,082	18,189
Total derivatives related to non-trading	¥ (22,820)	¥ (17,355)	¥ 5,465	¥ (13,287)	¥ 4,902	¥ 18,189

* Net receivables or payables derived from derivatives are presented on a net basis. The item that is a net liability in total is presented in parentheses.

	Thousands of U.S. dollars		
	Amounts on consolidated balance sheets	Fair value	Difference
			2016
Assets			
(1) Cash and cash equivalents	\$ 29,228,929	\$ 29,228,929	\$ —
(2) Cash segregated as deposits for regulatory purposes	2,890,732	2,890,732	—
(3) Time deposits	590,571	590,571	—
(4) Loans receivable from customers	3,864,152		
Allowance for doubtful accounts	(3,339)		
	3,860,813	3,859,045	(1,768)
(5) Receivables related to margin transactions	1,815,866	1,815,866	—
(6) Collateralized short-term financing agreements	46,876,214	46,876,214	—
(7) Trading assets	66,975,384	66,975,384	—
(8) Securities, private equity and other investments and investment securities			
(a) Held-to-maturity debt securities	89	89	0
(b) Subsidiaries companies' stocks and related companies' stocks	993,205		
Allowance for possible investment loss	(61,705)		
	931,500	1,403,545	472,045
(c) Available-for-sale securities	20,707,268	20,707,268	—
Total assets	\$173,877,366	\$174,347,643	\$470,277
Liabilities			
(9) Short-term borrowings	\$ 5,474,045	\$ 5,474,045	\$ —
(10) Commercial paper	1,229,643	1,229,643	—
(11) Long-term debt	23,671,643	23,750,821	(79,178)
(12) Deposits for banking business	26,148,491	26,159,723	(11,232)
(13) Payables to customers and counterparties	7,394,643	7,394,643	—
(14) Payables related to margin transactions	485,598	485,598	—
(15) Payables—other	265,357	265,357	—
(16) Collateralized short-term financing agreements	52,694,598	52,694,598	—
(17) Trading liabilities	47,329,125	47,329,125	—
(18) Trade account payables, net	3,814,795	3,814,795	—
Total liabilities	\$168,507,938	\$168,598,348	\$ (90,410)
Derivatives related to non-trading			
Derivatives to which hedge accounting is not applied	\$ 23,554	\$ 23,554	\$ —
Derivatives to which hedge accounting is applied	(227,304)	(178,509)	48,795
Total derivatives related to non-trading	\$ (203,750)	\$ (154,955)	\$ 48,795

* Net receivables or payables derived from derivatives are presented on a net basis. The item that is a net liability in total is presented in parentheses.

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

(1) Cash and cash equivalents and, (3) Time deposits
Cash and cash equivalents and time deposits are stated as their book value because fair values are similar to book value and they are settled in the short term.

(2) Cash segregated as deposits for regulatory purposes
Cash segregated as deposits for regulatory purposes which consist of cash segregated as deposits for customers and investments in securities like government bonds are calculated based on reasonably calculated prices utilizing yield spread with index interest rates for each

term which are defined by immediately previous traded prices including the ones of similar bonds.

(4) Loans receivable from customers
Loans receivable from customers mainly consist of lending under banking business and loans secured by customers' safekeeping securities. Loans with a floating rate for banking business are recorded at their book value, because fair value is similar to book value reflecting money market rates in the short term as long as the credit condition of borrowers does not greatly change. The fair value of loans with a fixed rate for banking business is calculated by discounting the total amount of

principal and interest at the rate assumed when the similar new loan is performed based on the loan type and duration, etc. Loans secured by securities are recorded at their book value, because the fair value is close to the book value by considering prospective repayment period and interest rate conditions, etc.

(5), (14) Receivables related to margin transactions and payables related to margin transactions

Receivables related to margin transactions consist of lending money to customers generated from margin transactions and collaterals to securities finance companies. These are stated at their book value as settled in the short term because the former is settled by reversing trades by customers' decisions and the latter is collaterals marked to market on lending and borrowing transactions.

Payables related to margin transactions consist of customers' borrowings money from securities finance companies and sold amount equivalent of customers generated from margin transactions. These are stated as their book value as settled in the short term because the former is marked to market and the latter is settled by reversing trades by customers' decisions.

(6), (16) Collateralized short-term financing agreements
These are stated as their book value because fair values are similar to book value and most of them are settled in the short term.

(7), (17) Trading assets and trading liabilities

(a) Trading securities and others

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

(b) Derivative transactions

Derivatives traded at exchange	mainly liquidation price at the exchange or basic price for calculation margin
--------------------------------	--

Interest rate swaps	prices calculated by price valuation models generally acknowledged at the market or the model expanding those, based on expected cash flow calculated from yield curve, price and coupon rate of underlying bond, interest rates, discount rates, volatility, correlation, etc.
OTC equity derivatives	prices calculated by price valuation models generally acknowledged at the market or the model extending those, based on price of equities or equities indices, interest rates, dividends, volatility, discount rates, correlation, etc.
Credit derivatives	prices calculated by price valuation models that are generally acknowledged at the market or the model extending those, based on all the cash flows defined with discount rates that is calculated from interest rates and credit spread of the reference

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

(8) Securities, private equity, other investments and investment securities

Equities and others	closing price or closing quotations at the main stock exchange
Bonds	reasonably calculated price based on immediately previous traded price including similar bonds (OTC and broker screen, etc.) or market value information (trading price statistics, etc.) by utilizing spread with index interest rate, or reasonably calculated price based on the value of collateralized assets
Units of investment trusts	closing price or closing quotations at the exchange, or net asset value
Investment in partnership	for investment in partnership, for which allowance for possible investment losses is calculated based on the estimated recoverable values from related real estate, the amount which is calculated by deducting the allowance from the balance sheet amount as of the fiscal year-end and approximates its fair value. Therefore, the amount is deemed to be its fair value

(9), (10) Short-term borrowings and commercial paper
These are stated as their book value because they are settled in the short term and fair values are similar to book value.

(11) Long-term debt

The fair values of bonds and notes due within one year are stated as their book value since the terms of the settlement period are short and the fair values approximate the book values.

On the other hand, concerning fair values of bonds and notes whose maturities are longer than one year, if market prices (trading price statistics, etc.) are available in the market, fair values are calculated based on the market prices. If the market prices are not available, fair values are calculated from book values which are adjusted with consideration of interest rate fluctuations from the issuances and changes of credit spread of the Company. The credit spread of the Company is referred to the interest rate of the latest issuance or market prices of similar bonds issued by the Company, etc.

Concerning fair values of long-term debts, these are calculated from book values which are adjusted with consideration of interest rate fluctuations from the issuances and changes of credit spread of the Company. The credit spread of the Company is referred to the interest rates of the latest issuance or market prices of similar bonds issued by the Company, etc.

(12) Deposits for banking business

For demand deposits, the payment amounts required at the end of the fiscal year are considered as fair value.

In addition, fair values of fixed deposits are calculated by classifying them based on their terms and by discounting the future cash flows.

The discount rate is calculated by yield curve which includes credit spread of Daiwa. For the fixed deposits whose maturity date is within one year, their book value is considered as their fair value because the fair value is close to the book value.

(13), (15) Payables to customers and counterparties and payables—other

These are mainly composed of deposits received and cash deposits received as guarantee.

Deposits received are mainly deposits received from customers and payment amount (book value) when settled at the end of the fiscal year is considered as fair value. Other deposits are stated as their book value since the terms of the settlement period are short and the fair values approximate the book values.

Cash deposits received as guarantee are mainly deposits as guarantee relating to derivative transactions and stated as their book value as the terms of the settlement period deemed to be short with those characteristics which are marked to market for each transaction. Concerning the other cash deposits received as guarantee from customers, the payment amount (book value) when settled at the end of this fiscal year is considered as fair value.

(18) Trade account payables, net

Trade account payables, net is stated as their book value because fair values are similar to book value and they are settled in the short term.

(Note 2) Any financial product for which it is extremely difficult to obtain a fair value at March 31, 2016 and 2015 is as below and is not included in the "Assets (7)(c) Subsidiaries companies' stocks and related companies' stocks and (d) Available-for-sale securities" of fair value information of financial instruments.

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Subsidiaries' stocks and related companies' stocks			
Unlisted equities	¥37,575	¥35,960	\$335,491
Other securities			
Unlisted equities	28,995	61,753	258,884
Investments in limited partnership and other similar partnerships	32,486	14,598	290,054
Others	8,238	8,413	73,554

The above are deemed to be extremely difficult to determine fair values because there are no market prices and it is extremely difficult to estimate future cash flows from the investments. Therefore, their fair values are not disclosed.

(Note 3) Scheduled redemption amount of financial receivables and securities with a maturity date after March 31, 2016

	Millions of yen			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and cash equivalents	¥3,273,640	¥ —	¥ —	¥ —
Cash segregated as deposits for regulatory purposes	323,762	—	—	—
Time deposits	66,144	—	—	—
Loans receivable from customers	116,628	83,947	221,618	10,592
Receivables related to margin transactions	203,377	—	—	—
Collateralized short-term financing agreements	5,250,136	—	—	—
Securities, private equity and other investments and investment securities				
Held-to-maturity securities	—	10	—	—
Government bonds, municipal bonds, etc.	—	10	—	—
Corporate bonds	—	—	—	—
Other bonds	—	—	—	—
Other securities with a maturity date	231,398	553,607	1,107,904	140,552
Bonds	231,296	553,607	1,107,904	140,552
Government bonds, municipal bonds, etc.	—	—	855,954	—
Corporate bonds	1,107	32,211	—	126,066
Other bonds	230,189	521,396	251,950	14,486
Other securities	102	—	—	—
Total	¥9,465,085	¥637,564	¥1,329,522	¥151,144

* Cash segregated as deposits for regulatory purposes is included in "Within 1 year" because it is comprised of trusts for holding customer assets.

* Receivables related to margin transactions are included in "Within 1 year" because they are expected to be settled in short term.

	Thousands of U.S. dollars			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and cash equivalents	\$29,228,929	\$ —	\$ —	\$ —
Cash segregated as deposits for regulatory purposes	2,890,732	—	—	—
Time deposits	590,571	—	—	—
Loans receivable from customers	1,041,322	749,527	1,978,732	94,571
Receivables related to margin transactions	1,815,866	—	—	—
Collateralized short-term financing agreements	46,876,214	—	—	—
Securities, private equity and other investments and investment securities				
Held-to-maturity securities	—	89	—	—
Government bonds, municipal bonds, etc.	—	89	—	—
Corporate bonds	—	—	—	—
Other bonds	—	—	—	—
Other securities with a maturity date	2,066,054	4,942,920	9,892,000	1,254,929
Bonds	2,065,143	4,942,920	9,892,000	1,254,929
Government bonds, municipal bonds, etc.	—	—	7,642,446	—
Corporate bonds	9,884	287,598	—	1,125,589
Other bonds	2,055,259	4,655,322	2,249,554	129,340
Other securities	911	—	—	—
Total	\$84,509,688	\$5,692,536	\$11,870,732	\$1,349,500

* Cash segregated as deposits for regulatory purposes is included in "Within 1 year" because it is comprised of trusts for holding customer assets.

* Receivables related to margin transactions are included in "Within 1 year" because they are expected to be settled in short term.

(Note 4) Scheduled redemption amount of payable to securities finance companies, deposits for banking business, commercial paper and long-term debts after March 31, 2016

	Millions of yen			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Payable to securities finance companies	¥ 3,790	¥ —	¥ —	¥ —
Deposits for banking business	2,869,298	59,333	—	—
Commercial paper	137,720	—	—	—
Long-term debts	440,104	1,525,696	434,676	250,748
Total	¥3,450,912	¥1,585,029	¥434,676	¥250,748

* Payable to securities finance companies is considered to be settled in the short term and included in "Within 1 year."

* Payable to securities finance companies is part of the "Payables related to margin transactions" in the accompanying consolidated balance sheets.

* Demand deposits in deposits for banking business is included in "Within 1 year."

	Thousands of U.S. dollars			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Payable to securities finance companies	\$ 33,839	\$ —	\$ —	\$ —
Deposits for banking business	25,618,732	529,759	—	—
Commercial paper	1,229,643	—	—	—
Long-term debts	3,929,500	13,622,286	3,881,036	2,238,821
Total	\$30,811,714	\$14,152,045	\$3,881,036	\$2,238,821

* Payable to securities finance companies is considered to be settled in the short term and included in "Within 1 year."

* Payable to securities finance companies is part of the "Payables related to margin transactions" in the accompanying consolidated balance sheets.

* Demand deposits in deposits for banking business is included in "Within 1 year."

6. Trading assets and trading liabilities

Trading assets and trading liabilities at March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Trading assets:			
Trading securities:			
Equities	¥ 315,982	¥ 658,780	\$ 2,821,268
Government, corporate and other bonds	2,921,648	3,768,200	26,086,143
Investment trusts	151,968	211,658	1,356,857
Commercial paper, certificates of deposits and others	627,670	553,826	5,604,196
Derivatives:			
Option transactions	547,205	813,758	4,885,759
Futures and forward transactions	104,656	131,698	934,429
Swap agreements	2,812,682	2,123,678	25,113,232
Other derivatives	25,963	50,872	231,813
Risk reserves	(6,531)	(8,101)	(58,313)
	¥7,501,243	¥8,304,369	\$66,975,384
Trading liabilities:			
Trading securities:			
Equities	¥ 127,485	¥ 183,026	\$ 1,138,259
Government, corporate and other bonds	2,169,943	3,055,727	19,374,491
Investment trusts	132	—	1,179
Commercial paper, certificates of deposits and others	17,891	135,457	159,741
Derivatives:			
Option transactions	437,803	693,382	3,908,955
Futures and forward transactions	108,766	172,479	971,125
Swap agreements	2,410,480	1,720,949	21,522,143
Other derivatives	28,362	53,268	253,232
	¥5,300,862	¥6,014,288	\$47,329,125

* Government, corporate and other bonds include convertible bonds.

7. Securities other than trading assets

Securities other than trading assets and trading liabilities are included in "Cash and cash equivalents," "Securities," "Private equity and other investments" and "Investment securities" in the accompanying consolidated balance sheets.

Amortized cost of held-to-maturity debt securities as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		
	Cost	Fair value	Difference
March 31, 2016:			
Government, municipal and other bonds	¥10	¥10	¥0
Corporate bonds	—	—	—
Other	—	—	—

	Millions of yen		
	Cost	Fair value	Difference
March 31, 2015:			
Government, municipal and other bonds	¥—	¥—	¥—
Corporate bonds	—	—	—
Other	—	—	—

	Thousands of U.S. dollars		
	Cost	Fair value	Difference
March 31, 2016:			
Government, municipal and other bonds	\$89	\$89	\$0
Corporate bonds	—	—	—
Other	—	—	—

Cost and fair value of marketable available-for-sale securities as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		
	Cost	Fair value	Difference
March 31, 2016:			
Equities	¥ 85,905	¥ 164,954	¥ 79,049
Government, corporate and other bonds	1,971,485	2,033,360	61,875
Other	123,831	120,900	(2,931)
	¥2,181,221	¥2,319,214	¥137,993

	Millions of yen		
	Cost	Fair value	Difference
March 31, 2015:			
Equities	¥ 75,451	¥ 175,375	¥ 99,924
Government, corporate and other bonds	2,402,710	2,476,321	73,611
Other	207,365	227,910	20,545
	¥2,685,526	¥2,879,606	¥194,080

	Thousands of U.S. dollars		
	Cost	Fair value	Difference
March 31, 2016:			
Equities	\$ 767,009	\$ 1,472,804	\$ 705,795
Government, corporate and other bonds	17,602,545	18,155,000	552,455
Other	1,105,634	1,079,464	(26,170)
	\$19,475,188	\$20,707,268	\$1,232,080

8. Derivatives used for non-trading purposes

A. Derivatives to which hedge accounting is not applied

Contract amount, fair value and net unrealized gains (losses) of these derivatives at March 31, 2016 and 2015 are as follows:

	Millions of yen		
	Contract amount	Fair value	Unrealized gains (losses)
March 31, 2016:			
Foreign exchange forward	¥735,538	¥1,116	¥1,116
Currency swap	¥ 67,608	¥1,521	¥1,521
March 31, 2015:			
Foreign exchange forward	¥752,391	¥(1,180)	¥(1,180)
Currency swap	¥ —	¥ —	¥ —
	Thousands of U.S. dollars		
	Contract amount	Fair value	Unrealized gains (losses)
March 31, 2016:			
Foreign exchange forward	\$6,567,304	\$ 9,964	\$ 9,964
Currency swap	\$ 603,643	\$13,580	\$13,580

B. Derivatives to which hedge accounting is applied

Main hedged items, contract amount and fair value of these derivatives at March 31, 2016 and 2015 are as follows:

			Millions of yen	
Hedging instrument	Hedge accounting treatment	Main hedged item	Contract amount	Fair value
Interest swap	Fundamental method	Debt and government bond	1,017,882	(25,458)
	Special treatment	Debt and government bond	—	—
Currency swap	Allocation method	Debt	31,550	(2,215)
Interest and currency swap	Integration of special treatment and allocation method	Corporate bond	85,140	7,680
March 31, 2015			Millions of yen	
Hedging Instrument	Hedge accounting treatment	Main hedged item	Contract amount	Fair value
Interest swap	Fundamental method	Debt and government bond	1,310,975	(12,107)
	Special treatment	Debt and government bond	35,350	(168)
Currency swap	Allocation method	Debt	33,648	224
Interest and currency swap	Integration of special treatment and allocation method	Corporate bond	95,259	18,132
March 31, 2016			Thousands of U.S. dollars	
Hedging instrument	Hedge accounting treatment	Main hedged item	Contract amount	Fair value
Interest swap	Fundamental method	Debt and government bond	9,088,232	(227,304)
	Special treatment	Debt and government bond	—	—
Currency swap	Allocation method	Debt	281,696	(19,777)
Interest and currency swap	Integration of special treatment and allocation method	Corporate bond	760,179	68,571

9. Pledged assets

Secured obligations at March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Short-term borrowings	¥321,780	¥470,400	\$2,873,036
Long-term debt	300,100	107,100	2,679,464
Payables related to margin transactions	3,790	9,327	33,839
	¥625,670	¥586,827	\$5,586,339

All above obligations at March 31, 2016 and 2015 were secured by the following assets:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Time deposits	¥ 200	¥ 200	\$ 1,786
Trading assets	480,978	621,975	4,294,447
Securities	315,204	135,746	2,814,321
Investment securities	9,558	8,660	85,339
	¥805,940	¥766,581	\$7,195,893

In addition to the above, securities borrowed amounting to ¥165,351 million (\$1,476,348 thousand) and ¥189,135 million were pledged as guarantees at March 31, 2016 and 2015, respectively.

Total fair value of the securities pledged as collateral at March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Securities loaned	¥7,027,625	¥9,249,940	\$62,746,652
Other	475,788	542,813	4,248,107
	¥7,503,413	¥9,792,753	\$66,994,759

Total fair value of the securities received as collateral at March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Securities borrowed	¥6,499,237	¥8,624,910	\$58,028,902
Other	364,121	384,544	3,251,080
	¥6,863,358	¥9,009,454	\$61,279,982

10. Lease transactions

The information concerning operating leases at March 31, 2016 and 2015 are as follows:

Lessee:		Millions of yen		Thousands of U.S. dollars
		2016	2015	2016
Operating leases:				
Future lease payments in respect of operating leases		¥33,897	¥43,735	\$302,652
Due within one year		12,004	11,647	107,179
Lessor:		Millions of yen		Thousands of U.S. dollars
		2016	2015	2016
Operating leases:				
Future lease receipts in respect of operating leases		¥2,391	¥26,004	\$21,348
Due within one year		812	8,400	7,250

11. Payables to customers and counterparties

Payables to customers and counterparties at March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Cash received for customers' accounts	¥191,192	¥181,325	\$1,707,071
Cash deposits received from customers	512,427	503,974	4,575,241
Other	124,581	104,933	1,112,331
	¥828,200	¥790,232	\$7,394,643

12. Long-term debt

As is customary in Japan, in the case of unsecured bank borrowings, security must be given under certain conditions if requested by a lending bank. The bank has the right to offset cash deposited by the borrower against any debt or obligation that becomes due, and in the case of default and certain other specified events, against all

debts payable to the bank. Such request has never been made and such right has never been exercised.

The weighted average interest rate on total outstanding short-term borrowings principally from banks at March 31, 2016 and 2015 was 0.08% and 0.13%, respectively.

Long-term debt at March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Bond payable in yen: 2.08% due CY2016	¥ —	¥ 30,000	\$ —
Bond payable in yen: 0.92% due CY2015	—	50,000	—
Bond payable in yen: 0.59% due CY2016	30,000	30,000	267,857
Bond payable in yen: 0.93% due CY2018	40,000	40,000	357,143
Bond payable in yen: 1.25% due CY2020	30,000	30,000	267,857
Bond payable in yen: 0.60% due CY2017	30,000	30,000	267,857
Bond payable in yen: 0.69% due CY2021	30,000	30,000	267,857
Bond payable in yen: 0.40% due CY2019	20,000	20,000	178,571
Bond payable in yen: 0.87% due CY2024	12,000	12,000	107,143
Bond payable in yen: 0.41% due CY2020	25,000	25,000	223,214
Bond payable in yen: 0.89% due CY2025	20,000	20,000	178,571
Bond payable in yen: 0.40% due CY2020	20,000	—	178,571
Bond payable in yen: 0.40% due CY2020	45,000	—	401,786
Bond payable in yen: 0.91% due CY2025	25,000	—	223,214
Bond payable in yen: 0.67% due CY2022	30,000	—	267,857
Bond payable in yen: 0.40% due CY2023	13,000	—	116,071
Bond payable in yen: 0.56% due CY2026	11,000	—	98,214
Bond payable in yen: 0.45% due CY2016	30,000	30,000	267,857
Bond payable in yen: 0.23% due CY2017	8,000	8,000	71,429
Bond payable in yen: 0.35% due CY2017	40,000	40,000	357,143
Bond payable in yen: 0.30% due CY2018	40,000	40,000	357,143
Bond payable in yen: 0.35% due CY2017	40,000	40,000	357,143
Bond payable in yen: 0.36% due CY2018	20,000	20,000	178,571
Bond payable in yen: 0.37% due CY2022	20,000	—	178,571
Bond payable in yen: 1.20% due CY2018	16,902	18,026	150,911
Bond payable in yen: 1.20% due CY2019	16,902	18,026	150,911
Bond payable in yen: 1.30% due CY2020	28,170	—	251,518

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Bond payable in yen: 0.94% due CY2015	—	41,300	—
Bond payable in yen: 0.42% due CY2015	—	20,500	—
Bond payable in yen: 1.26% due CY2017	19,800	19,800	176,786
Bond payable in yen: 1.72% due CY2020	18,400	18,400	164,286
Bond payable in yen: 2.16% due CY2025	7,800	7,800	69,643
Bond payable in yen: 2.41% due CY2026	3,000	3,000	26,786
Bond payable in yen: 2.24% due CY2026	5,000	5,000	44,643
Bond payable in yen: 0.53% due CY2032	—	3,300	—
Bond payable in yen: 0.18% due CY2033	—	3,700	—
Bond payable in yen: 0.24% due CY2034	5,000	5,000	44,643
Bond payable in yen: 0.12% due CY2035	3,200	—	28,571
Bond payable in yen: 0.42% due CY2019	—	3,000	—
Bond payable in yen: 1.00% due CY2024	—	2,100	—
Euro medium-term notes issued by the Company and a domestic consolidated subsidiary, maturing through CY2046	726,907	741,934	6,490,241
Subordinated bond payable in yen: maturing through CY2021	7,225	38,150	64,509
Subordinated borrowings from banks in yen, maturing through CY2016	—	7,000	—
Long-term borrowings principally from banks in yen, maturing through CY2041	1,211,915	1,078,411	10,820,671
Lease obligation	2,003	923	17,884
	¥2,651,224	¥2,530,370	\$23,671,643

The amount for euro medium-term notes issued by the Company and a domestic consolidated subsidiary as of March 31, 2016 includes US\$911,056 thousand, AU\$491,700 thousand, NZ\$238,000 thousand and ZAR 1,450,000 thousand.

Interest rates of euro medium-term notes range from (0.18)% to 6.65% at March 31, 2016 and from 0.00% to 6.65% at March 31, 2015. The weighted average interest

rate on total outstanding yen subordinated borrowings and borrowings principally from banks at March 31, 2016 and 2015 was 0.34% and 0.46%, respectively. The weighted average interest rate on total outstanding lease obligations at March 31, 2016 was 1.44%.

Daiwa had an unused commitment line amounting to ¥11,268 million (\$100,607 thousand) under agreements with several banks at March 31, 2016.

13. Retirement benefits

Retirement benefits for employees

(1) Defined benefit plans

Retirement benefits in the consolidated balance sheets as of March 31, 2016 and 2015 are ¥38,418 million (\$343,018 thousand) and ¥36,238 million, respectively. Benefit expenses stated in the consolidated statements of income for the years ended March 31, 2016 and 2015 were ¥4,117 million (\$36,759 thousand) and ¥4,276 million, respectively.

Movement in retirement benefit obligations consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
At beginning of period	¥36,238	¥33,740	\$323,554
Service cost	4,117	4,276	36,759
Benefits paid	(2,058)	(1,915)	(18,375)
Other	121	137	1,080
At end of period	¥38,418	¥36,238	\$343,018

(2) Defined contribution plan

Benefit expenses to "Defined contribution" for the years ended March 31, 2016 and 2015 were ¥4,540 million (\$40,536 thousand) and ¥4,461 million, respectively.

Retirement benefits for directors

Directors' retirement benefits in consolidated subsidiaries of ¥726 million (\$6,482 thousand) and ¥697 million are included in "Retirement benefits" in the accompanying consolidated balance sheets as of March 31, 2016 and 2015, respectively. Benefit expenses stated in the consolidated statements of income for the years ended March 31, 2016 and 2015 were ¥219 million (\$1,955 thousand) and ¥230 million, respectively.

14. Income taxes

The Company and its domestic consolidated subsidiaries are subject to a number of taxes levied on income. The effective statutory tax rate in Japan was approximately 33.1% and 35.6% for the years ended March 31, 2016 and 2015, respectively. Overseas consolidated subsidiaries are subject to income taxes of the countries in which they operate.

A reconciliation of the difference between the Japanese statutory income tax rate and the effective income tax rate reflected in the consolidated statements of income for the years ended March 31, 2016 and 2015 are as follows:

	2016	2015
Statutory tax rate	33.1%	35.6%
Valuation allowance	(1.9)	(25.3)
Permanent difference (expense)	1.2	1.5
Permanent difference (income)	(1.9)	(1.6)
Lower tax rate applicable to income of overseas consolidated subsidiaries	0.9	1.0
Adjustment of unrealized inter-company profit	(0.2)	0.0
Amortization of goodwill and negative goodwill	0.1	(0.5)
Decrease of deferred tax assets due to change of statutory tax rate	0.4	2.8
Share of profit and loss of entities accounted for using equity method	(1.3)	(0.4)
Tax credits	(1.9)	(0.6)
Other	(0.9)	2.6
Effective tax rate	27.6%	15.1%

Details of deferred tax assets and liabilities at March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Deferred tax assets:			
Net operating losses carry-forward	¥ 53,167	¥ 67,020	\$ 474,705
Deferred gain on hedges	14,399	12,948	128,563
Retirement benefits	11,788	11,733	105,250
Impairment losses on fixed assets	9,433	9,364	84,223
Write-down of investment securities	7,985	9,224	71,295
Compensation and bonuses	6,578	8,659	58,732
Loss on trading	5,206	5,812	46,482
Loss on private equity and other investments	4,934	13,491	44,054
Depreciation	4,330	4,598	38,661
Revaluation of assets on consolidation	—	13,018	—
Other	20,036	18,053	178,892
Gross deferred tax assets	137,856	173,920	1,230,857
Less: Valuation allowance	(98,616)	(125,362)	(880,500)
Total deferred tax assets	39,240	48,558	350,357
Deferred tax liabilities	45,603	86,628	407,170
Net deferred tax assets	¥ (6,363)	¥ (38,070)	\$ (56,813)

The Company and certain consolidated subsidiaries provided valuation allowance to reflect the estimated unrealized amount of gross deferred tax assets. The valuation allowance was provided mainly against deferred tax assets stated at the Company and domestic subsidiaries with tax loss carry-forwards. In assessing the realizability of deferred tax assets, management considers, as part of its scheduling exercise, factors such as expected taxable income, reversal of temporary differences and utilization of tax loss carry-forwards, and determines whether it is more likely than not that the assets are not realizable in which case the valuation allowance is provided.

On March 29, 2016, amendments to the Japanese tax regulations were passed by the National Diet. Based on

the amendments, the statutory income tax rate utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2016 to March 31, 2018 and on or after April 1, 2018 are changed from 32.34% for the fiscal year ended March 31, 2016 to 30.86% and 30.62%, respectively, as of March 31, 2016.

Due to these changes in statutory income tax rates, net deferred tax assets (after deducting the deferred tax liabilities) increased by ¥705 million (\$6,295 thousand) as of March 31, 2016, deferred income tax expense recognized for the fiscal year ended March 31, 2016 increased by ¥722 million (\$6,446 thousand), valuation difference on available-for-sale securities increased by ¥2,306 million (\$20,589 thousand) and deferred gains or losses on hedges decreased by ¥880 million (\$7,857 thousand).

15. Statutory reserves

The Financial Instruments and Exchange Act of Japan requires a securities company to set aside a reserve in proportion to its securities transactions and other related trading to cover future eventual operational losses caused by the securities company for customer transactions.

16. Contingent liabilities

Daiwa had contingent liabilities amounting to ¥1,927 million (\$17,205 thousand) and ¥2,098 million at March 31, 2016 and 2015, respectively, mainly arising as guarantors of employees' borrowings.

17. Owners' equity

In principle, the Companies Act of Japan ("the Act") requires a company to credit the entire amount of issued shares to common stock (and preferred stock, if any); however, a company may classify an amount not exceeding one-half of the entire issued amount of shares as additional paid-in capital, which is included in "Capital surplus" in the accompanying consolidated balance sheets, with a resolution of the Board of Directors.

According to the Act, a company should set aside 10% of cash dividends and other cash appropriations as additional paid-in capital or earned surplus until the total becomes one quarter of the common stock (and preferred stock, if any). Additional paid-in capital and earned surplus are allowed to be utilized to eliminate or reduce a deficit with a resolution of the shareholders' meeting or may be transferred to common stock with a resolution of the Board of Directors, and also may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for

dividends. Additional paid-in capital and earned surplus are included in "Capital surplus" and "Retained earnings" in the accompanying consolidated balance sheets.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Act. The total amount of retained earnings available for dividends in the Company's statutory book of accounts as of March 31, 2016 amounted to ¥348,750 million (\$3,113,839 thousand).

Under Article 459-1 of the Act, the articles of incorporation of the Company stipulate that the Board of Directors is to determine dividends. Cash dividends of ¥12 (\$0.11) per share amounting to ¥20,308 million (\$181,321 thousand) and ¥17 (\$0.15) per share amounting to ¥29,216 million (\$260,857 thousand) were approved by the Board of Directors on May 15, 2016 and October 30, 2015, respectively.

18. Share-based payment

Daiwa has various stock option plans.

The shareholders of the Company on June 24, 2005, June 24, 2006, June 23, 2007, June 21, 2008, June 20, 2009, June 26, 2010, June 25, 2011, June 27, 2012, June 26, 2013, June 26, 2014 and June 25, 2015 approved granting stock options. These options are categorized into two types depending on the scope of the individual persons covered by the plans and exercise conditions. The first is the stock subscription rights that were issued free to directors and executive officers of the Company, its subsidiaries and its affiliated companies, and the

amount paid in upon exercise of such subscription rights is ¥1 (\$0.01) per share. The second is the stock subscription rights that shall be issued to directors, executive officers and certain employees of the Company, its subsidiaries and its affiliated companies, excluding the persons to whom the first stock subscription rights were issued. The amount paid in upon exercise of such subscription rights shall be determined based on the market price of the Company's common stock at the time of the issuance of such subscription rights.

The date of approval at the shareholders' meeting, the balance of the exercisable options, exercise price and exercise period for the stock options of the Company at March 31, 2016 are as follows:

Date of approval at the shareholders' meeting	Balance of the exercisable options (The number of shares)	Exercise price (Yen/share (U.S. dollars/share))		Exercise period
June 24, 2005	265,000	¥ 1	(\$ 0.01)	from July 1, 2005 to June 30, 2025
June 24, 2006	171,000	¥ 1	(\$ 0.01)	from July 1, 2006 to June 30, 2026
	2,331,000	¥1,455	(\$12.99)	from July 1, 2011 to June 23, 2016
June 23, 2007	194,000	¥ 1	(\$ 0.01)	from July 1, 2007 to June 30, 2027
	2,331,000	¥1,176	(\$10.50)	from July 1, 2012 to June 22, 2017
June 21, 2008	245,000	¥ 1	(\$ 0.01)	from July 1, 2008 to June 30, 2028
	2,620,000	¥ 881	(\$ 7.87)	from July 1, 2013 to June 20, 2018
June 20, 2009	540,000	¥ 1	(\$ 0.01)	from July 1, 2009 to June 30, 2029
	2,115,000	¥ 496	(\$ 4.43)	from July 1, 2014 to June 19, 2019
June 26, 2010	954,000	¥ 1	(\$ 0.01)	from July 1, 2010 to June 30, 2030
	4,082,000	¥ 380	(\$ 3.39)	from July 1, 2015 to June 25, 2020
June 25, 2011	1,167,000	¥ 1	(\$ 0.01)	from July 1, 2011 to June 30, 2031
	—	¥ 326	(\$ 2.91)	from July 1, 2016 to June 24, 2021
June 27, 2012	807,000	¥ 1	(\$ 0.01)	from February 12, 2013 to June 30, 2032
	—	¥ 598	(\$ 5.34)	from July 1, 2017 to June 26, 2022
June 26, 2013	394,000	¥ 1	(\$ 0.01)	from February 10, 2014 to June 30, 2033
	—	¥1,062	(\$ 9.48)	from July 1, 2018 to June 26, 2023
June 26, 2014	458,000	¥ 1	(\$ 0.01)	from February 9, 2015 to June 30, 2034
	—	¥ 931	(\$ 8.31)	from July 1, 2019 to June 25, 2024
June 25, 2015	581,000	¥ 1	(\$ 0.01)	from February 16, 2016 to June 30, 2035
	—	¥ 733	(\$ 6.54)	from July 1, 2020 to June 24, 2025

19. Investment and rental properties

Some subsidiaries and affiliated companies own office buildings (including land) for rent in Tokyo and other areas. Net income from investment and rental properties is ¥3,464 million (\$30,929 thousand). Income or expenses from rental properties is included in other income (expenses). The book value, net changes in the book value and the fair value of the investment and rental properties are as follows:

Millions of yen			
		Book value	Fair value
As of March 31, 2015	Change during the period	As of March 31, 2016	As of March 31, 2016
¥336,375	¥(336,375)	¥—	¥—

Millions of yen			
		Book value	Fair value
As of March 31, 2014	Change during the period	As of March 31, 2015	As of March 31, 2015
¥308,855	¥27,520	¥336,375	¥363,650

20. Capital adequacy requirements

In Japan, a securities company is subject to risk-based capital adequacy rules established and administered by the Financial Services Agency. Securities subsidiaries report their capital adequacy ratio as defined pursuant to these rules. The authorities will take certain administrative measures if such ratio declines below 140%. The capital adequacy ratio of Daiwa Securities was 331.5% (unaudited) for March 31, 2016. Daiwa also announced that

21. Segment information

Daiwa defines reportable segments as a group of operating segments whose discrete financial information is available and reviewed by the management regularly in order to make decisions about resources to be allocated and assess their performance. Focusing on securities-related business, Daiwa offers overall investment and financial service in coordination with the group's support business, and decides the comprehensive strategies by

Thousands of U.S. dollars			
		Book value	Fair value
As of March 31, 2015	Change during the period	As of March 31, 2016	As of March 31, 2016
\$3,003,348	\$(3,003,348)	\$—	\$—

(Note 1) The book value represents the acquisition cost less accumulated depreciation.

(Note 2) For the year ended March 31, 2015, the investment and rental properties increased ¥52,365 million (\$436,376 thousand) for acquisition, and decreased ¥23,169 million (\$193,078 thousand) for sale and ¥2,649 million (\$22,072 thousand) for depreciation. For the year ended March 31, 2016, the investment and rental properties decreased ¥336,375 million (\$3,003,348 thousand) by the change in scope of consolidation.

(Note 3) The fair value as of March 31, 2015 represents the sum of values estimated by external real estate appraisers.

Daiwa has calculated the consolidated capital adequacy ratio as of March 31, 2016 in accordance with the principal stipulated in the Notification 130 Pursuant to Article 57-17-1 of the Financial Instruments and Exchange Act issued by the Japanese Financial Service Agency (i.e., in Basel III method). The consolidated capital adequacy ratio as of March 31, 2016 was 21.2% (unaudited).

each organization in management corresponding to business market and business category domestically and internationally and conducts business activities. Therefore, Daiwa decides reportable segments by business market and business category based on the organization structure, and aggregates to four reportable segments: "Retail," "Wholesale," "Asset management" and "Investment" by similarity of economic character.

(Net operating revenues by reportable segment)

	Millions of yen						
	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Total
Year ended March 31, 2016:							
Net operating revenues:							
Sales to customers	¥190,180	¥177,681	¥ 77,807	¥20,405	¥466,073	¥22,287	¥488,360
Intersegment sales and transfers	27,743	334	(27,278)	(675)	124	25,629	25,753
Total	¥217,923	¥178,015	¥ 50,529	¥19,730	¥466,197	¥47,916	¥514,113

	Millions of yen						
	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Total
Year ended March 31, 2015:							
Net operating revenues:							
Sales to customers	¥200,201	¥181,513	¥ 83,980	¥8,911	¥474,605	¥29,229	¥503,834
Intersegment sales and transfers	31,833	(945)	(28,840)	(559)	1,489	18,933	20,422
Total	¥232,034	¥180,568	¥ 55,140	¥8,352	¥476,094	¥48,162	¥524,256

	Thousands of dollars						
	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Total
Year ended March 31, 2016:							
Net operating revenues:							
Sales to customers	\$1,698,036	\$1,586,438	\$ 694,705	\$182,188	\$4,161,367	\$198,990	\$4,360,357
Intersegment sales and transfers	247,705	2,982	(243,553)	(6,027)	1,107	228,831	229,938
Total	\$1,945,741	\$1,589,420	\$ 451,152	\$176,161	\$4,162,474	\$427,821	\$4,590,295

* "Others" are the business segments which are not included in the reportable segments, and include the business of integration and management of subsidiaries, banking business, information service, back-office service and real-estate rental, etc.

* "Net operating revenues" consist of "Operating revenue," "Interest expense," "Cost of service fees and other revenues" and "Commissions and brokerage" (Selling, general and administrative expenses).

* The Company does not disclose the segment information on assets because the management does not allocate it to each segment for managerial decision-making.

(Difference between the segment information and the consolidated financial statements)

(Adjustment of difference)

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Net operating revenues	¥466,197	¥476,094	\$4,162,474
Reportable segment total	47,916	48,162	427,821
Net operating revenues from "Others"	(25,753)	(20,422)	(229,938)
Elimination between segments	24,445	28,573	218,259
Commission fee deducted from net operating revenues	2,010	(187)	17,947
Other adjustments	¥514,815	¥532,220	\$4,596,563
Net operating revenue of financial statements			

(Impairment losses on fixed assets by reportable segment)

	Millions of yen						
	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Total
Year ended March 31, 2016:							
Loss on impairment	¥17	¥—	¥—	¥—	¥17	¥1,994	¥(282)
	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Total
Year ended March 31, 2015:							
Loss on impairment	¥62	¥3,675	¥—	¥—	¥3,737	¥—	¥3,737

Thousands of U.S. dollars

	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Corporate/ Elimination	Total
Year ended March 31, 2016:								
Loss on impairment	\$152	\$—	\$—	\$—	\$152	\$17,804	\$(2,518)	\$15,438

22. Transactions with related parties

The information on subsidiaries' material transactions with related parties and individuals for the years ended March 31, 2016 and 2015, and the resulting account balances with those related party at the balance sheet dates are as follows:

		Description of transactions		Account balances	
				Millions of yen	
Name of related company	Paid-in Capital Millions of yen			2016	
Tokyo Tanshi Co., Ltd.	¥10,000	Continual transactions of collateralized short-term financing agreements		Collateralized short-term financing agreements (liabilities)	¥749,817
		Interest and dividend expense	¥1,495	Collateralized short-term financing agreements (assets)	390,445
		Interest income	1,043	Receivables—Other	35
		Interest and dividend income	1,172	Accrued and other liabilities—Other	27
		Interest expense	1,411		
Millions of yen					
2015					
		Continual transactions of collateralized short-term financing agreements		Collateralized short-term financing agreements (liabilities)	¥1,135,712
		Interest and dividend expense	¥1,164	Collateralized short-term financing agreements (assets)	257,934
		Interest income	790	Receivables—Other	40
		Interest and dividend income	941	Accrued and other liabilities—Other	45
		Interest expense	915		
Thousands of U.S. dollars					
2016					
		Continual transactions of collateralized short-term financing agreements		Collateralized short-term financing agreements (liabilities)	\$6,694,795
		Interest and dividend expense	\$13,348	Collateralized short-term financing agreements (assets)	3,486,116
		Interest income	9,313	Receivables—Other	313
		Interest and dividend income	10,464	Accrued and other liabilities—Other	241
		Interest expense	12,598		

The Company has 17.43% of direct voting rights for Totan Holdings Co., Ltd., which is the parent company of Tokyo Tanshi Co., Ltd.

23. Special purpose entities subject to disclosure

A consolidated subsidiary utilized six special purpose entities for the year ended March 31, 2016 (six for the year ended March 31, 2015) principally for the securitization of structured notes in order to support securitization of monetary assets of customers. The consolidated subsidiary acquires and transfers bonds to those special purpose entities (incorporated in the Cayman Islands) and issues structured notes collateralized by those

bonds. The Company and the consolidated company do not own any shares with voting rights in any of these special purpose entities and have not dispatched any director or employee to them. Notes issued by those special purpose entities subject to disclosure as of the fiscal year ended March 31, 2016 and 2015 are ¥842,173 million (\$7,519,402 thousand) and ¥726,358 million, respectively.

24. Net gain on trading

Net gain on trading for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Equities and others	¥ 23,431	¥ 24,795	\$ 209,205
Bonds, forex and others	107,893	132,425	963,331
	¥131,324	¥157,220	\$1,172,536

25. Selling, general and administrative expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2016 and 2015 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Employees' compensation and benefits	¥183,293	¥181,773	\$1,636,545
Commissions and brokerage	38,641	41,792	345,009
Communications	21,924	21,019	195,750
Occupancy and rental	37,360	37,009	333,571
Data processing and office supplies	26,772	25,444	239,036
Taxes other than income taxes	8,888	6,987	79,357
Depreciation	23,834	24,085	212,804
Other	23,805	23,271	212,545
	¥364,517	¥361,380	\$3,254,617

26. Other income (expenses)

Details of "Other, net" in the accompanying consolidated statements of income for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Gains on sales of investment securities	¥ 3,285	¥ 558	\$ 29,330
Gains on sales of shares of subsidiaries and associates	1,117	—	\$9,973
Gain on change in equity	3,093	1,456	27,616
Gain on bad debts recovered	232	500	2,071
Gain on sales of fixes assets	—	2,611	—
Reversal of allowance for doubtful accounts	634	—	5,661
Other income	17,259	16,666	154,098
Loss on sales of fixed assets	(343)	—	(3,063)
Impairment loss	(1,729)	(3,737)	(15,438)
Loss on valuation of investment securities	(463)	(303)	(4,134)
Business restructuring cost	(1,689)	(2,028)	(15,080)
Other expenses	(1,737)	(4,193)	(15,507)
	¥19,659	¥11,530	\$175,527

Impairment loss

(Fiscal year ended March 31, 2016)

Daiwa recognized the impairment losses for the following asset group.

	Condition	Location	Millions of yen Impairment loss	Thousands of U.S. dollars Impairment loss
Assets to be disposed	Low operating assets	Kanto region	¥1,729	\$15,438
Total			¥1,729	\$15,438

Assets are grouped in accordance with classifications used for internal management.

A decline of the profitability of these assets arose. The book values of certain assets were reduced to recoverable amounts and the amounts of the differences between the book value and recoverable amounts were recorded as an impairment loss of ¥1,729 million (\$15,438 thousand). The breakdown of the amounts is

¥1,729 million (\$15,438 thousand) for assets to be disposed, ¥51 million (\$455 thousand) for buildings, ¥183 million (\$1,634 thousand) for furniture and fixtures, ¥1,476 million (\$13,179 thousand) for software, ¥17 million (\$152 thousand) for others.

The recoverable amount of goodwill is measured by re-evaluated company value.

(Fiscal year ended March 31, 2015)

Daiwa recognized the impairment losses for the following asset group.

	Condition	Location	Millions of yen Impairment loss	Thousands of U.S. dollars Impairment loss
Assets to be held and used	Low profit-earning assets	Others	¥3,532	\$29,433
Assets to be disposed	Low operating assets	Kanto region, Others	¥ 205	\$ 1,709
Total			¥3,737	\$31,142

Assets are grouped in accordance with classifications used for internal management.

A decline of the profitability of these assets arose. The book values of certain assets were reduced to recoverable amounts and the amounts of the differences between the book value and recoverable amounts were recorded as an impairment loss of ¥3,737 million (\$31,142 thousand). The breakdown of the amounts is

¥3,532 million (\$29,433 thousand) for assets to be held and used, ¥3,532 million (\$29,433 thousand) for goodwill. The breakdown of the amounts is ¥205 million (\$1,709 thousand) for assets to be disposed, ¥191 million (\$1,592 thousand) for furniture and fixtures, ¥14 million (\$117 thousand) for others.

The recoverable amount of goodwill is measured by re-evaluated company value.

27. Subsequent events

None

Independent Auditor's Report



To the Shareholders and the Board of Directors of Daiwa Securities Group Inc.:

We have audited the accompanying consolidated financial statements of Daiwa Securities Group Inc. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2016 and 2015, and the consolidated statements of income and comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Daiwa Securities Group Inc. and its consolidated subsidiaries as at March 31, 2016 and 2015, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2016 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

June 29, 2016
Tokyo, Japan

Report Regarding Consolidated Capital Adequacy Ratio and Consolidated Leverage Ratio Situation of Soundness in Management

As of March 31, 2016

In accordance with the Financial Instruments and the Exchange Act Article 57-17, "Notification, etc. of Documents Describing Status of Soundness in Management", Daiwa Securities Group Inc. reports situation of soundness in management as of March 31, 2016.

Composition of capital disclosure

Basel III template number	Items		Millions of yen	
			March 2016	Exclusion under transitional arrangements
	Common Equity Tier 1 capital: Instruments and reserves	(1)		
1a+2-1c-26	Shareholders' equity		¥1,112,948	
1a	Common stock and capital surplus		479,286	
2	Retained earnings		683,939	
1c	Treasury stock (Δ)		29,970	
26	Planned distributions (Δ)		20,306	
	Others		—	
1b	Stock subscription rights		8,958	
3	Accumulated other comprehensive income (and other reserves)		51,944	¥34,629
5	Minority interest after adjustments		—	
	Common Equity Tier 1 capital under transitional Basel III rules		—	
	Minority interest		—	
6	Common Equity Tier 1 capital before regulatory adjustments	(a)	1,173,852	
	Common Equity Tier 1 capital: regulatory adjustments	(2)		
8+9	Intangible assets other than mortgage-servicing rights (net of related tax liability)		50,927	33,951
8	Goodwill (net of related tax liability)		4,783	3,188
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)		46,144	30,763
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)		317	211
11	Cash-flow hedge reserve		(254)	(169)
12	Shortfall of allowance to expected losses		—	—
13	Securitization gain on sale (as set out in paragraph 562 of Basel II framework)		—	—
14	Gains and losses due to changes in own credit risk on fair valued liabilities		—	—
15	Defined-benefit pension fund net assets		—	—
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)		111	74
17	Reciprocal cross-holdings in common equity		—	—
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)		9,428	6,285
19+20+21	Amount exceeding the 10% threshold		—	—
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)		—	—
20	Mortgage servicing rights (amount above 10% threshold)		—	—
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)		—	—
22	Amount exceeding the 15% threshold		—	—
23	of which: significant investments in the common stock of financials		—	—
24	of which: mortgage servicing rights		—	—
25	of which: deferred tax assets arising from temporary differences		—	—
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions		—	—
28	Total regulatory adjustments to Common Equity Tier 1	(b)	60,531	
	Common Equity Tier 1 capital			
29	Common Equity Tier 1 capital (CET1) ((a) - (b))	(c)	¥1,113,321	

Basel III template number	Items	Millions of yen	
		March 2016	Exclusion under transitional arrangements
	Additional Tier 1 capital: instruments	(3)	
30	31a Shareholders' equity	¥ —	
	31b Stock subscription rights	—	
	32 Liabilities	—	
	Instruments issued by Special Purpose Companies	—	
34-35	Minority interest after adjustments	—	
33+35	Tier 1 capital under Basel II included in Additional Tier 1 capital under transitional Basel III rules	—	
33	Capital instruments issued by Daiwa Securities Group Inc. and its Special Purpose Companies	—	
35	Capital instruments issued by consolidated subsidiaries and affiliates (excluding Special Purpose Companies of Daiwa Securities Group Inc.)	—	
	Additional Tier 1 capital under transitional Basel III rules	8,433	
	Foreign currency translation adjustment	8,433	
36	Additional Tier 1 capital before regulatory adjustments	(d) 8,433	
	Additional Tier 1 capital: regulatory adjustments		
37	Investments in own Additional Tier 1 instruments	—	¥ —
38	Reciprocal cross-holdings in Additional Tier 1 instruments	—	—
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	1,128	752
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	—	—
	Regulatory adjustments of additional Tier 1 capital under transitional Basel III rules	3,188	
	Goodwill (net of related tax liability)	3,188	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	—	
43	Total regulatory adjustments to Additional Tier 1 capital	(e) 4,317	
	Additional Tier 1 capital		
44	Additional Tier 1 capital ((d) - (e))	(f) 4,115	
	Tier 1 capital		
45	Tier 1 capital ((c) + (f))	(g) 1,117,436	
	Tier 2 capital: instruments and allowance	(4)	
46	Shareholders' equity	—	
	Stock subscription rights	—	
	Liabilities	—	
	Capital instruments issued by Special Purpose Companies	—	
48-49	Minority interest after adjustments	—	
47+49	Tier 2 capital under Basel II included in Tier 2 capital under transitional Basel III rules	—	—
47	Capital instruments issued by Daiwa Securities Group Inc. and its Special Purpose Companies	—	—
49	Capital instruments issued by consolidated subsidiaries and affiliates (excluding Special Purpose Companies of Daiwa Securities Group Inc.)	—	—
50	General allowance included and eligible allowance in Tier 2 capital	—	
50a	General allowance	—	
50b	Eligible allowance	—	
	Tier 2 capital under transitional Basel III rules	18,976	
	Unrealized holding gain or loss on securities and cash flow hedge reserve	18,976	
51	Tier 2 capital before regulatory adjustments	(h) ¥ 18,976	

Basel III template number	Items	Millions of yen			
		March 2016	Exclusion under transitional arrangements		
Tier 2 capital: regulatory adjustments					
52	Investments in own Tier 2 instruments	¥	—	¥	—
53	Reciprocal cross-holdings in Tier 2 instruments		—		—
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)		9,539		6,359
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		—		—
	Tier 2 capital adjustments under transitional Basel III rules		—		
57	Total regulatory adjustments to Tier 2 capital	(i)	9,539		
Tier 2 capital					
58	Tier 2 capital ((h) – (i))	(j)	9,437		
Total capital					
59	Total capital ((g) + (j))	(k)	1,126,874		
Risk weighted assets					
	Amount of risk weighted assets under transitional Basel III rules	(5)	44,372		
	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)		13,397		
	Intangible assets(other than Goodwill)		30,763		
	Deferred tax assets excluding assets arising from temporary differences (net of related tax liability)		211		
60	Total risk weighted assets	(l)	5,291,768		
Consolidated capital adequacy ratio					
61	Common Equity Tier 1 (as a percentage of risk weighted assets) ((c) / (l))		21.0%		
62	Tier 1 (as a percentage of risk weighted assets) ((g) / (l))		21.1%		
63	Total capital (as a percentage of risk weighted assets) ((k) / (l))		21.2%		
Amounts below the thresholds for deduction (before risk weighting)					
		(6)			
72	Non-significant investments in the capital of other financials		112,331		
73	Significant investments in the common stock of financials		35,574		
74	Mortgage servicing rights (net of related tax liability)		—		
75	Deferred tax assets arising from temporary differences (net of related tax liability)		14,552		
Applicable caps on the inclusion of allowance in Tier 2					
		(7)			
76	Allowance eligible for inclusion in Tier 2 in respect of exposures subject to Standardized approach (prior to application of cap)		—		
77	Cap on inclusion of allowance in Tier 2 under Standardized approach		—		
78	Allowance eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)		—		
79	Cap for inclusion of allowance in Tier 2 under internal ratings-based approach		—		
Capital instruments subject to phase out arrangements					
		(8)			
82	Current cap on AT1 instruments subject to Phase out arrangements		—		
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		—		
84	Current cap on T2 instruments subject to Phase out arrangements		—		
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		—		

Qualitative Disclosure (Consolidated)

1. Scope of Consolidation

A) Discrepancy and the reason in the scope of consolidation defined under consolidated financial statements reported and that for consolidated capital adequacy ratio calculation

Not applicable.

B) Number of consolidated subsidiaries, and company names and businesses of major consolidated subsidiaries

Number of consolidated subsidiaries: 50 companies

March 2016

Major Consolidated Subsidiaries	Businesses
Daiwa Securities Co. Ltd.	Securities related businesses Investment advisory and agency businesses
Daiwa Asset Management Co. Ltd.	Investment management businesses Investment advisory and agency businesses
Daiwa Institute of Research Holdings Ltd.	Integration and management of subsidiaries
Daiwa Securities Business Center Co. Ltd.	Back office operations
Daiwa Property Co., Ltd.	Lending and borrowing of real estates
Daiwa Next Bank, Ltd.	Banking businesses
Daiwa Institute of Research Ltd.	Information services
Daiwa Institute of Research Business Innovation Ltd.	Information services
Daiwa Corporate Investment Co., Ltd.	Investment businesses
Daiwa PI Partners Co. Ltd.	Investment businesses
Daiwa Securities SMBC Principal Investments Co. Ltd.	Investment businesses
Daiwa Real Estate Asset Management Co., Ltd.	Investment management businesses Investment advisory and agency businesses
Daiwa Capital Markets Europe Limited	Securities related businesses
Daiwa Capital Markets Asia Holding B.V.	Integration and management of subsidiaries
Daiwa Capital Markets Hong Kong Limited	Securities related businesses
Daiwa Capital Markets Singapore Limited	Securities related businesses
Daiwa Capital Markets America Holdings Inc.	Integration and management of subsidiaries
Daiwa Capital Markets America Inc.	Securities-related businesses

C) Number of affiliated companies engaged in financial activities, company names, total assets as well as net assets on balance sheets, and businesses of major affiliated companies that engaged in financial activities under the provision of Article 9 of the Consolidated Capital Adequacy Ratio Notification published by Japan FSA

No company is subject to proportionate consolidation methods.

D) Company names, total assets as well as net assets on balance sheets, and business of companies which belong to Daiwa Group but are not included under the scope of consolidation in the financial statements; and companies which are included under the scope of consolidation in the financial statements but do not belong to Daiwa Group

Not applicable.

E) Overview of the restrictions on the transfer of funds and regulatory capital within Group companies

There is no specific restriction set forth regarding the transfer of funds and regulatory capital within Group companies.

2. Overview of Capital Adequacy Assessment Methods

The Group sets forth “The Rules of Economic Capital Management” and “The Rules of Regulatory Capital Management”, and assesses capital adequacy from economic capital as well as regulatory capital point of views.

<Economic Capital>

The Group allocates economic capital toward major Group companies within Risk Appetite Framework. Allocated amount takes into account of the capital buffer of which reserved for stress events. Economic capital allocated toward major companies is decided based upon historical risk

amount, business plans/budget, and so on.

The company computes group companies’ risk associated with businesses, and assesses its capital adequacy by confirming if such result falls within the range of allocated economic capital.

<Regulatory Capital>

The Group monitors regulatory capital against the alert level which is set well above the minimum regulatory capital ratio, sets alert level for internal management to evaluate the capital adequacy periodically.

3. Credit Risk

A) Overview of risk management policies and procedures

<Credit Risk Management Policy>

The Group’s credit risk is consisted of counterparty credit risk and issuer risk.

For counterparty credit risk, the Group assigns the counterparty a credit limit, and monitors regularly. Additionally, the Group assigns limit counterparty group level. The Group also monitors issuer risk related to the market instruments position held as a result of market making activities. The Group conducts various activities including product offering, asset management/investment, and due to this, exposure associated with various financial instruments as well as transactions occasionally concentrate toward a particular counterparty group. Because unforeseen severe loss may be incurred as a result of credit deterioration of the particular counterparty group, the Group assigns credit limit on cumulative exposure amount and monitors regularly.

<Allowance for Doubtful Account>

In order to prepare for the loss from bad debts on loan and others, allowance for doubtful accounts are provided for probable losses on loans and receivables, based on the actual historical default rate for normal claims, and based on individually assessed amounts for doubtful and default loans.

<Calculation of Credit Risk Asset>

Credit risk exposures are being calculated in the Standardized Approach.

B) The name of the External Credit Assessment Institutions (hereunder ECAIs) used when determining the risk weight

Following ECAIs are used to determine the risk weight.

- Rating & Investment Information, Inc.
- Japan Credit Rating Agency, Ltd.
- Moody’s Investors Service, Inc.
- Standard & Poor’s Rating Services

4. Overview of Policy and Procedure for the Credit Risk Mitigation Techniques

<The policy of Credit Risk Mitigation Techniques>

Collateral is used for the Credit Risk Mitigation Techniques (hereunder CRM Techniques). Types of collaterals are generally cash or high liquid securities. Received collateral is valued mark to market daily and monitored against exposures. In addition, balance and type of collaterals taken are also subject to the monitoring.

For derivative and repo transactions, bilateral netting agreements are generally set. For transaction where legally enforceable bilateral netting arrangement exists, the CRM Techniques are applied.

The Group uses the Comprehensive Approach for the CRM Techniques.

5. Overview of Policies and Procedures for the Counterparty Credit Risk Management of Derivative and Long Settlement Transactions

For derivative transactions, credit review of counterparty is conducted in advance, and credit limit is assigned when the credit soundness is confirmed. Exposure amount and collateral value are calculated and compared daily; accordingly, collateral is pledged or accepted. Likewise, for long settlement transactions, credit review of counterparty is required and transaction can only be conducted if the credit limit is assigned.

Credit limits of the counterparty are reviewed periodically. In addition, for uncollateralized

exposures, allowance amount is calculated based upon allowance percentage that is set in accordance with the Group's internal credit rating and maturity of transaction.

Risk capital is allocated based upon the credit VaR, and reviewed semiannually. Upon the time when own credit rating downgraded, additional collateral will be required. The Group carefully monitors the additional collateral amount and accordingly, such amount falls into the allowable level.

6. Securitization Exposures

A) Overview of risk management policies and characteristics of other risks

The Group is involved in securitization transactions as an investor, and accordingly holds securitization products under investment and trading accounts. Outstanding exposures and credit soundness of securitization products are periodically monitored by independent risk control departments.

B) Overview of monitoring framework of the regulation set forth under the provision of Article 227 Paragraph 4(iii)–(vi) of the Consolidated Capital Adequacy Ratio Notification

Periodical monitoring of securitization exposures are being conducted in order to adequately grasp comprehensive risk characteristics of securitization exposures including risk characteristics of underlying asset, performance related information of underlying assets, and the scheme of the securitization transaction.

C) Policies when securitization transactions are used for CRM Techniques purpose

Not applicable.

D) Method of calculating credit risk asset

The standardized approach is used in order to calculate credit risk amount.

E) Method of calculating market risk amount

For general market risk, the internal model is used, for specific risk, the standardized approach is used.

F) Engagement to the securitization transaction through Special Purpose Entity, if applied type of SPE and the exposure

Not applicable.

G) The name of the Group company that holds securitization exposure when securitization transaction is engaged by the subsidiary of Group company (excluding consolidated subsidiaries) and affiliated Group company (including securitization transaction engaged by the Group through SPEs)

Not applicable.

H) Accounting policy applied for the securitization transaction

The Group complies with Accounting Standard Board of Japan Statement No. 10, "Accounting Standard for Financial Instruments" in recognizing, evaluating, and booking the occurrence or extinguishment of financial assets or liabilities related to securitization transactions.

I) ECAIs used when determining the risk weight

Following ECAIs are used in order to determine the risk weight for the securitization exposures.

- Rating & Investment Information, Inc.
- Japan Credit Rating Agency, Ltd.
- Moody's Investors Service, Inc.
- Standard & Poor's Rating Services
- Fitch Ratings Ltd.

J) Overview if the Group uses the Internal Assessment Approach

Not applicable.

7. Market Risk

A) Overview of risk management policies and procedures

Within trading businesses, the Group engages in hedging activities in order to control profit and loss fluctuations. Toward this end, as hedging activities may not properly work under stress circumstances, taking account of financial soundness, business plan/budget subject to hedging activities, and so on, limits are assigned aiming estimated loss computed in VaR (maximum loss anticipated at specified confidence level) and various stress tests fall within the Group's capital. In addition, limits are assigned toward positions, sensitivities, and others. The Group's Risk Management division monitors group-wide market risk condition, and reports managements daily.

B) Methods used for calculation of market risk

i). Internal models approach

General market risk for Daiwa Securities Co. Ltd., and foreign subsidiaries.

ii). Standardized approach

Specific risk

General market risk that is not included in above query "i"

C) The method in order to adequately evaluate price in accordance with characteristics of the product/transaction, with recognizing the assumed holding period and the inability to close the positions within the period

The Group sets forth the policies and operational manual regarding valuation. The independent risk control department from the department which engages with trading businesses carefully analyzes and reviews the relevancy of value and valuation method, and such results are periodically reviewed by the external audit.

K) Overview if significant change in quantitative information is observed

Not applicable.

D) Overview and the explanation of internal model and explanation of back-testing and stress test

The Group applies VaR that implies maximum loss anticipated at specified confidence level and stress VaR that implies maximum loss anticipated at specified confidence level in a given stress time frame under the Interval Model-based Approach. The Group applies historical simulation method that uses historical market fluctuations as a scenario. In addition, in order to test accuracy of VaR figures, the Group conducts back-testing so as to reconcile VaR against actual profit and loss figures. Likewise, stress test is being conducted in order to grasp possible loss incurred as a result of historical and hypothetical stress events.

E) Overview of the model used when incremental risk is measured by internal model

Not applicable.

F) Overview of the model used when comprehensive risk is measured by internal model

Not applicable.

G) Assumptions and the methods in internal capital adequacy assessment of market risk

Historical simulation model that uses historical market scenario is used. Assumptions of historical simulation model are stated as followings:

i). VaR

- Holding Period: 10 business days
- Observation Period: 520 business days
- Confidence Level: 99%

ii). Stress VaR

- Holding Period: 10 business days
- Observation Period: Stress period 260 business days
- Confidence Level: 99%

8. Operational Risk

A) Risk management policies and procedures

As the Group's business becomes more sophisticated, diversified, and systemized, various risks may potentially be incurred, and thus, importance of operational risks management becoming important year by year. The Group's major subsidiary companies engage in RCSA (Risk Control Self-Assessment) in compliance with operational risk management rule, and adequately manage operational risk. In addition, due to the diversifying nature of its

business, the Group also sets rigid rules concerning authority, automates office work processes to reduce human error, prepares business manuals, and takes other necessary measures. Each Group company strives to reduce operational risk according to the nature of its own business.

B) Methods for the calculation of operational risk amount

The Basic Indicator Approach is used for the calculation of operational risk amount.

9. Overview of Risk Management Policy and Procedure for Equity Exposure on Non Trading Accounts

In addition to trading businesses, the Group possesses investment securities for investment as well as business relation purposes. Because those financial instruments have distinct risk profiles for each product, the Group conducts adequate credit as well as market risk managements including measurement of risk by the profile.

For the consolidated subsidiaries, the scopes of the risk management are assets and liabilities. For the affiliated companies, the scopes of the risk

management are equity exposures. Those are subject to the risk management in each classification.

Also, marketable available-for-sale securities are stated at their fair values based on quoted market consolidated closing prices (the unrealized gain or loss is fully recognized, and the cost of products sold is mainly pursuant to moving average method). Non-marketable available-for-sale securities are carried at cost by moving average method.

10. Interest Rate Risk under Non Trading Accounts

A) Overview of risk management policies and procedures

In regard to non trading accounts of the Group, most interest rate risk arises from the assets and liabilities held by Daiwa Next Bank, Ltd.

Daiwa Next Bank, Ltd. complies with management rules of market risk and manages the risk of incurring losses from changes in the value of assets and liabilities or in the net incomes.

Middle and back offices, which are independent from front office, are set, and it acts as a system of checks and balances. In addition, the ALM committee is periodically held and discussed regarding the management and operation of market and liquidity risks as well as the management of assets, liabilities, and capital efficiencies.

B) Overview of management's method for measuring interest rate risk under non trading accounts

i). Financial assets and liabilities (exclude financial assets and liabilities held by subsidiaries engaged in the banking business)

Financial assets and liabilities that are resulted by interest rate risk are bonds and

notes and long-term loans payable. The change in fair value is calculated under assumption of changes in interest rate for 10 basis points (0.1%).

ii). Financial assets and liabilities held by subsidiaries engaged in the banking business

For the financial assets and liabilities in the subsidiaries engaged in the banking business, market risk amount is measured in a change of economic value used the 99th percentile of observed interest rate changes using a year holding period and 5 years of observations. It is used for quantitative analysis to manage risk of change in an interest rate. For calculating the amount of changes, the balances of the financial assets and liabilities are classified in each period. The changes of interest rate in each period are applied. For those currency positions which consists less than 5% of gross asset or liability, upward and downward rate shocks of 200 basis points (2%) is uniformly applied in a parallel move, and changes are being calculated.

11. The amount of each account in balance sheets as in published statements and the reference number in composition of capital disclosure under the assumptions of the financial statements under the regulatory scope of consolidation complying with the Capital Adequacy Ratio Accord item 3

Reference number in composition of capital disclosure		Millions of yen	
		Balance sheets as in published statements	Under regulatory scope of consolidation
	Assets		
	Current assets		
	Cash and deposits	¥ 3,334,784	¥ 3,334,784
	Cash segregated as deposits	323,761	323,761
	Notes and accounts receivable-trade	17,090	17,090
18, 39, 54, 72, 73	Short-term investment securities	2,091,090	2,091,090
16, 18, 39, 54, 72, 73	Trading products	7,501,242	7,501,242
18, 39, 54, 72, 73	Operational investment securities	127,210	127,210
	Allowance for investment loss	(11,053)	(11,053)
	Operating loans	432,785	432,785
	Work in process	503	503
	Margin transaction assets	203,376	203,376
	Loans secured by securities	5,250,135	5,250,135
	Advances paid	20,670	20,670
	Short-term loans receivable	288	288
	Accrued income	33,574	33,574
10, 75	Deferred tax assets	9,401	9,401
	Other current assets	517,421	517,421
	Allowance for doubtful accounts	(722)	(722)
	Total current assets	19,851,563	19,851,563
	Noncurrent assets		
	Property, plant and equipment	124,562	124,562
	Intangible assets	84,879	84,879
8	Goodwill	7,972	7,972
9	Others	76,906	76,906
	Investments and other assets	359,812	359,812
18, 39, 54, 72, 73	Investment securities	324,456	324,456
10, 75	Deferred tax assets	5,679	5,679
	Others	29,676	29,676
	Total noncurrent assets	569,255	569,255
	Total assets	¥20,420,818	¥20,420,818

Reference number in composition of capital disclosure		Millions of yen	
		Balance sheets as in published statements	Under regulatory scope of consolidation
	Liabilities		
	Current liabilities		
	Notes and accounts payable-trade	¥ 6,413	¥ 6,413
	Trading products	5,300,861	5,300,861
	Trading date accrual	427,257	427,257
	Margin transaction liabilities	54,387	54,387
	Loans payable secured by securities	5,901,794	5,901,794
	Deposits from banking business	2,928,630	2,928,630
	Deposits received	214,498	214,498
	Guarantee deposits received	512,426	512,426
	Short-term loans payable	820,019	820,019
	Commercial paper	137,720	137,720
	Current portion of bonds	232,594	232,594
	Income taxes payable	40,498	40,498
	Deferred tax liabilities	2,293	2,293
	Provision for bonuses	30,058	30,058
	Other current liabilities	218,411	218,411
	Noncurrent liabilities		
	Bonds payable	1,204,711	1,204,711
	Long-term loans payable	1,004,988	1,004,988
	Deferred tax liabilities	19,151	19,151
	Net defined benefit liabilities	38,417	38,417
	Provision for loss on litigation	2,174	2,174
	Other noncurrent liabilities	6,532	6,532
	Reserves under the special laws	3,970	3,970
	Total liabilities	19,107,812	19,107,812
	Net assets		
	Shareholders' equity		
1a	Common stock	247,397	247,397
1a	Capital surplus	231,889	231,889
2	Retained earnings	683,939	683,939
1c	Treasury stock	(29,970)	(29,970)
1c	Advances on subscription of treasury stock	2	2
	Total shareholders' equity	1,133,257	1,133,257
	Accumulated other comprehensive income		
	Valuation difference on available-for-sale securities	98,483	98,483
11	Deferred gains or losses on hedges	(32,992)	(32,992)
	Foreign currency translation adjustment	21,082	21,082
3	Total accumulated other comprehensive income	86,574	86,574
1b	Subscription rights to shares	8,958	8,958
34-35, 48-49	Minority interests	84,214	84,214
	Total net assets	¥ 1,313,005	¥ 1,313,005

Quantitative Disclosure (Consolidated)

1. The name as well as the total amount that is lower than required capital for Daiwa Group's subsidiary within subsidiaries that are classified as significant investments in the capital of financial institutions.

Not applicable.

2. Capital adequacy

Capital requirements for credit risk

	Millions of yen March 2016
On-balance transactions	¥105,551
1. Cash	—
2. Japanese government and central bank	—
3. Non-Japanese sovereign and central bank	49
4. Bank for International Settlements (BIS)	—
5. Japanese local public authorities	—
6. Non-Japanese public sector entities (excluding sovereign)	74
7. Multilateral Development Banks (MDBs)	—
8. Japan Finance Organization for Municipalities (JFM)	1,048
9. Japanese government-sponsored entities	1,924
10. Three major local public corporations of Japan	—
11. Financial institutions and securities firms	10,490
12. Corporates	25,106
13. SMEs and individuals (risk weight 75% applied)	—
14. Residential mortgage loans	—
15. Projects including acquisition of real estate properties	247
16. Past due exposures for three months or more	18
17. Cash items in process of collection	—
18. Exposures secured by Credit Guarantee Association in Japan	—
19. Exposures secured by Enterprise Turnaround Initiative Corporation of Japan	—
20. Equities	26,150
21. Others	16,175
22. Securitizations (as an originator)	—
23. Securitizations (not as an originator)	5,198
24. Fund	19,066

	Millions of yen March 2016
Off-balance transactions	¥ 55,489
1. Unconditionally or automatically cancellable commitments	—
2. Commitments with an original maturity up to one year	66
3. Short-term self-liquidating trade letters of credit arising from the movement of goods	—
4. Certain transaction-related contingent items	—
5. Note Issuance Facilities (NIFs) and Revolving Underwriting Facilities (RUFs)	—
6. Commitments with an original maturity over one year	—
7. Commitments-related the IRB Approach	—
8. Direct credit substitutes and acceptances	165
9. Sale and repurchase agreements and asset sales with recourse	—
10. Forward asset purchases, forward deposits and partly-paid shares and securities	—
11. Lending or posting of securities as collateral	18,137
12. Derivative transactions	36,767
13. Long settlement transactions	13
14. Unsettled transactions	166
15. Securitization exposure qualifies as an 'eligible liquidity facility' or an 'eligible servicer cash advance facility'	—
16. Others (Securitization off-balance transactions)	173
CVA risk capital charge	64,688
Exposures to Central Counterparties (CCPs)	2,462
Total capital requirements for credit risk	¥228,192

* There is no applicable credit risk exposure which is calculated under IRB approach.

Capital requirements for market risk

	Millions of yen March 2016
Standardized approach	¥ 59,865
Interest rate risk	48,779
Equity risk	8,018
Foreign exchange risk	2,952
Commodities risk	0
Option transactions	—
Internal models approach	48,982
Total capital requirements for market risk	¥108,848

Capital requirements for operational risk

	Millions of yen March 2016
Basic indicator approach	¥86,300
Standardized approach	—
Advanced measurement approach	—
Total capital requirements for operational risk	¥86,300

Total capital requirements

	Millions of yen March 2016
Credit risk	¥228,192
Market risk	108,848
Operational risk	86,300
Total capital requirements	¥423,340

3. Credit risk exposures (excluding exposures under IRB approach and securitization exposures)

Exposures by geographical area, industry, and residual contractual maturity

March 2016	Credit risk exposures						Millions of yen
							Past due exposures for three months or more
		Loans	Repo	Derivatives	Securities	Others*	
Japan	¥17,071,205	¥137,851	¥ 4,521,984	¥5,616,805	¥2,463,261	¥4,331,302	¥224
Overseas	9,686,528	12,981	9,290,339	122,935	7,849	252,421	36
Total (by area)	26,757,733	150,832	13,812,324	5,739,741	2,471,111	4,583,723	260
Sovereign	6,053,610	6,476	1,398,750	71,221	1,714,086	2,863,075	1
Financial institutions	7,493,716	4,130	3,205,193	3,627,949	52,209	604,234	2
Corporate	5,279,806	43,823	4,386,200	471,949	256,958	120,874	226
Individuals	291,947	96,401	—	223	—	195,322	30
CCPs	6,595,624	—	4,822,179	1,568,396	—	205,048	—
Others	1,043,027	—	—	—	447,857	595,170	—
Total (by industry)	26,757,733	150,832	13,812,324	5,739,741	2,471,111	4,583,723	¥260
≤1 year	12,518,221	103,866	12,137,051	85,366	31,078	160,858	
>1 year≤3 years	649,822	1	—	478,340	171,447	33	
>3 year≤5 years	949,035	—	—	914,231	34,803	—	
>5 year≤7 years	4,382,328	7	—	3,484,757	897,563	—	
>7 year	1,035,591	143	—	776,483	258,964	—	
Indeterminate	7,222,734	46,814	1,675,272	562	1,077,253	4,422,831	
Total (by maturity)	¥26,757,733	¥150,832	¥13,812,324	¥5,739,741	¥2,471,111	¥4,583,723	

* Including deposits, properties and equipment, intangible assets.

Year-end balance and changes of general and specific allowances for credit loss, and allowances to specific foreign obligations

Type of allowances	Geographic area	Millions of yen	
		March 2016	Changes
General allowance		¥ —	¥ —
Specific allowance	Japan	13,255	(25,951)
	Overseas	74	(6)
Allowance to specific foreign obligations		—	—

Type of allowance	Industry	March 2016	
		¥	¥
General allowance		—	—
Specific allowance	Sovereign	—	—
	Financial Institutions	—	—
	Corporate	506	(636)
	Individuals	2	(0)
	Others	12,820	(25,322)
Allowance to specific foreign obligations		—	—

Loan write-off by industry

Not applicable.

Exposure by risk weight after Credit Risk Mitigation (CRM) Techniques

Risk weight	Millions of yen		
	March 2016		
	Exposure amounts	Application of external rating	Others
0%	¥4,619,979	¥ 596,277	¥4,023,702
2%	490,207	—	490,207
10%	166,855	—	166,855
20%	2,225,369	1,916,478	308,891
35%	—	—	—
50%	225,964	225,219	745
75%	—	—	—
100%	1,076,306	41,037	1,035,269
150%	259	130	129
250%	49,658	—	49,658
1250%	166	—	166
Other	178,467	—	178,467
Total	¥9,033,235	¥2,779,142	¥6,254,093

4. Credit Risk Mitigation (CRM) Techniques

Exposure for which CRM Techniques are applied

Type	Millions of yen March 2016
Cash	¥ 7,539,657
Debts	6,008,272
Equities	410,756
Mutual funds	—
Eligible Financial Collateral Total	¥13,958,686

5. Counterparty risk for derivative transactions and long settlement transactions

The credit-equivalent amounts are calculated by applying the Current-Exposure Method.

March 2016	Millions of yen	
	Gross replacement cost	Credit equivalent amounts
Foreign exchanges	¥ 848,026	¥1,517,219
Interest rates	2,183,768	3,235,925
Equities	349,536	594,276
Other commodities	—	—
Credit derivatives	24,516	392,641
Total (A)	3,405,848	5,740,062
Benefit through close-out netting agreements (B)		3,847,651
Credit equivalent amounts after netting (C=A-B)		1,892,410
Credit Risk Mitigation benefits (D)		400,528
Cash		346,759
Debts		43,864
Equities		9,904
Mutual funds		—
Credit equivalent amounts after netting and CRM benefits (C-D)		¥1,491,882

Notional amount of credit derivatives subject to the calculation of the credit equivalent amounts

Millions of yen		
March 2016		
	Notional amounts	
Credit derivatives type	Protection bought	Protection sold
Credit default swaps	¥2,280,179	¥2,200,308

Notional amount of credit derivatives used for CRM purpose

Not applicable.

6. Securitization exposures

A) Securitization exposures for calculating credit risk asset as an originator

Not applicable.

B) Securitization exposures for calculating credit risk asset as an investor

i). Underlying assets

Millions of yen				
March 2016				
Underlying assets	Exposure amounts	Risk weight 1250%		
		Resecuritization		Resecuritization
Loans and receivables	¥335,755	¥—	¥—	¥—
Real estate	—	—	—	—
Equities	—	—	—	—
Others	—	—	—	—
Total	¥335,755	¥—	¥—	¥—

ii). Exposures balance and capital requirements by risk weight

Millions of yen				
March 2016				
Risk weight	Exposure amounts	Capital requirements		
		Resecuritization		Resecuritization
≤20%	¥335,755	¥—	¥5,372	¥—
>20%≤50%	—	—	—	—
>50%≤100%	—	—	—	—
>100%≤350%	—	—	—	—
>350%<1250%	—	—	—	—
1250%	—	—	—	—
Total	¥335,755	¥—	¥5,372	¥—

iii). The presence of resecritized exposures subject to the CRM method, and the breakdown by guarantor or by the risk weight segments of guarantors.

Not applicable.

C) Securitization exposures for calculating market risk as an originator

Not applicable.

D) Securitization exposures for calculating market risk asset as an investor

i). Underlying assets

Millions of yen March 2016				
Underlying assets	Exposure amounts	Risk weight 100%		
		Resecuritization		Resecuritization
Loans and receivables	¥9,164	¥—	¥—	¥—
Real estate	—	—	—	—
Equities	—	—	—	—
Others	—	—	—	—
Total	¥9,164	¥—	¥—	¥—

ii). Exposure balance and capital requirements by risk weight

Millions of yen March 2016				
Risk weight	Exposure amounts	Capital requirements		
		Resecuritization		Resecuritization
≤3.2%	¥9,164	¥—	¥146	¥—
>3.2%≤8%	—	—	—	—
>8%≤18%	—	—	—	—
>18%≤52%	—	—	—	—
>52%<100%	—	—	—	—
100%	—	—	—	—
Total	¥9,164	¥—	¥146	¥—

iii). The total amount of securitization exposures subject to the comprehensive risk calculation
Not applicable.

7. Market risk

Internal models approach Value at Risk (VaR) results

<Calculation method>

Historical Simulation Method

Holding period: 10 business days and a 99% confidence level

Millions of yen		
March 2016	VaR	Stress VaR
Amount as of March 2016	¥ 3,938	¥ 8,935
Maximum	10,511	31,036
Average	4,822	11,135
Minimum	2,840	7,806

March 2016	
Excess number of back-testing	3 times

* Back-testing
Comparing VaR for a one-day holding period with daily profit and loss is conducted in order to verify the accuracy of the VaR model.
The excess number of back-testing is the number of times that losses exceeded VaR over a given holding period.

8. Equity exposure on non trading accounts

A) Booking and market values on consolidated balance sheets

Millions of yen March 2016		
	Consolidated balance sheets amount	Market value
Listed equity exposure	¥178,491	¥178,491
Others	95,852	

* Investment-related equity exposure for which it is difficult to obtain market value is not included hereby.

B) Gains and losses from sales and write-off on equity exposures

Millions of yen March 2016		
Gains on sales	Losses on sales	Write-off
¥20,456	¥1,098	¥608

C) Unrealized gains or losses recognized on the consolidated balance sheets and not on the consolidated income statement

	Millions of yen
	March 2016
Unrealized gains/losses	¥78,758

* Only securities which have adequate market values are disclosed hereby.

D) Unrealized gains or losses not recognized on the consolidated balance sheets and the consolidated income statement

	Millions of yen
	March 2016
Unrealized gains/losses	¥97,791

* Only securities which have adequate market values are disclosed hereby.

E) Equity exposure amounts which are subject to the Supplementary Provision Article 6 of the Consolidated Capital Adequacy Ratio Notification published by Japan FSA, and which are sectioned by portfolio

Not applicable.

9. Credit risk exposure calculation set forth under Article 144 of the Consolidated Capital Adequacy Ratio Notification published by Japan FSA is applied

Not applicable.

10. Gain or loss in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring interest rate risk under non trading accounts

[March 2016]

Interest rate risk under non trading accounts

- i). Financial asset and liability except for those possessed by the Group companies that transact banking business under the assumption of a change in interest rate for 10 basis point (i.e. 0.1%), we anticipate that the market value of "Bonds payable" and "Long-term loans payable" to change approximately 2.3 billion yen.

- ii). Financial assets and liabilities possessed by the Group companies that transact banking business under the assumption of a change in interest rate and all the other risks fixed: we anticipate the market value to be reduced by 1.9 billion yen.

Consolidated Leverage Ratio

1. Composition of Consolidated Leverage Ratio

				Millions of yen	
Basel III template number (2)	Basel III template number (1)	Items		March 2016	March 2015
On-balance sheet exposures			(1)		
1		On-balance sheet items before adjustments		11,191,385	12,708,538
1a	1	Total Assets in the consolidated balance sheet		20,420,818	23,001,585
1b	2	Total Assets held by group companies which are not included in the scope of consolidated leverage ratio		0	0
1c	7	Total Assets held by group companies which are included in the scope of consolidated leverage ratio(except for the asset included in the total asset in the consolidated balance sheet)		0	0
1d	3	Assets other than the adjustments that are excluded from the total assets in the consolidated balance sheet.		9,229,433	10,293,047
2	7	Common Equity Tier 1 capital: regulatory adjustments		64,848	49,132
3		Total on-balance sheet exposures (excluding derivatives and SFTs)	(A)	11,126,537	12,659,406
Derivative exposures			(2)		
4		Replacement cost associated with all derivatives transactions		656,938	741,458
5		Add-on amounts for PFE associated with all derivatives transactions		1,144,044	1,151,023
				279,118	207,600
6		Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework		0	0
7		Deductions of receivables assets for cash variation margin provided in derivatives transactions		149,476	59,640
8		Exempted CCP leg of client-cleared trade exposures			
9		Adjusted effective notional amount of written credit derivatives		2,200,308	3,097,826
10		Adjusted effective notional offsets and add-on deductions for written credit derivatives		1,753,296	2,674,233
11	4	Total derivative exposures (sum of lines 4 to 10)	(B)	2,377,636	2,464,034
Securities financing transaction exposures			(3)		
12		Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions		6,531,364	8,634,359
13		Netted amounts of cash payables and cash receivables of gross SFT assets		1,569,600	1,959,973
14		CCR exposure for SFT assets		140,262	240,088
15		Agent transaction exposures			
16	5	Total securities financing transaction exposures (sum of lines 12 to 15)	(C)	5,102,026	6,914,474
Other off-balance sheet exposures			(4)		
17		Off-balance sheet exposure at gross notional amount		56,650	44,073
18		Adjustments for conversion to credit equivalent amounts		8,499	7,203
19	6	Off-balance sheet items	(D)	48,151	36,870
Capital and total exposures			(5)		
20		Tier 1 capital	(E)	1,117,436	1,172,794
21	8	Total exposures (A)+(B)+(C)+(D)	(F)	18,654,350	22,074,784
22		Basel III consolidated leverage ratio (E)/(F)		5.99%	5.31%

2. Reasons for significant differences in the consolidated leverage ratio over previous year

There was a significant difference in the consolidated leverage ratio over previous year.

The reason of the difference is due to decrease of "total exposures" by 3,420,434 million yen.

Decrease in total exposure is due to decrease in "On-balance sheet exposure amount" and "securities financing transaction exposure amount" by 1,532,869 million yen and 1,812,448 million yen respectively.

Overview of main features of regulatory capital instruments

1	Issuer	Daiwa Securities Group Inc.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	NA
3	Governing law(s) of the instrument	Japanese Law
	Regulatory treatment	
4	Transitional Basel III rules	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Group
7	Instrument type (types to be specified by each jurisdiction)	Common stock
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)	
	Consolidated Capital Adequacy Ratio	1,112,948 million yen
9	Par value of instrument	—
10	Accounting classification	
	Consolidated balance sheets	Shareholders' equity
11	Original date of issuance	—
12	Perpetual or dated	NA
13	Original maturity date	—
14	Issuer call subject to prior supervisory approval	NA
15	Optional call date, contingent call dates and redemption amount	—
16	Subsequent call dates, if applicable	—
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	—
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	NA
22	Noncumulative or cumulative	NA
23	Convertible or non-convertible	NA
24	If convertible, conversion trigger(s)	—
25	If convertible, fully or partially	—
26	If convertible, conversion rate	—
27	If convertible, mandatory or optional conversion	—
28	If convertible, specify instrument type convertible into	—
29	If convertible, specify issuer of instrument it converts into	—
30	Write-down feature	NA
31	If write-down, write-down trigger(s)	—
32	If write-down, full or partial	—
33	If write-down, permanent or temporary	—
34	If temporary write-down, description of write-up mechanism	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts
36	Non-compliant transitioned features	NA
37	If yes, specify non-compliant features	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in July 2006	Stock subscription right series 3
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	233 million yen	1,172 million yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Stock subscription right	Stock subscription right
11	Original date of issuance	July 1, 2006	September 4, 2006
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 30, 2026	June 23, 2016
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts	Debts
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in July 2007	Stock subscription right series 4
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	254 million yen	819 million yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Stock subscription right	Stock subscription right
11	Original date of issuance	July 1, 2007	September 3, 2007
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 30, 2027	June 22, 2017
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts	Debts
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in July 2008	Stock subscription right series 5
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	238 million yen	642 million yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Stock subscription right	Stock subscription right
11	Original date of issuance	July 1, 2008	September 8, 2008
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 30, 2028	June 20, 2018
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts	Debts
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in July 2009	Stock subscription right series 6
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	313 million yen	322 million yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Stock subscription right	Stock subscription right
11	Original date of issuance	July 1, 2009	November 9, 2009
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 30, 2029	June 19, 2019
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts	Debts
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in July 2010	Stock subscription right series 7
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	357 million yen	340 million yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Stock subscription right	Stock subscription right
11	Original date of issuance	July 1, 2010	September 1, 2010
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 30, 2030	June 25, 2020
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts	Debts
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in July 2011	Stock subscription right series 8
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	417 million yen	495 million yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Stock subscription right	Stock subscription right
11	Original date of issuance	July 1, 2011	September 5, 2011
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 30, 2031	June 24, 2021
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts	Debts
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in February 2013	Stock subscription right series 9
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	458 million yen	877 million yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Stock subscription right	Stock subscription right
11	Original date of issuance	February 12, 2013	February 12, 2013
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 30, 2032	June 26, 2022
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts	Debts
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in February 2014	Stock subscription right series 10
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	376 million yen	574 million yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Stock subscription right	Stock subscription right
11	Original date of issuance	February 10, 2014	February 10, 2014
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 30, 2033	June 25, 2023
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts	Debts
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in February 2015	Stock subscription right series 11
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	389 million yen	270 million yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Stock subscription right	Stock subscription right
11	Original date of issuance	February 9, 2015	February 9, 2015
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 30, 2034	June 25, 2024
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts	Debts
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in February 2016	Stock subscription right series 12
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	385 million yen	19 million yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Stock subscription right	Stock subscription right
11	Original date of issuance	February 8, 2016	February 8, 2016
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 30, 2035	June 24, 2025
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts	Debts
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

Quantitative disclosure of consolidated liquidity coverage ratio

Items	Fourth Quarter in Fiscal Year 2015		Millions of yen, % Third Quarter in Fiscal Year 2015	
	Unweighted Value	Weighted Value	Unweighted Value	Weighted Value
High Quality Liquid Assets (1)				
1 Total high quality liquid assets		2,034,543		2,120,214
Cash Outflows (2)				
2 Retail deposits and deposits from small business customers	¥1,745,930	¥ 174,593	¥1,808,518	¥ 180,851
3 Stable deposits	—	—	—	—
4 Less stable deposits	1,745,930	174,593	1,808,518	180,851
5 Unsecured wholesale funding	1,511,475	729,428	1,503,951	702,453
6 Operational deposits	—	—	—	—
7 Unsecured wholesale funding other than operational deposits and unsecured debt	1,391,770	609,724	1,330,424	528,925
8 Unsecured debt	119,704	119,704	173,527	173,527
9 Secured funding	7,445,052	429,652	8,603,307	488,221
10 Outflows related to derivative exposures, loss of funding on debt products, committed credit and liquidity facilities	361,879	361,879	308,747	308,747
11 Outflows related to derivative exposures	351,055	351,055	298,084	298,084
12 Outflows related to loss of funding on debt products	—	—	—	—
13 Outflows related to credit and liquidity facilities	10,823	10,823	10,663	10,663
14 Other contractual funding obligations	5,354,435	983,370	5,607,674	1,018,803
15 Other contingent funding obligations	164,856	164,363	150,250	149,743
16 Total cash outflows		2,843,287		2,848,821
Cash Inflows (3)				
17 Secured lending	¥4,927,749	¥ 134,707	¥5,969,088	¥ 121,662
18 Inflows from fully performing exposures	352,963	351,658	422,258	421,053
19 Other cash inflows	5,594,446	1,054,471	5,784,576	1,032,208
20 Total cash inflows		1,540,838		1,574,924
Consolidated Liquidity Coverage Ratio (4)				
21 Total high quality liquid assets		¥2,034,543		¥2,120,214
22 Total net cash outflows		1,302,449		1,273,897
23 Consolidated liquidity coverage ratio		156.2%		166.4%
24 Number of data used for calculation of average value		3		3

Qualitative disclosure of consolidated liquidity coverage ratio

1. Changes in the consolidated liquidity coverage ratio over previous quarter

Daiwa Securities Group Inc.'s (the group) total High Quality Liquid Asset (HQLA) was 2,034,543 million Yen. From the previous quarter, amount has decreased by 85,671 million Yen.

Cash outflow related to secured transaction was 429,652 million Yen. From the previous quarter, amount has decreased by 58,569 million Yen.

Cash outflows related to derivative exposures, loss of funding on debt products, committed credit and liquidity facilities were 361,879 million Yen. From the previous quarter, amount has increased by 53,132 million Yen.

Cash inflows from fully performing exposures were 351,658 million Yen. From the previous quarter, amount has decreased by 69,395 million Yen.

Total net cash out flow was 1,302,449 million Yen. From the previous quarter, amount has increased by 28,552 million Yen.

As a result of above mentioned conditions, Daiwa Securities Group Inc.'s consolidated liquidity coverage ratio was 156.2%, the ratio has decreased by 10.2 points.

2. Evaluation of the company's consolidated liquidity coverage ratio

The group sets forth "The Rule of Regulatory Liquidity Management", and not only maintains minimum liquidity coverage ratio, but also sets internal alert level, and periodically reviews as to wheatear the level of the ratio is above the internal alert level.

The group's consolidated liquidity coverage ratio is above the minimum requirement.

3. Composition of HQLA

There is no significant change in the composition of HQLA over previous quarter.

4. Other issues related to the consolidated liquidity coverage ratio.

There is no significant item for disclosure.

Disclosure of consolidated liquidity risk management

1. Overview of liquidity risk management policy and procedure

The Group's financing activities are engaged in principle of maintaining sufficient level of liquidity in stable and efficient manner to maintain continuous business operations. The Group proactively secures stable financing amount from ordinary time in order

to prevent business operations to be disrupted under severe change in market circumstances. The Group has established the group-level liquidity management framework by utilizing its own short to long-term liquidity management indicators.

2. Liquidity risk management indicators

The Group confirms daily if sufficient liquidity portfolio is maintained, and the Group computes expected cash outflow related to unsecured financing of that matures within 90 days period as well as particular stress event that may occur during same time period

by applying various stress scenarios. In addition, the Group monitors sufficiency of long-term finance that is engaged in order to maintain asset held under assumption of stress circumstance to be continued in a long period of time of more than one year.

3. Other issues related to the consolidated liquidity management.

There is no significant item for disclosure.

Balance Sheets

DAIWA SECURITIES Co. Ltd.
As of March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2016	2015	2016
Cash and cash deposits:			
Cash and cash equivalents (Note 5)	¥ 1,133,757	¥ 837,251	\$10,122,830
Cash segregated as deposits for regulatory purposes (Note 5)	300,083	324,155	2,679,312
Time Deposits (Note 5)	1,000	—	8,929
	1,434,840	1,161,406	12,811,071
Receivables:			
Loans receivable from customers (Note 5)	103,866	112,318	927,375
Loans receivable from other than customers (Notes 5 and 18)	109,839	258,237	980,705
Receivables related to margin transactions (Notes 3 and 5)	195,208	228,847	1,742,929
Short-term guarantee deposits (Note 5)	348,384	256,382	3,110,571
Other (Note 18)	43,292	73,158	386,536
Less: Allowance for doubtful accounts	(436)	(140)	(3,893)
	800,153	928,802	7,144,223
Collateralized short-term financing agreements (Notes 4, 5 and 18)	2,791,316	3,943,632	24,922,464
Trading assets (Notes 5, 6 ,8 and 18)	5,380,213	5,885,305	48,037,616
Trading account receivables, net (Note 5)	—	35,483	—
Other assets:			
Property and equipment, at cost	19,862	20,257	177,340
Less: Accumulated depreciation	(15,841)	(16,470)	(141,438)
	4,021	3,787	35,902
Intangible fixed assets	51,845	44,390	462,902
Lease deposits	15,050	14,938	134,375
Investment securities (Notes 5 and 7)	25,448	26,586	227,214
Deferred tax assets (Note 13)	9,732	10,713	86,893
Other (Note 18)	14,478	15,976	129,268
Less: Allowance for doubtful accounts	(2,952)	(3,006)	(26,357)
	117,622	113,384	1,050,197
	¥10,524,144	¥12,068,012	\$93,965,571

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Debt:			
Short-term borrowings (Notes 5, 8 and 18)	¥ 971,268	¥ 1,119,500	\$ 8,672,036
Commercial paper (Note 5)	137,720	388,380	1,229,642
Long-term debt (Notes 5, 11 and 18)	1,291,799	1,237,310	11,533,920
	2,400,787	2,745,190	21,435,598
Payables:			
Payables to customers and counterparties (Notes 5 and 10)	679,350	649,759	6,065,625
Payables related to margin transactions (Notes 3 and 5)	52,020	47,256	464,464
	731,370	697,015	6,530,089
Collateralized short-term financing agreements (Notes 4, 5 and 18)	2,253,222	3,451,460	20,118,054
Trading liabilities (Notes 5, 6 and 18)	4,110,374	4,325,831	36,699,768
Trading account payables, net (Note 5)	120,599	—	1,076,777
Accrued and other liabilities:			
Income taxes payable	29,121	8,811	260,009
Deferred tax liabilities (Note 13)	2,495	3,047	22,277
Accrued bonuses	14,341	18,338	128,045
Retirement benefits (Note 12)	27,714	25,741	247,446
Other (Note 18)	49,040	88,015	437,857
	122,711	143,952	1,095,634
Statutory reserves (Note 14)	3,916	3,836	34,964
Total liabilities	9,742,979	11,367,284	86,990,884
Contingent liabilities (Note 15)			
Net assets			
Owners' equity (Note 16):			
Common stock, no par value;			
Authorized—810,200 shares			
Issued—810,200 shares	100,000	100,000	892,857
Capital surplus	349,920	349,920	3,124,286
Retained earnings	323,818	242,958	2,891,232
	773,738	692,878	6,908,375
Accumulated other comprehensive income:			
Net unrealized gain on investment securities, net of tax effect	7,427	7,850	66,312
Total net assets	781,165	700,728	6,974,687
	¥10,524,144	¥12,068,012	\$93,965,571

See accompanying notes.

Statements of Income

DAIWA SECURITIES Co. Ltd.
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Operating revenues:			
Commissions (Note 18)	¥187,290	¥190,567	\$1,672,232
Net gain on trading (Note 20)	139,054	156,816	1,241,554
Interest and dividend income (Note 18)	42,814	39,277	382,268
	369,158	386,660	3,296,054
Interest expense (Note 18)	20,936	20,068	186,929
Net operating revenues (Note 17)	348,222	366,592	3,109,125
Selling, general and administrative expenses (Notes 12 and 21)	233,680	230,002	2,086,429
Operating income	114,542	136,590	1,022,696
Other income (expenses):			
Provision for statutory reserves, net (Note 14)	(81)	(476)	(723)
Other, net (Note 22)	2,673	1,888	23,866
	2,592	1,412	23,143
Income before income taxes	117,134	138,002	1,045,839
Income taxes (Note 13):			
Current	35,488	14,910	316,857
Deferred	786	(3,940)	7,018
	36,274	10,970	323,875
Net income	¥ 80,860	¥127,032	\$ 721,964

	Yen		U.S. dollars (Note 1)
Per share amounts:			
Net income	¥99,801.97	¥156,791.37	\$891
Cash dividends applicable to the year (Note 16)	—	—	—

See accompanying notes.

Statements of Changes in Net Assets

DAIWA SECURITIES Co. Ltd.
Years ended March 31, 2016 and 2015

	Number of shares of common stock	Owners' equity			Millions of yen Accumulated other comprehensive income
		Common stock	Capital surplus	Retained earnings	Net unrealized gain on investment securities, net of tax effect
Balance at March 31, 2014	810,200	¥100,000	¥349,920	¥254,794	¥4,370
Net income				127,032	
Cash dividends paid				(138,868)	
Net changes of items other than owners' equity					3,480
Balance at March 31, 2015	810,200	¥100,000	¥349,920	¥242,958	¥7,850
Net income				80,860	
Net changes of items other than owners' equity					(423)
Balance at March 31, 2016	810,200	¥100,000	¥349,920	¥323,818	¥7,427

	Common stock	Owners' equity		Thousands of U.S. dollars (Note 1) Accumulated other comprehensive income
		Capital surplus	Retained earnings	Net unrealized gain on investment securities, net of tax effect
Balance at March 31, 2015	\$892,857	\$3,124,286	\$2,169,268	\$70,089
Net income			721,964	
Net changes of items other than owners' equity				(3,777)
Balance at March 31, 2016	\$892,857	\$3,124,286	\$2,891,232	\$66,312

See accompanying notes.

Statements of Cash Flows

DAIWA SECURITIES Co. Ltd.
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Cash flows from operating activities:			
Net income	¥ 80,860	¥ 127,032	\$ 721,964
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	14,560	15,358	130,000
Amortization of goodwill	10	61	89
Allowance for doubtful accounts, net	242	(2,710)	2,161
Provision for retirement benefits, net	1,959	1,761	17,491
Losses (gains) related to investment securities	(770)	317	(6,875)
Losses (gains) related to fixed assets	—	38	—
Deferred income taxes	786	(3,940)	7,018
Changes in operating assets and liabilities:			
Receivables and payables related to margin transactions	38,404	23,445	342,893
Other receivables and other payables	188,652	107,210	1,684,393
Trading assets and liabilities	445,716	(533,793)	3,979,607
Collateralized short-term financing agreements	(45,923)	212,293	(410,027)
Decrease (increase) in short-term guarantee deposits	(92,002)	(71,300)	(821,446)
Other, net	14,932	15,118	133,321
Total adjustments	566,566	(236,142)	5,058,625
Net cash flows provided by (used in) operating activities	647,426	(109,110)	5,780,589
Cash flows from investing activities:			
Increase in time deposits	(1,000)	—	(8,929)
Payments for purchases of property and equipment	(893)	(787)	(7,973)
Payments for purchases of intangible fixed assets	(21,153)	(18,511)	(188,866)
Payments for purchases of investment securities	(914)	(1,679)	(8,161)
Proceeds from sales of investment securities	1,985	3,326	17,723
Payments for guarantee deposits	(430)	(69)	(3,839)
Proceeds from collection of guarantee deposits	341	181	3,045
Other, net	1,119	708	9,991
Net cash flows provided by (used in) investing activities	(20,945)	(16,831)	(187,009)
Cash flows from financing activities:			
Decrease in short-term borrowings and commercial paper	(398,892)	341,900	(3,561,536)
Increase in long-term debt	447,202	389,342	3,992,875
Decrease in long-term debt	(379,028)	(439,863)	(3,384,179)
Payments of cash dividends	—	(138,868)	—
Net cash flows provided by (used in) financing activities	(330,718)	152,511	(2,952,840)
Net increase in cash and cash equivalents	295,763	26,570	2,640,740
Cash and cash equivalents at beginning of year	837,251	810,681	7,475,456
Increase in cash and cash equivalents resulting from merger	743	—	6,634
Cash and cash equivalents at end of year	¥1,133,757	¥ 837,251	\$10,122,830
Supplemental information on cash flows:			
Cash provided (paid) during the year for income taxes	¥ (15,622)	¥ (15,137)	\$ (139,482)

See accompanying notes.

Notes to Financial Statements

DAIWA SECURITIES Co. Ltd.
Years ended March 31, 2016 and 2015

1. Basis of presentation

The accompanying financial statements for Daiwa Securities Co. Ltd. (the "Company") have been prepared in accordance with generally accepted accounting principles in Japan ("Japanese GAAP"), with some expanded descriptions and reclassifications. Some supplementary information included in the Japanese GAAP financial statements, which is not considered necessary for fair presentation is not presented in the accompanying financial statements. Japanese GAAP is different in certain respects as to the

2. Significant accounting policies

Statements of cash flows—The Company defines cash equivalents as highly liquid investments with original maturities of three months or less.

Trading assets and trading liabilities—Trading assets and liabilities including securities and financial derivatives for trading purposes are stated on a trade date basis at fair value in the balance sheets. Gains and losses, including unrealized gains and losses, related to transactions for trading purposes are reported as "Net gain on trading" in the accompanying statements of income. Fair value is determined based on market prices, quoted prices, internal pricing models (utilizing indicators of general market conditions or other economic measurements), or management's estimates of amounts to be realized on settlement, assuming current market conditions and an orderly disposition over a reasonable period of time. Securities owned for non-trading purposes, shown in the accompanying balance sheets as "Investment securities" are discussed below.

Securities other than trading assets and trading liabilities—

The Company examines the intent of holding investments and classifies those investments as debt securities intended to be held to maturity ("Held-to-maturity debt securities") which are carried at amortized cost, other marketable securities available for sale (marketable "Available-for-sale securities") which are stated at their fair values based on quoted market closing prices with unrealized gain or loss reported in a separate component within the net assets on a net-of-tax basis, or other non-marketable investments (non-marketable "Available-for-sale securities") which are carried at cost. Investment business partnerships ("Toshi jigyo kumiai") which are regarded as equivalent to securities by Article 2,

application and disclosure requirements of International Financial Reporting Standards ("IFRS").

The translations of the yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 2016, which was ¥112 to U.S.\$1. The convenience translations should not be construed as representations that the yen amounts have been, could have been, or could be, converted into U.S. dollars at this or any other rate of exchange.

Paragraph 2 of the Financial Instruments and Exchange Act are reported as "Investment securities" in the financial statements in proportion to the Company's share of the investment business partnership and designated as "Available-for-sale-securities." The cost of those investments is determined by the moving average method.

Impairment is assessed for investments including private equity holding. For marketable securities, if the year-end market value declines 30% or more but less than 50% from the carrying value for individual securities, an impairment loss is recognized if there is no chance of recoverability in value. Recoverability is assessed based on whether the decline is temporary by considering the movements of the market price over the last twelve months and the financial conditions of the issuer. If the year-end market value declines 50% or more from the carrying value, then an impairment loss is recognized immediately. For non-marketable equity investments, the Company generally compares the carrying amount and the net asset value of the issuing company attributable to the Company's holding share, and recognizes an impairment loss if the net asset value attributable to the Company's holding share is significantly lower than the carrying value and such decline is considered other than temporary. For non-marketable investments other than equities, the Company reviews the financial conditions of the issuers and provides allowance for possible investment losses, if necessary.

Collateralized short-term financing agreements—Collateralized short-term financing agreements consist of securities purchased under agreements to resell ("Resell transactions") or securities sold under agreements to repurchase ("Repurchase transactions"), and securities borrowed or loaned. Resell transactions and repurchase

transactions are carried at their contractual amounts. Securities borrowed or loaned are stated at the amount of cash collateral advanced or received.

Allowance for doubtful accounts—Allowance for doubtful accounts is provided for probable losses on loans and receivables, based on the actual historical default rate for general loans, and based on individually assessed amounts for doubtful and default loans.

Property and equipment—Property and equipment are stated at the acquisition cost. The Company computes depreciation by the straight-line method over estimated useful lives.

Intangible fixed assets—Intangible fixed assets are amortized by the straight-line method. The Company computes the amortization over estimated useful lives. The useful lives of software of in-house use, which is the most significant intangible fixed asset, are generally five years.

Impairment—Non-current assets, principally property and equipment and intangible fixed assets, are reviewed for impairment whenever events or changes in circumstances indicate that a carrying amount of an asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount to future undiscounted net cash flows expected to be generated by the asset or certain asset group. If an asset is considered to be impaired, then an impairment loss is recognized for the difference between the carrying amount and the recoverable amounts of the asset or the related asset group.

Bonuses—Accrued bonuses for employees and directors represent liabilities estimated as of the balance sheet date.

Retirement benefits—The Company has an unfunded retirement benefit plan for eligible employees, under which the benefit amount is determined annually based on the performance during the year in which the related service is rendered, plus interest earned to date. Accordingly, this liability does not change subsequently due to the changes in compensation level in subsequent years. The annually earned benefits and the related interest to the accumulated benefits are expensed annually.

The Company also has a defined contribution plan for which an annual contribution is charged to expense.

Retirement benefits for directors and corporate auditors are recognized based on the amount as calculated in accordance with the internal rules.

Income taxes—Income taxes consist of corporation, enterprise and inhabitants taxes. The provision for current income taxes is computed based on the pre-tax income of the Company with certain adjustments, as appropriate. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards, if any. A valuation allowance is recognized for any portion of the deferred tax assets if it is considered not realizable based on the Company's planning, other studies, and reference to certain set requirements under Japanese GAAP.

Allowance for provision for loss on litigation—Allowance for provision for loss on litigation is stated based on the reasonably estimated amount of possible losses as of the balance sheet date in order to prepare for losses related to contingent events such as pending law suits, considering individual risks with respect to each contingent event.

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

Net income per share—Net income per share of common stock is based on the average number of common shares outstanding. Diluted net income per share is not presented as there are no dilutive shares.

Unapplied accounting standard—

- Revised Guidance on Accounting Standard for Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016)

This accounting standard introduces some changes to the treatment of deferred tax assets. This accounting standard will be effective from the beginning of annual periods ending on March 31, 2017. The Company is currently in the process of determining the effects of this new standard on the consolidated financial statements.

3. Margin transactions

Margin transactions at March 31, 2016 and 2015 consisted of the following:

	2016	Millions of yen 2015	Thousands of U.S. dollars 2016
Assets:			
Customers' margin loans	¥175,552	¥210,382	\$1,567,429
Cash deposits as collateral for securities borrowed	19,656	18,465	175,500
	¥195,208	¥228,847	\$1,742,929
Liabilities:			
Payable to securities finance companies	¥ 1,557	¥ 2,513	\$ 13,902
Proceeds of securities sold for customers' accounts	50,463	44,743	450,562
	¥ 52,020	¥ 47,256	\$ 464,464

Customers' margin loans are stated at amounts equal to the purchase amounts of the relevant securities, which are collateralized by customers' securities and customers' deposits. Proceeds of securities sold for customers' accounts are stated at the sales amounts.

4. Collateralized short-term financing agreements

Collateralized short-term financing agreements at March 31, 2016 and 2015 consisted of the following:

	2016	Millions of yen 2015	Thousands of U.S. dollars 2016
Assets:			
Securities purchased under agreements to resell	¥ 155,982	¥ 66,269	\$ 1,392,696
Securities borrowed	2,635,334	3,877,363	23,529,768
	¥2,791,316	¥3,943,632	\$24,922,464
Liabilities:			
Securities sold under agreements to repurchase	¥1,324,821	¥1,811,340	\$11,828,759
Securities loaned	928,401	1,640,120	8,289,295
	¥2,253,222	¥3,451,460	\$20,118,054

5. Financial instruments

Qualitative information on financial instruments

(1) Policy for dealing with financial instruments

The Company, the primary businesses of which are investment and financial services businesses with a core focus on securities-related business, is involved in trading and brokerage of securities and derivative products, underwriting and secondary offering of securities, treating of public offerings for subscription and secondary offering of securities, treating of private offerings for subscription of securities, and other businesses related to the securities and financial fields.

The Company holds financial assets and liabilities as follows to execute its businesses such as trading securities and others, derivatives, investment securities, and raises its capital utilizing a variety of financial

instruments such as corporate bonds, medium-term notes, borrowing from financial institutions, etc. Under the Company's basic financing policy that enough liquidity for continuing business should be effectively secured, the Company aims to maintain an appropriate balance between assets and liabilities by diversifying financial measures and maturity dates, and realizing effective and stable finance when it raises capital. Also, the Company uses interest rate swaps and foreign currency swaps, etc., for the purpose of hedging against fluctuation in interest rates and foreign exchange rates.

The Company attempts to entirely and efficiently manage the variety of risks incurred by holding financial assets and liabilities and maintains sound finances.

(2) Contents and risk of financial instruments

The Company holds financial instruments in the trading business as follows: (a) trading securities and others (stocks and warrants, bonds and investment trusts), loans secured by securities and loans payable secured by securities, margin transaction assets and liabilities, (b) derivatives, traded at exchanges, such as stock index futures, bond futures, interest rate futures and options for those, (c) derivatives (OTC derivatives), not traded at exchanges, such as interest rate and foreign exchange swaps, forward foreign exchange contracts, currency options, bond options, FRA and OTC securities derivatives, etc. Also, the Company holds investment securities other than trading business purposes.

The major risks implied in these financial instruments are market risk and credit risk. Market risk means the risk of suffering losses from fluctuations in the value of holding financial instruments and transactions in accordance with changes of market prices of stock prices, interest rates, currency exchange rates and commodity prices, etc., and from the market environment in which no transaction can be executed because of an excessive decrease of liquidity or one in which market participants are forced to trade in extremely unfavorable conditions. Credit risk means the risk of suffering losses from defaults or credit change of counterparties or issuers of financial instruments.

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

The Company raises capital by utilizing corporate bonds, medium-term notes and borrowing from financial institutions, etc., and is exposed to liquidity risk. Liquidity risk indicates the risk of suffering losses such that cash management may be impossible and remarkably higher financing costs than usual may be requested as a result of an abrupt change of market environment or unexpected credit crunch of the Company, etc.

The Company enters derivative transactions as broker and end-user. Derivative products are necessary to deal with a variety of customers' financial needs and as a broker the Company provides customers with financial

instruments to meet their requests. For instance, the Company provides customers with forward exchange contracts to hedge the exchange rate risk of foreign currency of foreign bonds held by customers and interest rate swaps to hedge interest rate risk when customers issue corporate bonds, etc. As end-user, the Company uses interest rate swaps to hedge interest rate risk regarding its financial assets and liabilities and utilize many kinds of futures and options to hedge trading positions.

(3) Risk management system for financial instruments

The Company has resolved the "Risk Management Rule" at the meeting of the Board of Directors which states the basic policy of risk management, type of risks that should be managed and responsible executive officers and department for each major risk and conducted risk management of the Company.

(i) Management of risk of financial instruments held for trading purpose.**(a) Management of market risk**

The Company manages its trading business by establishing the limit for VaR which indicates the estimate of the maximum loss amount under a certain probability, position and sensibility, etc., considering the financial situation, the business plan and budget of each division. The risk management department of the Company monitors the market risk and informs the management of the Company on a daily basis. In order to cover the capacity limit of VaR calculated by the statistical hypothesis based on the data obtained for a certain period, the Company applies the stress test with a scenario assuming the impact of an abrupt change in the market and the hypothetical stress events.

(Quantitative information concerning market risk)

The Company utilizes the historical simulation method (holding period: 1 day, confidence interval: 99%, observation period: 520 business days) to calculate VaR of trading financial investments. Total VaR as of March 31, 2016 (fiscal year-end) was ¥1.5 billion (\$13.4 million). In the meantime, the Company executes backtesting which compares calculated VaR and the actual profit/loss to verify its effectiveness. However the VaR statistically figures the risk based on historical market fluctuation and may be sometimes unable to completely grasp the risk in the environment that the market unexpectedly changes beyond the estimation.

(b) Management of credit risk

The credit risk generated in the trading business of the Company consists of counterparty risk and issuer risk. To manage the counterparty risk, the Company has established the credit limit for each counterparty based on internal credit ratings of counterparties in advance and monitors the observance of such credit limit. To manage the issuer risk of financial instruments held as the market maker, the Company mainly monitors the fluctuation risk of the credit spread. In addition, the Company is periodically monitoring the influence from the large-lot credit.

Since the margin transactions generate credit to customers, deposits which were set as collateral will be charged to the customers. In connection with the securities loan transaction, the Company has tried to reduce credit risk by establishing credit limit for counterparties, charging necessary collaterals with daily mark to market.

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

The Company holds financial instruments for other than trading business such as investment securities for business relationship. For investment securities as long-term holding for the business relationship, etc., the Company decides to acquire or sell the securities in accordance with the policy defined by the relevant company's rules. Also, the Company regularly monitors its investment portfolio.

(Quantitative information concerning market risk)

The main financial assets that are influenced by market risk are "Investment securities" for the business relationship. As of March 31, 2016, fair value of the listed equities in "Investment securities" would fluctuate by ¥1.3 billion (\$11.6 million) if the indices, such as TOPIX, were to change by 10%.

Also, the main financial liabilities in the Company that are influenced by market risk are "bonds and notes" and long-term debt. As of March 31, 2016, if all other risk variables were assumed to be unchanged and the interest rate supposed to be changed by 10 basis points (0.1%), the fair value of "bonds and notes" and "long-term debt" would fluctuate by ¥0.2 billion (\$1.8 million) and ¥0.4 billion (\$3.6 million), respectively.

(iii) Management of liquidity risk

The Company conducts its business with a core focus on the securities-related business utilizing a lot of assets and liabilities and establishes the basic policy which clarifies to efficiently secure enough liquidity for continuing its business.

The methods of raising capital of the Company include corporate bonds, medium-term notes, borrowing from financial institutions, commercial paper, call money, Gensaki transactions and repurchase agreements, etc. By those methods, the Company realizes the effective and stable capital raise.

In terms of financial stability, preparing for a case where the environment vastly changes, the Company endeavors in ordinary times to secure a stable reserve to prevent the business from being disturbed. Especially in recent years, the Company has increased liquidity through raising capital from the market and borrowing from financial institutions, preparing for a worldwide financial crisis and credit crunch. Also, the Company tries to diversify the maturity of raised capital and sources of funding preparing for an event in which it becomes difficult to raise new capital and to reschedule the existing capital raising due to a financial crisis occurring.

Further, the Company has organized its liquidity management system using original tools for liquidity management. This means that the Company monitors every day if the liquidity portfolio, which should cover financing proceeds without collateral that has a maturity date within a certain period as well as the estimated cash outflow caused by realization of one of some stress scenarios prepared in advance during the same period, is maintained or not.

The Company has established the contingency funding plan as one of the measures of dealing with liquidity risk. This plan states basic policy concerning the report line depending upon the urgency of stress internally originated including credit crunch, and externally originated including an abrupt change of market environment, and the method of raising capital. This enables the Company to prepare a system for securing liquidity through a swift response.

(4) Supplemental explanation on fair value of financial instruments

The fair value of financial instruments includes the values based on market prices and the values theoretically calculated if no market price is available. Such theoretical prices may be changed with different conditions because a certain condition is applied to calculate theoretical prices.

Fair values of financial instruments

The figures stated on the balance sheets as of March 31, 2016 and 2015, fair value and the difference of those are as below. Any item for which it is extremely difficult to obtain its fair value is not included in the table below (see Note 2).

	Millions of yen					
	2016			2015		
	Amounts on balance sheets	Fair value	Difference	Amounts on balance sheets	Fair value	Difference
Assets						
(1) Cash and cash equivalents	¥ 1,133,757	¥ 1,133,757	¥ —	¥ 837,251	¥ 837,251	¥ —
(2) Cash segregated as deposits for regulatory purposes	300,083	300,083	—	324,155	324,155	—
(3) Time deposits	1,000	1,000	—	—	—	—
(4) Trading assets	5,380,213	5,380,213	—	5,885,305	5,885,305	—
(5) Receivables related to margin transactions	195,208	195,208	—	228,847	228,847	—
(6) Trading account receivables, net	—	—	—	35,483	35,483	—
(7) Collateralized short-term financing agreements	2,791,316	2,791,316	—	3,943,632	3,943,632	—
(8) Short-term guarantee deposits	348,384	348,384	—	256,382	256,382	—
(9) Loans receivable from customers	103,866	103,866	—	112,318	112,318	—
(10) Loans receivable from other than customers	109,839	109,839	—	258,237	258,237	—
(11) Investment securities						
Held-to-maturity securities	—	—	—	—	—	—
Other securities	10,203	10,203	—	10,475	10,475	—
Total Assets	¥10,373,869	¥10,373,869	¥ —	¥11,892,085	¥11,892,085	¥ —
Liabilities						
(12) Trading liabilities	¥ 4,110,374	¥ 4,110,374	¥ —	¥ 4,325,831	¥ 4,325,831	¥ —
(13) Payables related to margin transactions	52,020	52,020	—	47,256	47,256	—
(14) Trading account payables, net	120,599	120,599	—	—	—	—
(15) Collateralized short-term financing agreements	2,253,222	2,253,222	—	3,451,460	3,451,460	—
(16) Payables to customers and counterparties	679,350	679,350	—	649,759	649,759	—
(17) Short-term borrowings	971,268	971,268	—	1,119,500	1,119,500	—
(18) Commercial paper	137,720	137,720	—	388,380	388,380	—
(19) Long-term debt	1,291,799	1,297,091	(5,292)	1,237,310	1,242,751	(5,441)
Total Liabilities	¥ 9,616,352	¥ 9,621,644	¥ (5,292)	¥11,219,496	¥11,224,937	¥(5,441)

	Thousands of U.S. dollars		
	2016		
	Amounts on balance sheets	Fair value	Difference
Assets			
(1) Cash and cash equivalents	\$10,122,830	\$10,122,830	\$ —
(2) Cash segregated as deposits for regulatory purposes	2,679,312	2,679,312	—
(3) Time deposits	8,929	8,929	—
(4) Trading assets	48,037,616	48,037,616	—
(5) Receivables related to margin transactions	1,742,929	1,742,929	—
(6) Trading account receivables, net	—	—	—
(7) Collateralized short-term financing agreements	24,922,464	24,922,464	—
(8) Short-term guarantee deposits	3,110,571	3,110,571	—
(9) Loans receivable from customers	927,375	927,375	—
(10) Loans receivable from other than customers	980,705	980,705	—
(11) Investment securities			
Held-to-maturity securities	—	—	—
Other securities	91,099	91,099	—
Total assets	\$92,623,830	\$92,623,830	\$ —

Thousands of U.S. dollars

2016

	Amounts on balance sheets	Fair value	Difference
Liabilities			
(12) Trading liabilities	\$36,699,768	\$36,699,768	\$ —
(13) Payables related to margin transactions	464,464	464,464	—
(14) Trading account payables, net	1,076,777	1,076,777	—
(15) Collateralized short-term financing agreements	20,118,054	20,118,054	—
(16) Payables to customers and counterparties	6,065,625	6,065,625	—
(17) Short-term borrowings	8,672,036	8,672,036	—
(18) Commercial paper	1,229,642	1,229,642	—
(19) Long-term debt	11,533,920	11,581,170	(47,250)
Total liabilities	\$85,860,286	\$85,907,536	\$(47,250)

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

(1) Cash and cash equivalents and (3) Time deposits
Cash and cash equivalents are stated as their book value because fair values are similar to book value and they are settled in the short term.

(2) Cash segregated as deposits for regulatory purposes
Cash segregated as deposits for regulatory purposes which consist of cash segregated as deposits for customers and investments in securities like government bonds are calculated based on reasonably calculated prices utilizing yield spread with index interest rates for each term which are defined by immediately previous traded prices including the ones of similar bonds.

(4) Trading assets and (12) Trading liabilities

Trading securities	
Equities	Closing price or closing quotations at the main stock exchange
Bonds	Reasonably calculated price based on immediately previous traded price including similar bonds (OTC and broker screen, etc.) or market value information (trading price statistics, etc.) by utilizing spread with index interest rate
Investment trust	Closing price or closing quotations at the exchange, or net asset value

Derivatives

Derivatives traded at exchange	Mainly liquidation price at the exchange or basic price for calculation margin
Interest rate Swaps, etc.	Prices calculated by price valuation models generally acknowledged at the market or the model extending those, based on expected cash flow calculated from yield curve, price and coupon rate of underlying bonds, interest rates, discount rates, volatility, correlation, etc.
OTC equity derivatives	Prices calculated by price valuation models generally acknowledged at the market or the model extending those, based on price of equities or equities indices, interest rates, dividends, volatility, discount rates, correlation, etc.
Credit derivatives	Prices calculated by price valuation models that are generally acknowledged at the market or the model extending those, based on all the cash flows defined with discount rates that is calculated from interest rates and credit spread of the reference

Concerning OTC derivatives, both credit risk to the counterparty and liquidity risk are added to the fair value if necessary.

(5) Receivables related to margin transactions and (13) Payables related to margin transactions
Receivables related to margin transactions consist of lending money to customers generated from margin transactions and collaterals to securities finance companies. These are stated as their book value as settled in the short term because the former is settled by reversing trades by customers' decisions and the latter is collaterals marked to market on lending and borrowing transactions.

Payables related to margin transactions consist of customers' borrowings money from securities finance companies and sold amount equivalent of customers generated from margin transactions. These are stated as their book value as settled in the short term because the former is marked to market and the latter is settled by reversing trades by customers' decisions.

(6) Trading account receivables, net and (14) Trading account payables, net

These are stated as their book value because they are settled in the short term and fair values are similar to book value.

(7), (15) Collateralized short-term financing agreements
These are stated as their book value because fair values are similar to book value and most of them are settled in the short term.

(8) Short-term guarantee deposits and (16) Payables to customers and counterparties

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

(9) Loans receivable from customers and (10) Loans receivables from other than customers

These are stated as their book value because they are settled in the short term and fair values are similar to book value.

(11) Investment securities

Equities	Closing price or closing quotations at the main stock exchange
Bonds	Reasonably calculated price based on the latest traded prices including those of similar bonds (OTC and broker screen, etc.) or market values information (trading price statistics, etc.) by utilizing spreads with index interest rates, or reasonably calculated price based on the values of collateralized assets

(17) Short-term borrowings and (18) Commercial paper
These are stated as their book value because they are settled in the short term and fair values are similar to book value.

(19) Long-term debt

The fair values of bonds and notes due within one year are stated as their book value since the terms of the settlement period are short and the fair values approximate the book values.

On the other hand, concerning fair values of bonds and notes whose maturities are longer than one year, if market prices (trading price statistics, etc.) are available in the market, fair values are calculated based on the market prices. If the market prices are not available, fair values are calculated from book values which are adjusted with consideration of interest rate fluctuations from the issuances and changes of credit spread of the Company. The credit spread of the Company is referred to the interest rate of the latest issuance or market prices of similar bonds issued by the Company, etc.

Concerning fair values of long-term borrowings, fair values are calculated from book values which are adjusted with consideration of interest rate fluctuations from the latest issuance and changes of credit spread of the Company. The credit spread of the Company is referred to the interest rate of the latest issuance or market prices of similar bonds issued by the Company, etc.

(Note 2) Any financial product which is extremely difficult to obtain its fair value at March 31, 2016 and 2015 is as below and is not included in the "Assets (11) Investment securities—Other securities" of fair value information of financial instruments.

	2016	Millions of yen 2015	Thousands of U.S. dollars 2016
Subsidiaries' stocks and related companies' stocks			
Unlisted equities	¥1,135	¥2,037	\$10,134
Other securities			
Unlisted equities	3,706	4,277	33,089
Investments in limited partnership and other similar partnerships	7,915	7,034	70,670
Others	2,489	2,763	22,222

The above are deemed to be extremely difficult to determine fair values because there are no market prices and it is extremely difficult to estimate future cash flows from the investments. Therefore, their fair values are not disclosed.

(Note 3) Scheduled redemption amount of financial receivables and securities with a maturity date after March 31, 2016

	Millions of yen			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and cash equivalents	¥1,133,757	¥—	¥—	¥—
Cash segregated as deposits for regulatory purposes	300,083	—	—	—
Time deposits	1,000	—	—	—
Receivables related to margin transactions	195,208	—	—	—
Collateralized short-term financing agreements	2,791,316	—	—	—
Short-term guarantee deposits	348,384	—	—	—
Investment securities:				
Held-to-maturity securities	—	—	—	—
Other securities with a maturity date	102	—	—	—
Bonds	—	—	—	—
Other securities	102	—	—	—
Total	¥4,769,850	¥—	¥—	¥—

* Cash segregated as deposits for regulatory purposes is included in "Within 1 year" because it is comprised of trusts for holding customer assets.

* Receivables related to margin transactions are included in "Within 1 year" because they are expected to be settled in short term.

	Thousands of U.S. dollars			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and cash equivalents	\$10,122,830	\$—	\$—	\$—
Cash segregated as deposits for regulatory purposes	2,679,313	—	—	—
Time deposits	8,929	—	—	—
Receivables related to margin transactions	1,742,929	—	—	—
Collateralized short-term financing agreements	24,922,464	—	—	—
Short-term guarantee deposits	3,110,571	—	—	—
Investment securities:				
Held-to-maturity securities	—	—	—	—
Other securities with a maturity date	911	—	—	—
Bonds	—	—	—	—
Other securities	911	—	—	—
Total	\$42,587,946	\$—	\$—	\$—

* Cash segregated as deposits for regulatory purposes is included in "Within 1 year" because it is comprised of trusts for holding customer assets.

* Receivables related to margin transactions are included in "Within 1 year" because they are expected to be settled in short term.

(Note 4) Scheduled redemption amount of commercial paper and long-term debt after March 31, 2016

	Millions of yen			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Commercial paper	¥137,720	¥—	¥—	¥—
Long-term debt	148,666	671,637	214,748	256,748
Total	¥286,386	¥671,637	¥214,748	¥256,748

	Thousands of U.S. dollars			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Commercial paper	\$1,229,642	\$—	\$—	\$—
Long-term debt	1,327,375	5,996,759	1,917,393	2,292,393
Total	\$2,557,017	\$5,996,759	\$1,917,393	\$2,292,393

6. Trading assets and trading liabilities

Trading assets and trading liabilities at March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Trading assets:			
Trading securities:			
Equities	¥ 312,970	¥ 630,325	\$ 2,794,375
Government, corporate and other bonds	1,409,741	1,903,493	12,586,973
Investment trusts	151,968	211,658	1,356,857
Commercial paper, certificates of deposits and others	16,949	8,549	151,331
Derivatives:			
Option transactions	546,844	814,468	4,882,536
Futures and forward transactions	96,655	125,239	862,991
Swap agreements	2,825,716	2,148,625	25,229,607
Other derivatives	25,901	50,851	231,259
Risk reserves	(6,531)	(7,903)	(58,313)
	¥5,380,213	¥5,885,305	\$48,037,616
Trading liabilities:			
Trading securities:			
Equities	¥ 85,914	¥ 113,287	\$ 767,089
Government, corporate and other bonds	1,039,300	1,564,484	9,279,464
Investment trusts	132	—	1,179
Derivatives:			
Option transactions	437,748	694,047	3,908,464
Futures and forward transactions	98,633	166,350	880,652
Swap agreements	2,420,549	1,734,886	21,612,045
Other derivatives	28,098	52,777	250,875
	¥4,110,374	¥4,325,831	\$36,699,768

* Government, corporate and other bonds include convertible bonds.

7. Securities other than trading assets

Cost and fair value of marketable securities as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		
	Cost	Fair value	Difference
March 31, 2016:			
Equities	¥ 1,468	¥10,203	¥ 8,735
Bonds	—	—	—
	¥ 1,468	¥10,203	¥ 8,735
March 31, 2015:			
Equities	¥ 1,526	¥10,475	¥8,949
Bonds	—	—	—
	¥ 1,526	¥10,475	¥8,949
	Thousands of U.S. dollars		
	Cost	Fair value	Difference
March 31, 2016:			
Equities	\$13,107	\$91,099	\$77,992
Bonds	—	—	—
	\$13,107	\$91,099	\$77,992

Cost/amortized cost of held-to-maturity securities and non-marketable securities as of March 31, 2016 and 2015 consisted of the following:

		Millions of yen	Thousands of U.S. dollars
	2016	2015	2016
Other securities:	15,246	16,111	136,125
Equities	4,841	6,314	43,223
Investments in business partnerships	7,915	7,035	70,670
Other	2,490	2,762	22,232
	¥15,246	¥16,111	\$136,125

8. Pledged assets

Secured obligations at March 31, 2016 and 2015 consisted of the following:

		Millions of yen	Thousands of U.S. dollars
	2016	2015	2016
Short-term borrowings	¥321,268	¥470,000	\$2,868,464
	¥321,268	¥470,000	\$2,868,464

The above obligations at March 31, 2016 and 2015 were secured by the following assets:

		Millions of yen	Thousands of U.S. dollars
	2016	2015	2016
Trading assets	¥480,686	¥606,749	\$4,291,839
	¥480,686	¥606,749	\$4,291,839

In addition to the above, securities borrowed amounting to ¥63,795 million (\$569,598 thousand) and ¥51,383 million were pledged as guarantees at March 31, 2016 and 2015, respectively.

Total fair value of the securities pledged as collateral at March 31, 2016 and 2015 consisted of the following:

		Millions of yen	Thousands of U.S. dollars
	2016	2015	2016
Securities loaned	¥ 924,973	¥1,658,509	\$ 8,258,688
Securities sold under agreements to repurchase	1,327,563	1,805,371	11,853,241
Other	429,774	509,472	3,837,267
	¥2,682,310	¥3,973,352	\$23,949,196

Total fair value of the securities received as collateral at March 31, 2016 and 2015 consisted of the following:

		Millions of yen	Thousands of U.S. dollars
	2016	2015	2016
Securities borrowed	¥2,760,561	¥4,007,171	\$24,647,866
Securities purchased under agreements to resell	153,260	65,367	1,368,393
Other	353,872	426,016	3,159,571
	¥3,267,693	¥4,498,554	\$29,175,830

9. Lease transactions

The information concerning operating leases at March 31, 2016 and 2015 are as follows:

Lessee:	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Operating leases:			
Future lease payments in respect of operating leases	¥10,397	¥14,553	\$92,830
Due within one year	7,593	7,379	67,795

10. Payables to customers and counterparties

Payables to customers and counterparties at March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Cash received for customers' accounts	¥165,671	¥151,738	\$1,479,205
Cash deposits received from customers	513,166	497,429	4,581,839
Other	513	592	4,581
	¥679,350	¥649,759	\$6,065,625

11. Long-term debt

Long-term debt as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Bond payable in yen: 0.94% due CY2015	¥ —	¥ 41,300	\$ —
Bond payable in yen: 0.42% due CY2015	—	20,500	—
Bond payable in yen: 1.26% due CY2017	19,800	19,800	176,786
Bond payable in yen: 1.72% due CY2020	18,400	18,400	164,286
Bond payable in yen: 2.16% due CY2025	7,800	7,800	69,643
Bond payable in yen: 2.41% due CY2026	3,000	3,000	26,786
Bond payable in yen: 2.24% due CY2026	5,000	5,000	44,643
Bond payable in yen: 0.53% due CY2032	—	3,300	—
Bond payable in yen: 0.18% due CY2033	—	3,700	—
Bond payable in yen: 0.24% due CY2034	5,000	5,000	44,643
Bond payable in yen: 0.12% due CY2035	3,200	—	28,571
Medium-term notes maturing through CY2046	647,185	639,245	5,778,438
Subordinated medium-term notes maturing through CY2021	7,225	38,150	64,509
Subordinated borrowings in yen maturing through CY 2025	50,000	7,000	446,429
Long-term borrowings in yen maturing through CY2041	525,189	425,115	4,689,186
	¥1,291,799	¥1,237,310	\$11,533,920

The amount for medium-term notes as of March 31, 2016 includes US\$791,056 thousand and AU\$3,000 thousand of foreign-currency notes.

12. Retirement benefits

Retirement benefits for employees

(1) Defined benefit plans

Retirement benefits in the balance sheets as of March 31, 2016 and 2015 are ¥27,654 million (\$246,911

thousand) and ¥25,695 million, respectively. Benefit expenses stated in the statements of income for the years ended March 31, 2016 and 2015 were ¥2,787 million (\$24,884 thousand) and ¥2,926 million, respectively.

Movement in retirement benefit obligations consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
At beginning of period	¥25,695	¥23,934	\$229,420
Service cost	2,787	2,926	24,884
Benefits paid	(1,477)	(1,444)	(13,188)
Other	649	279	5,795
At end of period	¥27,654	¥25,695	\$246,911

(2) Defined contribution plan

Benefit expenses to "Defined contribution" for the years ended March 31, 2016 and 2015 were ¥2,089 million (\$18,652 thousand) and ¥2,032 million, respectively.

Retirement benefits for directors

Directors' and corporate auditors' retirement benefits of ¥60 million (\$535 thousand) and ¥46 million are included in "Retirement benefits" in the accompanying balance sheets as of March 31, 2016 and 2015. Benefit expenses stated in the statements of income for the years ended March 31, 2016 and 2015 were ¥14 million (\$125 thousand) and ¥13 million, respectively.

13. Income taxes

A reconciliation of the difference between the statutory income tax rate and the effective income tax rate reflected in the statements of income for the years ended March 31, 2016 and 2015 are as follows:

	2016	2015
Statutory tax rate:	33.1%	35.6%
Valuation allowance	(0.3)	(27.4)
Other	(1.8)	(0.2)
Effective tax rate	31.0%	8.0%

Details of deferred tax assets and liabilities as of March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Deferred tax assets:			
Retirement benefits	¥ 8,472	¥ 8,318	\$ 75,643
Loss on trading	5,205	5,812	46,473
Compensation and bonuses	4,242	5,853	37,875
Enterprise tax and office taxes	2,193	578	19,580
Statutory reserves	1,199	1,240	10,705
Write-down of investment securities	435	709	3,884
Depreciation	295	373	2,634
Impairment losses	65	416	580
Net operating losses carry-forward	—	291	—
Other	5,019	5,811	44,814
Gross deferred tax assets	27,125	29,401	242,188
Less: Valuation allowance	(15,567)	(16,501)	(138,992)
Total deferred tax assets	11,558	12,900	103,196
Deferred tax liabilities	4,321	5,234	38,580
Net deferred tax assets	¥ 7,237	¥ 7,666	\$ 64,616

The Company provided valuation allowance to reflect the estimated unrealized amount of gross deferred tax assets.

On March 29, 2016, amendments to the Japanese tax regulations were passed by the National Diet. Based on the amendments, the statutory income tax rate utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2016 to March 31, 2018 and on or after April 1, 2018 are changed from 32.34% for the fiscal year ended March 31, 2016 to 30.86% and 30.62%, respectively, as of March 31, 2016.

14. Statutory reserves

The Financial Instruments and Exchange Act of Japan requires a securities company to set aside a reserve in proportion to its securities transactions and other

Due to these changes in statutory income tax rates, net deferred tax assets (after deducting the deferred tax liabilities) decreased by ¥270 million (\$2,411 thousand) as of March 31, 2016, deferred income tax expense recognized for the fiscal year ended March 31, 2016 increased by ¥449 million (\$4,009 thousand) and valuation difference on available-for-sale securities increased by ¥178 million (\$1,589 thousand).

related trading to cover future eventual operational losses caused by the securities company for customer transactions.

15. Contingent liabilities

The outstanding balances of the guarantees obligated by the Company arising as guarantors of employees' borrowings were ¥121 million (\$1,080 thousand) and ¥180 million at March 31, 2016 and 2015, respectively. The outstanding balances of the guarantees obligated

by the Company arising as guarantors of derivative transactions of fellow subsidiaries were ¥508 million (\$4,536 thousand) and ¥2,191 million at March 31, 2016 and 2015, respectively.

16. Owners' equity

In principle, the Companies Act of Japan ("the Act") requires a company to credit the entire amount of issued shares to common stock (and preferred stock, if any); however, a company may classify an amount not exceeding one-half of the entire issued amount of shares as additional paid-in capital, which is included in "Capital surplus" in the accompanying balance sheets, with a resolution of the Board of Directors.

According to the Act, a company should set aside 10% of cash dividends and other cash appropriations as additional paid-in capital or earned surplus until the total becomes one quarter of the common stock (and preferred stock, if any). Additional paid-in capital and

earned surplus are allowed to be utilized to eliminate or reduce a deficit with a resolution of the shareholders' meeting or may be transferred to common stock with a resolution of the Board of Directors, and also may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends. Additional paid-in capital and earned surplus are included in "Capital surplus" and "Retained earnings" in the accompanying balance sheets.

The maximum amount that the Company can distribute as dividends is calculated based on the financial statements of the Company in accordance with the Act.

17. Segment information

The Company's reportable segment is defined as a group of operating segments for which discrete financial information is available and reviewed by the Company's management regularly in order to make decisions for resources to be allocated to the segments and assess their performance. The Company decides operating segments by business market and business category based on

organization structure and aggregates to two reporting segments "Retail sales" and "Domestic wholesale."

"Retail sales" provides broad types of products and services mainly to individual and unlisted-corporate customers. "Domestic wholesale" consists of "Global markets" and "Global investment banking." "Global markets" sells and trades stock, bonds, foreign exchange and the

other derivatives mainly to institutional investors and investors of business, financial and public-interest corporations both at home and abroad. "Global investment

banking" provides various investment banking services such as underwriting of securities and advisory of M&A, etc., at home and abroad.

(Net operating revenues by reportable segment)

	Millions of yen				
	Retail sales	Domestic wholesale	Reportable segment total	Others	Total
Year ended March 31, 2016:					
Net operating revenues:					
Sales to customers	¥211,627	¥128,682	¥340,309	¥2,098	¥342,407
Intersegment sales and transfers	—	—	—	—	—
Total	¥211,627	¥128,682	¥340,309	¥2,098	¥342,407

	Millions of yen				
	Retail sales	Domestic wholesale	Reportable segment total	Others	Total
Year ended March 31, 2015:					
Net operating revenues:					
Sales to customers	¥224,660	¥134,203	¥358,863	¥3,011	¥361,874
Intersegment sales and transfers	—	—	—	—	—
Total	¥224,660	¥134,203	¥358,863	¥3,011	¥361,874

	Thousands of U.S. dollars				
	Retail sales	Domestic wholesale	Reportable segment total	Others	Total
Year ended March 31, 2016:					
Net operating revenues:					
Sales to customers	\$1,889,527	\$1,148,946	\$3,038,473	\$18,732	\$3,057,205
Intersegment sales and transfers	—	—	—	—	—
Total	\$1,889,527	\$1,148,946	\$3,038,473	\$18,732	\$3,057,205

* "Others" are the business segments which are not included in the reportable segments.

* "Net operating revenues" consist of "Operating revenue," "Interest expense," and "Commissions and brokerage" (Selling, general and administrative expenses).

* The Company does not disclose the segment information on assets because the management does not allocate it to each segment for managerial decision-making.

(Difference between the segment information and the financial statements)

(Adjustment of difference)

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Net operating revenues			
Reportable segment total	¥340,309	¥358,863	\$3,038,473
Net operating revenues from "Others"	2,098	3,011	18,732
Commission fee deducted from net operating revenues	8,060	6,587	71,964
Other adjustments	(2,245)	(1,869)	(20,044)
Net operating revenue of financial statements	¥348,222	¥366,592	\$3,109,125

(Impairment losses on fixed assets by reportable segment)

Not applicable.

(Gains on negative goodwill by reportable segment)

Not applicable.

18. Transactions with related parties

The information on the Company's material transactions with its related parties and individuals for the years ended March 31, 2016 and 2015, and the resulting account balances with those related parties at the balance sheet dates are as follows:

Name of related company	Paid-in Capital	Description of transactions		Account balances
				Millions of yen
				2016
Daiwa Securities Group Inc.	¥247,397 million	Proceeds from Borrowings	Short-term borrowings	¥370,000
		Interest expense (Note 1)	Long-term debt	238,089
			Accrued and other liabilities—Other	370
Daiwa Capital Markets Europe Limited	£732 million	Continual transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	¥ 2,000
		Interest income (Note 3)	Collateralized short-term financing agreements (Liabilities)	570,321
		Interest expense (Note 3)		
		Continual transactions of loans	Loans receivable from other than customers	¥ 48,607
		Interest income (Note 3)	Receivables—Other	82
		Continual transaction of purchase and sale of securities (Notes 2, 3)		
		Continual transactions of derivatives (Notes 2, 3)	Trading assets	¥ 41,757
			Trading liabilities	47,138
Daiwa Capital Markets America Inc.	\$100 million	Continual transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	¥ 91,575
		Interest income (Note 3)	Collateralized short-term financing agreements (Liabilities)	754,040
		Interest expense (Note 3)		
		Continual transaction of purchase and sale of securities (Notes 2,3)		
Daiwa Capital Markets Hong Kong Limited	HK\$100 million and \$677 million	Continual transaction of purchase and sale of securities (Notes 2,3)		
Daiwa Asset Management Co. Ltd.	¥15,174 million	Agency service agreement for investment trust funds	Receivables—Other	¥ 3,189
		Commissions (Note 4)		
Daiwa Next Bank, Ltd	¥50,000 million	Continual transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	¥107,129
		Interest income (Note 3)		
		Interest expense (Note 3)		
		Continual transaction of purchase and sale of securities (Notes 2,3)		
		Continual transactions of derivatives (Notes 2, 3)	Trading assets	¥ 6,238
			Trading liabilities	18

* "Daiwa Securities Group Inc." is the parent company of the Company, holding 100% of shares.

* "Daiwa Capital Markets Europe Limited," "Daiwa Capital Markets America Inc.," "Daiwa Capital Markets Hong Kong Limited," "Daiwa Asset Management Co. Ltd." and "Daiwa Next Bank, Ltd" are subsidiaries of "Daiwa Securities Group Inc."

Terms and conditions of the transactions and transaction policy

(Note 1) Interest rates on borrowings are determined rationally in consideration of market interest rates.

(Note 2) The description of transaction amount is omitted because these are continual transactions.

(Note 3) Terms of transaction are determined based on the market trends.

(Note 4) These are based on the investment trust contract of each fund. The fee is determined in the same manner as other sales companies.

Name of related company	Paid-in Capital	Description of transactions		Account balances	
				Millions of yen	
					2015
Daiwa Securities Group Inc.	¥247,397million	Proceeds from Borrowings	Short-term borrowings	¥	270,000
		Interest expense (Note 1)	Long-term debt		185,314
			Accrued and other liabilities—Other		249
Daiwa Capital Markets Europe Limited	£732 million	Continual transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	¥	28,285
		Interest income (Note 3)	Collateralized short-term financing agreements (Liabilities)		1,088,373
		Interest expense (Note 3)			
		Continual transactions of loans	Loans receivable from other than customers	¥	172,000
		Interest income (Note 3)	Receivables—Other		81
		Continual transaction of purchase and sale of securities (Notes 2, 3)			
		Continual transactions of derivatives (Notes 2, 3)	Trading assets	¥	33,774
			Trading liabilities		29,249
Daiwa Capital Markets America Inc.	\$100 million	Continual transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	¥	43,819
		Interest income (Note 3)	Collateralized short-term financing agreements (Liabilities)		730,316
		Interest expense (Note 3)			
		Continual transaction of purchase and sale of securities (Notes 2, 3)			
Daiwa Capital Markets Investment Asia Limited	\$370 million	Continual transactions of derivatives (Notes 2, 3)			
Daiwa Capital Markets Hong Kong Limited	HK\$100 million and \$677 million	Continual transaction of purchase and sale of securities (Notes 2, 3)			
Daiwa Asset Management Co. Ltd.	¥15,174 million	Agency service agreement for investment trust funds	Receivables—Other	¥	3,751
		Commissions (Note 4)		¥28,838	
Daiwa Next Bank, Ltd	¥50,000 million	Continual transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	¥	143,780
		Interest income (Note 3)		¥	—
		Interest expense (Note 3)			180
		Continual transactions of purchase and sale of securities (Notes 2, 3)			
		Continual transactions of derivatives (Notes 2, 3)	Trading assets	¥	204
			Trading liabilities		542

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Terms and conditions of the transactions and transaction policy

(Note 1) Interest rates on borrowings are determined rationally in consideration of market interest rates.

(Note 2) The description of transaction amount is omitted because these are continual transactions.

(Note 3) Terms of transaction are determined based on the market trends.

(Note 4) These are based on the investment trust contract of each fund. The fee is determined in the same manner as other sales companies.

Name of related company	Paid-in Capital	Description of transactions		Account balances
				Thousands of U.S. dollars
				2016
Daiwa Securities Group Inc.	¥247,397 million	Proceeds from Borrowings	Short-term borrowings	\$3,303,571
		Interest expense (Note 1) \$ 20,679	Long-term debt	2,125,795
			Accrued and other liabilities—Other	3,304
Daiwa Capital Markets Europe Limited	£732 million	Continual transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	\$ 17,857
		Interest income (Note 3) \$ 384	Collateralized short-term financing agreements (Liabilities)	5,092,152
		Interest expense (Note 3) 5,625		
		Continual transactions of loans	Loans receivable from other than customers	\$ 433,991
		Interest income (Note 3) \$ 3,804	Receivables—Other	732
		Continual transaction of purchase and sale of securities (Notes 2, 3)		—
		Continual transactions of derivatives (Notes 2, 3)	Trading assets	\$ 372,830
			Trading liabilities	420,875
Daiwa Capital Markets America Inc.	\$100 million	Continual transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	\$ 817,634
		Interest income (Note 3) \$ (500)	Collateralized short-term financing agreements (Liabilities)	6,732,500
		Interest expense (Note 3) 26,938		
		Continual transaction of purchase and sale of securities (Notes 2, 3)		—
Daiwa Capital Markets Hong Kong Limited	HK\$100 million and \$677 million	Continual transaction of purchase and sale of securities (Notes 2, 3)		—
Daiwa Asset Management Co. Ltd.	¥15,174 million	Agency service agreement for investment trust funds	Receivables—Other	\$ 28,473
		Commissions (Note 4) \$241,625		
Daiwa Next Bank, Ltd	¥50,000 million	Continual transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	\$ 956,509
		Interest income (Note 3) \$ 7,205		
		Interest expense (Note 3) —		
		Continual transaction of purchase and sale of securities (Notes 2, 3) \$ —		
		Continual transactions of derivatives (Notes 2, 3)	Trading assets	\$ 55,696
			Trading liabilities	161

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Terms and conditions of the transactions and transaction policy

(Note 1) Interest rates on borrowings are determined rationally in consideration of market interest rates.

(Note 2) The description of transaction amount is omitted because these are continual transactions.

(Note 3) Terms of transaction are determined based on the market trends.

(Note 4) These are based on the investment trust contract of each fund. The fee is determined in the same manner as other sales companies.

19. Special purpose entities subject to disclosure

The Company utilized six special purpose entities for the year ended March 31, 2016 (six for the year ended March 31, 2015) principally for the securitization of structured notes in order to support securitization of monetary assets of customers. The Company acquires and transfers bonds to those special purpose entities (incorporated in the Cayman Islands) and issues

structured notes collateralized by those bonds. The Company does not own any shares with voting rights in any of these special purpose entities and has not dispatched any director or employee to them. Notes issued by those special purpose entities subject to disclosure as of the fiscal years ended March 31, 2016 and 2015 are ¥842,173 million (\$7,519,402 thousand) and ¥726,358 million, respectively.

20. Net gain on trading

Net gain on trading for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Equities and others	¥ 22,761	¥ 27,044	\$ 203,223
Bonds, forex and others	116,293	129,772	1,038,331
	¥139,054	¥156,816	\$1,241,554

21. Selling, general and administrative expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2016 and 2015 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Employees' compensation and benefits	¥102,121	¥102,907	\$ 911,795
Commissions and brokerage	21,366	18,341	190,768
Communications	12,008	11,361	107,214
Occupancy and rental	24,144	24,593	215,571
Data processing and office supplies	43,828	43,651	391,321
Taxes other than income taxes	3,537	3,088	31,580
Depreciation	14,560	15,358	130,000
Other	12,116	10,703	108,180
	¥233,680	¥230,002	\$2,086,429

22. Other income (expenses)

Details of "Other, net" in the accompanying statements of income for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Gains on sales of investment securities	¥ 770	¥ —	\$ 6,875
Gain on bad debts recovered	232	500	2,071
Losses on sale or disposal of fixed assets	—	(38)	—
Losses on sale of subsidiaries' stocks	—	(317)	—
Provision for loss on litigation	(338)	—	(3,018)
Provision of allowance for doubtful accounts	—	(318)	—
Other	2,009	2,061	17,938
	¥2,673	¥1,888	\$23,866

23. Subsequent events

None

Independent Auditor's Report



To the Board of Directors of Daiwa Securities Co. Ltd.:

We have audited the accompanying financial statements of Daiwa Securities Co. Ltd., which comprise the balance sheets as at March 31, 2016 and 2015, and the statements of income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Daiwa Securities Co. Ltd. as at March 31, 2016 and 2015, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying financial statements with respect to the year ended March 31, 2016 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the financial statements.

KPMG AZSA LLC

June 29, 2016
Tokyo, Japan