

Integrated Report

Year ended March 31, 2017

2017

ESG

The Customer's First Choice

Value Creation

HR Strategy

Quality No. 1

Building Trust

Becoming Our Customers' Best Partner

Daiwa Securities Group

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Forward-Looking Statements

This Integrated Report contains forward-looking statements about the Daiwa Securities Group. You can identify these statements by the fact that they do not relate strictly to historic or current facts. These statements discuss future expectations, identify strategies, contain projections of results of operations or of financial condition, or state other "forward-looking" information. These statements are based on currently available information and represent the beliefs of the management of the Daiwa Securities Group. These statements are subject to numerous risks and uncertainties that could cause the Daiwa Securities Group's actual results, performance, achievements or financial condition to differ materially from those described or implied in the forward-looking statements. The Daiwa Securities Group undertakes no obligation to publicly update any forward-looking statements after the date of issuance of this report. These potential risks and uncertainties include, but are not limited to: competition within the financial services industries in Japan and overseas, our ability to adjust our business focus and to maintain profitable strategic alliances, volatile and sudden movements in the international securities markets, and foreign exchange and global economic situations affecting the Daiwa Securities Group. "FY2016" refers to the fiscal year ended March 31, 2017, and other fiscal years are referred to in a corresponding manner.

External Evaluation

ESG Index Selection
Daiwa Securities Group Inc. has been selected for inclusion in the Dow Jones Sustainability World Index, the FTSE4Good Index and the FTSE Blossom Japan Index.

MEMBER OF

Dow Jones Sustainability Indices

In Collaboration with RobecoSAM



Participation in International Initiatives

In January 2010, the Daiwa Securities Group became the first securities company in Japan to sign the United Nations Global Compact (UNGC). The Group is also a signatory to the Carbon Disclosure Project (CDP) and the Principles for Responsible Investment (PRI).



Corporate Principles

Corporate Principles of the Daiwa Securities Group

- Building trust

The trust and approval of customers form the very foundation of the Daiwa Securities Group. The Group will always place the needs of customers first, and strive to develop the advanced, specialized skills to offer them the most attractive products and services of any securities group.

- Placing importance on personnel

The source of the Group's competitiveness lies in the capabilities of its employees. The Group will promote the creativity of employees by offering them a challenging and self-directed working environment that encourages their abilities and appropriately rewards their contributions.

Daiwa Securities Group

- Contributing to society

The Daiwa Securities Group will seek to benefit the economy and society through the development of healthy financial markets. In addition to scrupulously observing both regulations and internal policies, the Group will strive to maintain a high sense of morality and duty, endeavoring to continue contributing to the sustainable growth of the societies in which we operate.

- Maintaining healthy earnings results

The Group will always seek to develop healthy business operations and to increase corporate value for the benefit of shareholders. By providing customers with attractive products and services, the Daiwa Securities Group will seek to generate strong profits and healthy returns for shareholders.

Editorial Policy

Publication of Daiwa Securities Group Integrated Report 2017

Daiwa Securities Group has formulated and published the corporate principle which consists of four components: "building trust," "placing importance on personnel," "contributing to society," and "maintaining healthy earnings results." This corporate principle is the bedrock from which we aim to increase corporate value over the longer term, by managing operations with an eye on creating value for our stakeholders, while fulfilling our responsibilities to society as a major player in capital markets.

Daiwa Securities Group believes its social mission is to contribute to the development of society and the economy through participation in financial and capital markets, by bringing together the fund management needs of individuals, corporations and institutional investors and the operating fund procurement needs of companies, national and local governments, public institutions, and international institutions. To deepen understanding of the corporate activities of Daiwa Securities Group, we have published an integrated report.

As the Company's 115th anniversary since its foundation, FY2017 is a milestone year for Daiwa Securities Group. In line with this history, the Group has established a unique corporate culture. Under a management structure that was renewed in April 2017, Daiwa Securities Group has put together an integrated report that provides details of its growth measures, including both the corporate culture and DNA that the Company has nurtured over many years as well as the Group's efforts to establish a robust structure through the expansion of stable revenues. At the same time, the Integrated Report outlines details of the Company's management policy in FY2017. In order to upgrade and expand the disclosure of non-financial information, a special feature on the Group's environmental, social, and governance (ESG) initiatives has been included in the report. We hope you find this information beneficial.

Information about our Corporate Social Responsibility initiatives is available on the Group's CSR website and in the annual CSR Report, which can be downloaded in PDF format from the CSR website.

中田 誠 司

Seiji Nakata
President and CEO
Daiwa Securities Group Inc.

CSR website:
<http://www.daiwa-grp.jp/english/csr/index.html>
CSR Report:
<http://www.daiwa-grp.jp/english/csr/report/archives/index.html>

To Our Stakeholders



Takashi Hibino



Seiji Nakata

Providing the Industry's Highest Quality to Become the Customer's First Choice Securities Group

At the end of the fiscal year under review, Daiwa Securities Group completed the second year of its Medium-Term Management Plan, entitled "Passion for the Best" 2017, a three-year plan that commenced in FY2015. From a performance perspective, Daiwa Securities Group reported consolidated net operating revenues of ¥472.7 billion, ordinary income of ¥135.6 billion, and profit attributable to owners of parent company of ¥104.0 billion for FY2016.

FY2016 saw various events that significantly impacted the global economy while overturning preconceived assumptions. These events included the decision by the U.K. to withdraw from the European Union and the presidential election in the U.S. Against the backdrop of a rapidly changing market environment, the Retail Division continued to confront harsh operating conditions as individual investors in Japan exhibited an ongoing aversion to risk. Meanwhile, the Wholesale Division experienced brisk fixed income trading while earnings from overseas operations improved substantially with a return to profitability. Taking into account these and other factors, there were indications that efforts to build a balanced Group-wide profit structure were bearing fruit. In this regard, Daiwa Securities Group is now in the position to maintain stable profit levels despite a difficult business environment.

From the end of 2016, signs of a positive turnaround in the global market environment began to emerge on the back of expectation toward the economic policies introduced by the newly elected Trump administration in the U.S. This in turn is having a positive flow-on effect on conditions in Japan. As far as foreign currency exchange rates are concerned, trends are shifting toward a weaker yen. As a result, we are seeing Japanese companies report record-high

earnings. At the same time, a succession of policies is being implemented by the Japanese government to promote the transition "from savings to investments." This includes the introduction of Junior NISA^{*1} and efforts to upgrade and expand the iDeCo^{*2} plan.

Under these circumstances, Daiwa Securities Group put in place a new management structure which took effect from April 2017. Under this new management structure, Takashi Hibino, who was president and CEO, has assumed the position of Chairman of the Board, and replaced by Seiji Nakata.

As stated in the corporate principle, the trust and approval of customers form the very foundation of the Daiwa Securities Group and the basis for every action taken. While faithfully observing this corporate principle, we will continue to evolve and promote initiatives aimed at providing the industry's highest quality by making concerted efforts to manage operations in a manner that puts the customer first. Through these initiatives, Daiwa Securities Group will garner compensation that is commensurate with its efforts to provide customers with attractive products and services. This in turn will help maintain healthy earnings results, a key tenet of the corporate principle. Furthermore, Daiwa Securities Group will continue to enhance its corporate value by building up healthy profits. As we work toward achieving our goals, we kindly request the continued support and understanding of all stakeholders.

^{*1} Introduced from April 2016, Junior NISA, which stands for Nippon (Japan) Individual Savings Account, is a tax-exempt investment account for small investments by individuals who are under the age of 20 and residents of Japan. Income from capital gains, dividends, and income from share distributions derived from publicly listed equities as well as publicly offered equity investment trusts purchased using Junior NISA accounts are exempt from levies over a five-year period.

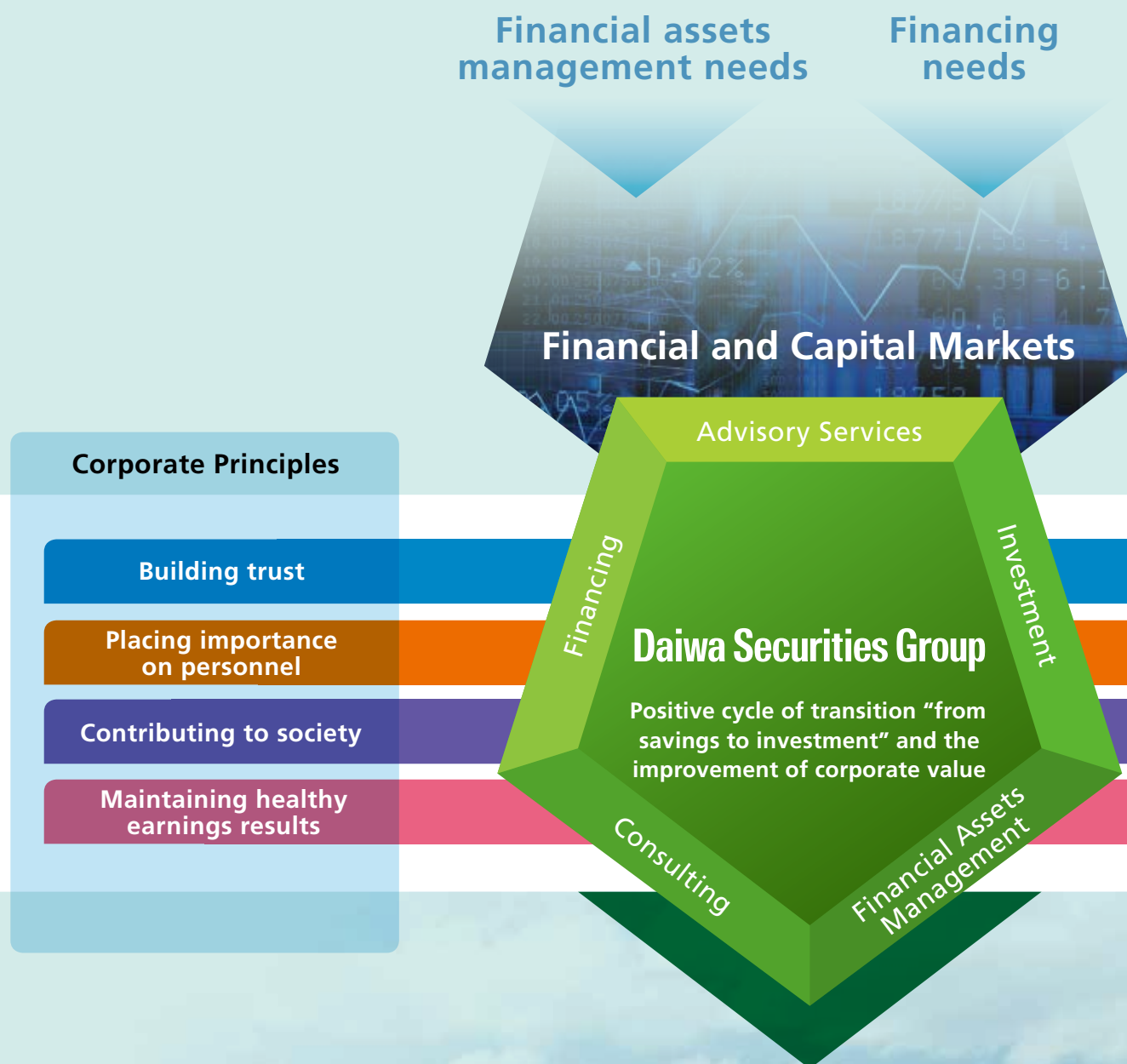
^{*2} Expansion of qualified subscribers for iDeCo (Individual-type defined contribution pension plan) from January 2017. Tax benefits for each of subscriber premium contribution, asset management, and receipt.

司比野隆司 中田誠司

Takashi Hibino
Chairman of the Board
Daiwa Securities Group Inc.

Seiji Nakata
President and CEO
Daiwa Securities Group Inc.

Daiwa Securities Group's Value Creation Process



Contribute to the development of society and the economy through financial and capital markets

➤ Financial Assets Management	Daiwa Securities Group meets the asset management needs of customers, including individual and institutional investors and pension funds by providing an extensive lineup of investment products – equities, bonds, investment trusts, and fund wrap – as well as a variety of services such as investment information and advice. Customers can take advantage of various functions and capabilities, including contact centers, online trading, banking, and securities trading.
➤ Consulting	Daiwa Securities Group provides consulting services to individual customers on areas, including wealth management, pensions, insurance, and inheritance. Consulting services for corporate clients offer support for business succession, business insurance, and employee benefit issues.
➤ Financing	Daiwa Securities Group offers underwriting and other advisory services to meet the financing needs of corporations for their capital investments as well as R&D. It also provides those services to national and local governments, international institutions, public corporations, and other entities to assist with their procurement of operating funds. The Group supports financing through the issuance of equities and bonds, or by structuring securitized products.
➤ Advisory Services	Daiwa Securities Group offers consulting and intermediary services such as for M&As to meet client corporations' business expansion and reorganization needs. The Group has a global network covering Japan, the Americas, Europe, and Asia, in response to vibrant cross-border M&A activity by Japanese and foreign corporations.
➤ Investment	Through Group companies of private equity firms and venture capital firms, Daiwa Securities Group mainly takes capital positions in unlisted companies – both new ventures and established businesses – using hands-on investment techniques to supply these companies with management support as well as funding.

Value



**Sustainable
Improvement of
Corporate Value**



**Contributing to
Society through
the Securities
Business**






**HR Strategy
to achieve the
industry's highest
quality service**



**Becoming
Our Customers'
Best Partner**

Our Efforts to Achieve

Corporate History (From FY1998)

Business environment	First financial big bang Financial holding companies permitted Securities company certification system shifts from licensing to registration Investment trust sales through banks permitted Equity commissions completely deregulated					Second financial big bang Securities intermediation business permitted Comprehensive oversight bill covering securities companies Financial Instruments and Exchange Law came into effect				
	Transition to a holding company structure					Introduction of a committee system				
Group strategy	Concluded a final agreement with The Sumitomo Bank Limited on setting up a joint venture company	Established a wholesale business joint venture company with The Sumitomo Bank Limited							Acquired Sagent Advisors shares	
				Started Daiwa SMA service					Started Daiwa Fund Wrap service	
New products and services				Established Women Promotion Team					Began encouraging employees to leave work by 7pm	
				Implemented Women Promotion Plan						
HR strategy				Introduced a program to promote the rehiring of sales staff						
FY1998 FY1999 FY2000 FY2001 FY2002 FY2003 FY2004 FY2005 FY2006 FY2007										
Medium-Term Management Plan	Daiwa Securities Group Medium-Term Management Plan					Best Brand Daiwa 2005			"Passion for the Best" 2008	
	<ul style="list-style-type: none">Transition from a focus on reorganization to a more offensive posture in a bid to become the strongest securities group					<ul style="list-style-type: none">Reinforcement of the marketing structure within the retail businessSupplying high-value-added products and servicesIncreasing the Group's presence in businesses relating to the revitalization of the Japanese economyReinforcement of the personnel management structureReform of the corporate governance structure			<ul style="list-style-type: none">Accumulation of No. 1 products and servicesStrengthening of corporate businessesHuman Resource ManagementInfrastructure development	

the Industry's Highest Quality

As of June 30, 2017

Global financial crisis				Abenomics starts			China Shock		
							Negative interest rate policy adopted		

"New" Daiwa Securities Co. Ltd.

115th anniversary since foundation

Capital and business alliance with Saigon Securities	Dissolved joint venture with SMFG		Daiwa Next Bank commenced business	Established Daiwa Residential Private Investment Corp.	Established Nippon Healthcare Investment Corp.	Investment in Mi-Casa AM	Made IDI Infrastructures a subsidiary of the Group	Capital and business alliance with SBI Group	Investment in COL Financial Group
	Acquired all outstanding daVinci Select shares (entered the real estate AM business)			Business alliance with Thanachart Securities	Business alliance with Bahana Securities	Business alliance with Sanford C. Bernstein	MSEC obtains securities license	Acquired additional shares in Saigon Securities; company recorded as an equity-method affiliate	
	Acquired Close Brothers				Business alliance with Affin Hwang Investment Bank	Business alliance with China Securities	Business alliance with Development Bank of Philippines	Business alliance with Ambit	

		Started Inheritance Total Service	Daiwa Next Bank started its service		Started Premium Service and Family Plus services	Started the assignment of Inheritance Consultants	Started PB services in Asia	Started the Daiwa Fund Wrap Premium service	Introduced the new Daiwa iDeCo plan
					NISA system starts		Junior NISA account system starts	Started the Daiwa Fund Wrap Online service	

Reviewed Childcare Leave		Implemented shorter working hours system				Implemented Childcare Support Leave	Created the position of CHO (Chief Health Officer)	Implemented a nanny introduction system	Expanded shorter working hours system
Established Work-life Balance Promotion Team		Implemented Long-term Care Leave				Implemented Spouse Work Reassignment Leave System	Established Health and Productivity Management Team	Expanded support for balancing work and long-term care	Expanded Long-term Care Leave
Began promotion to take paid annual leave						Launched female employee career support training initiative		Started healthy life promotion project	Abolished the upper age limit on the rehiring of sales staff

FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
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"Passion for the Best" 2011

- Concentrate management resources in the retail securities business
- Establish a sustainable business model for investment banking operations
- Expand operations in Asia and other emerging regions

"Passion for the Best" 2014

- Return to profitability by pursuing management efficiencies
- Achieve client-based high-quality earnings growth

"Passion for the Best" 2017

- Pursue highest quality
- Dramatically expand our customer base and revenue
- Support the sustainable growth of companies and the development of new industries

Daiwa Securities Group FY2016

2016

April

Daiwa Securities Group

- > Nursing care leave system revised so that applicants can take split nursing care leave up to four times (cumulative total in a year). Also launched life support paid leave system to enable taking of time off for nursing care preparation (From April 2017, period for taking nursing care leave extended to cumulative total of three years)

Daiwa Securities Co. Ltd.

- > Marked 20th anniversary since start of Daiwa online trading services



Daiwa Securities Co. Ltd.

- > Following Tokyo and Osaka, Fukuoka newly opened as third contact center base

May

Daiwa Asset Management Co. Ltd.

- > Daiwa ETF MSCI Japan Human and Physical Investment Index listed on Tokyo Stock Exchange. As of June 30, 2017, net assets exceeded ¥82.0 billion

Daiwa Securities Group

- > Ranked No. 1 in "companies that make active use of women's ability" category in *Survey on Female Workers' Workplace Opportunities* conducted by Nikkei Woman and Nikkei Womenomics Project



June

Daiwa Institute of Research Ltd.

- > Began demonstration experiments of blockchain technology using hypotheses for Myanmar's Yangon Stock Exchange and local securities company. On October 31, announced verification result toward practical use of FinTech in Myanmar

July

Daiwa Securities Group Inc.

- > Established investment fund management company DG Daiwa Ventures in joint venture with Digital Garage



August

Daiwa Securities Group Inc.

- > Established The University of Tokyo Hongo Tech Garage as a base to promote entrepreneurship education at The University of Tokyo (Daiwa Securities Group Donation Project)

September

Daiwa Securities Group Inc.

- > Selected as index component of Dow Jones Sustainability World Index (DJSI World), one of the highest ranked global indices related to socially responsible investment (SRI)



Daiwa Securities Co. Ltd.

- > As part of efforts to improve quality of response to elderly customers and customers with disabilities, staff members holding service assistant qualifications assigned to all branches



October

Daiwa Securities Co. Ltd.

- > Began providing Daiwa Fund Wrap Premium a higher version of the company's Daiwa Fund Wrap service

Daiwa Securities Co. Ltd.

- > Awarded honorable mention at Ikumen Enterprise Awards 2016 hosted by the Ministry of Health, Labour and Welfare, as a company that actively encourages male employees to balance work and childcare and works to improve their business affairs

November

Daiwa Securities Group

- > With the aim of further promoting health awareness of all employees, including younger people, introduced "KA·RA·DA Iki Iki Project—Healthy Lifestyle"



Daiwa Securities Co. Ltd.

- > As a company that promotes efforts in balancing work with childcare and nursing care as well as other model initiatives, presented with Minister of Health, Labour and Welfare Excellence Award in Family-Friendly Enterprise category at Ministry of Health, Labour and Welfare's FY2016 Equality and Work-Life Balance Awards

December

Daiwa Securities Co. Ltd.

- > In addition to actively appointing and promoting female employees, highly rated for initiatives that include enforcing leaving office time of before 7 p.m. and support for balancing of work with childcare/nursing care, received Minister of State for Special Missions (Gender Equality) Award at Cabinet Office's Fiscal 2016 Advanced Corporation for Advancement of Women Awards

Daiwa Securities Group Inc.

- > Signed a memorandum of understanding relating to strategic business alliance with major Indian financial products and services group Ambit Holdings Private Limited for the purpose of strengthening business relationship between both companies in connection with M&A advisory services business field



2017

January

Daiwa Securities Group Inc.

- > Established framework for share repurchase program to work to return profits to shareholders through improvement of capital efficiency

Daiwa Securities Co. Ltd.

- > Began offering Daiwa Fund Wrap Online service that enables making of small investments at low cost



February

Daiwa Securities Group Inc.

- > For third consecutive year selected for the "Health & Productivity Stock Selection" program conducted by Ministry of Economy, Trade and Industry and Tokyo Stock Exchange. From FY2016, newly selected among "Outstanding Health and Productivity Management Companies 2017 (White 500)"



- > Highly evaluated for establishment of diversity-related policy, status of women promoted to managerial positions, external community support, and status of information disclosure, selected for first time as component of 2017 Bloomberg Financial Services Gender-Equality Index



March

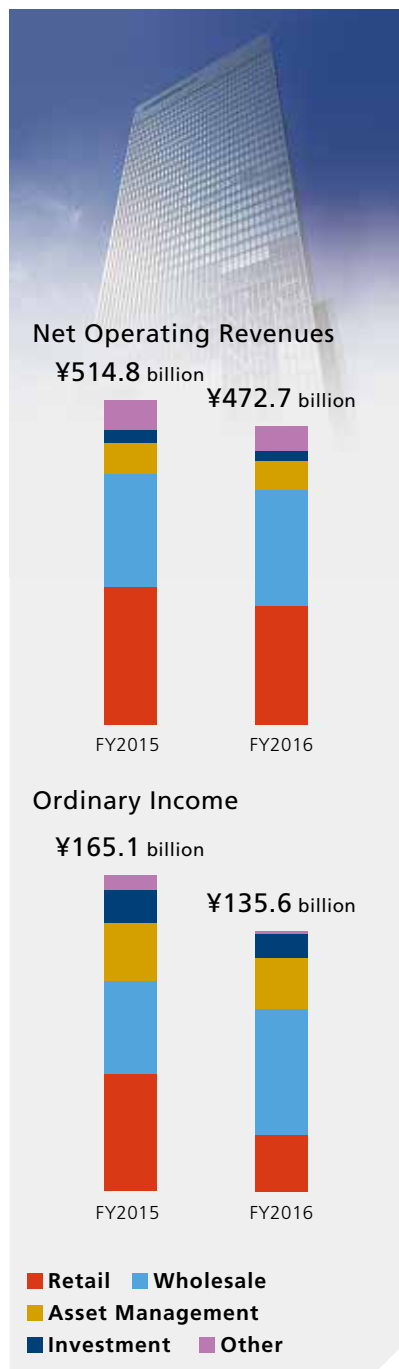
Daiwa Securities Group Inc.

- > As a publicly listed company with excellent track record in empowering women, for third consecutive year selected as Nadeshiko Brand that Ministry of Economy, Trade and Industry holds jointly with Tokyo Stock Exchange



Daiwa Securities Group's Businesses

Daiwa Securities Group



- Daiwa Securities Co. Ltd.
- Retela Crea Securities Co., Ltd.



- Daiwa Securities Co. Ltd.
- Daiwa Capital Markets Europe Limited
- Daiwa Capital Markets Hong Kong Limited
- Daiwa Capital Markets Singapore Limited
- Daiwa Capital Markets America Inc.



- Daiwa Asset Management Co. Ltd.
- Daiwa SB Investments Ltd.
- Daiwa Real Estate Asset Management Co. Ltd.
- Mi-Casa Asset Management Inc.
- Daiwa Office Investment Corporation



- Daiwa Corporate Investment Co., Ltd. (DCI)
- Daiwa PI Partners Co. Ltd. (PIP)
- Daiwa Securities SMBC Principal Investments Co. Ltd. (DPI)



- Daiwa Institute of Research Ltd.
- Daiwa Institute of Research Business Innovation Ltd.
- Daiwa Next Bank, Ltd.
- Daiwa Securities Business Center Co. Ltd.
- Daiwa Property Co., Ltd.

Notes: 1. The number of branches in the Retail Division is current as of July 31, 2017. Other figures are as of March 31, 2017, or from FY2016 results.
 2. Net operating revenues and ordinary income data of "Other" are the amounts of others/adjustments with respect to results by segment.

Number of branches and sales offices in Japan:

148

Number of cash management service accounts:

3,886 thousand

The Retail business responds to the wealth management needs of Japanese individual investors and plays a valuable role in linking the asset building activities of individuals to the supply of funds to the financial markets. With 148 branches nationwide and an advanced online infrastructure, Daiwa Securities provides a full spectrum of financial products and services from domestic and foreign stocks, bonds, and investment trusts to pension insurance and wrap account services.

Notes: 1. The left figures are for Daiwa Securities Co. Ltd.

2. The total number of branches for the two companies, Daiwa Securities Co. Ltd. and Retela Crea Securities Co., Ltd., was 154.

Offices in

20 countries and regions

Total value of underwriting and distribution:

¥684.7 billion (equity)

¥10.1 trillion (bond)

Global Markets

Global Markets offers sales and trading services in marketable securities mainly for institutional investors.

Global Investment Banking

Global Investment Banking underwrites securities issued by corporations and financial institutions and provides advisory services for M&As.

Assets under management:

¥19.1 trillion

Assets under management of real estate AM business:

¥819.3 billion

The Asset Management business specializes in managing financial assets, offering customers fund management and investment advisory services. It manages investment trusts for individual investors, provides investment advice to institutional investors, and manages REITs. Through these services, the Group supports asset formation for its customers.

Note: The left data is the total for Daiwa Asset Management (stock investment trusts and bond investment trusts) and Daiwa SB Investments (stock investment trusts and investment advisory).

Assets from investment funds:

¥343.6 billion from 81 funds

Outstanding principal investment balance:

¥108.5 billion

In the Investment business, the division provides capital to corporations through its own funds as well as investment funds that have been incorporated and managed by the division. The division engages in a wide range of investments, such as venture investments, domestic and overseas private equity investments, loan investments, and energy investments.

Note: Investment fund data is presented on a cumulative basis from the commencement of DCI business operations.

Balance of deposits:

¥3.1 trillion

Number of accounts:

1,213 thousand

"Other" businesses include research and consulting activities, information systems and other support functions overseen by the Daiwa Institute of Research Group, and banking operations overseen by Daiwa Next Bank.

Note: The left figures are for Daiwa Next Bank, Ltd.

Domestic and Overseas Network

Daiwa Securities' Domestic Branch Network

■ Hokkaido and Tohoku Region	10 offices
■ Kanto Region (excl. Tokyo)	32 offices
■ Tokyo Area	39 offices
■ Chubu and Hokuriku Region	22 offices
■ Kinki Region	22 offices
■ Chugoku and Shikoku Region	13 offices
■ Kyushu and Okinawa Region	10 offices
Total	148 offices
(118 head and branch offices / 30 sales offices)	

Four sales offices newly opened from and after April 2016

2016

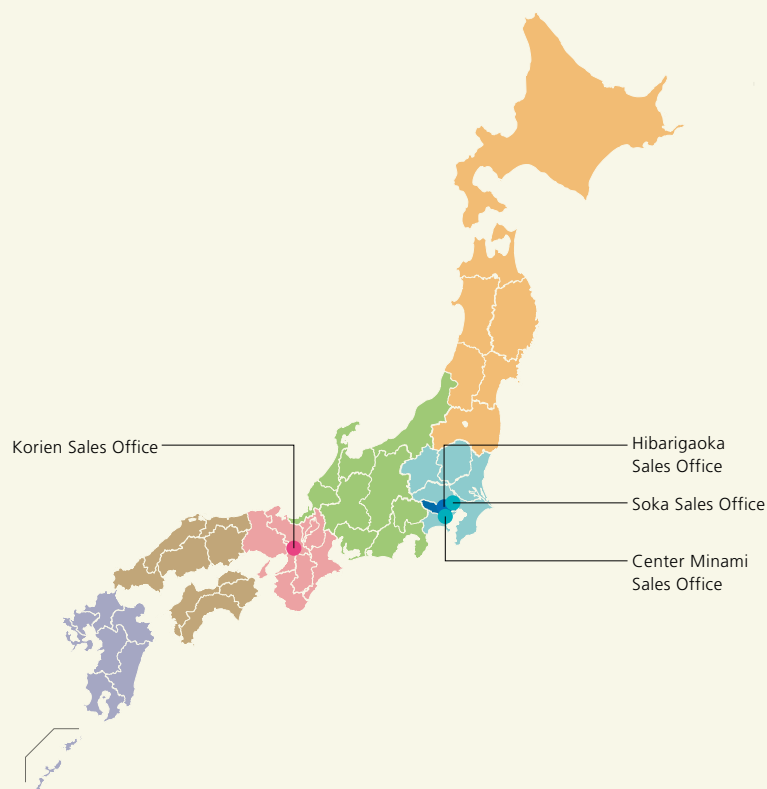
● Oct. Soka Sales Office Saitama

2017

● May Korien Sales Office Osaka

● Jul. Center Minami Sales Office Kanagawa

● Jul. Hibarigaoka Sales Office Tokyo



Number of branches and sales offices in Japan

148





Locations of global bases

20 countries and regions



Consolidated Financial and Non-Financial Highlights

Daiwa Securities Group Inc. (Consolidated)

Note: Please refer to pages 76–77 for the “Twelve-Quarter Financial Summary.”

	Millions of yen (Except as otherwise specified)				
	FY2012	FY2013	FY2014	FY2015	FY2016
Operating Performance					
Operating revenues	525,412	642,830	659,396	653,712	616,497
Commissions	229,522	301,937	291,116	288,419	273,335
Net gain on trading	123,537	156,500	157,220	131,324	128,121
Net gain on private equity and other investments	16,531	17,454	7,416	18,503	14,846
Interest and dividend income	93,276	107,975	125,934	149,451	143,242
Service fees and other revenues	62,545	58,964	77,710	66,015	56,953
Interest expense	70,131	60,333	80,070	89,530	98,725
Cost of service fees and other revenues	37,973	40,546	47,106	49,367	45,022
Net operating revenues	417,308	541,951	532,220	514,815	472,750
Selling, general and administrative expenses (SG&A)	333,496	357,358	361,380	364,517	353,688
Operating income	83,812	184,593	170,840	150,298	119,062
Ordinary income	95,176	197,045	184,578	165,148	135,624
Profit attributable to owners of parent	72,910	169,457	148,491	116,849	104,067
Financial Conditions (Fiscal year-end)					
Total assets	19,049,099	19,480,864	23,001,586	20,420,818	19,827,296
Net assets	1,082,568	1,253,463	1,434,681	1,313,005	1,343,432
Per Share Data (Yen)					
Net income* ¹	43.00	99.63	87.07	68.25	61.53
Net assets	536.72	633.53	725.27	720.86	745.80
Cash dividends applicable to the year	15.00	34.00	30.00	29.00	26.00
Consolidated Capital Adequacy Ratio * ² (Fiscal year-end, 100 millions of yen)					
Total Qualifying Capital (D)=(A)+(B)+(C)	9,531	10,804	12,117	11,269	11,311
Common Equity Tier 1 (A)	9,048	10,218	11,369	11,133	11,311
Additional Tier 1 (B)	—	157	359	41	—
Tier 2 Capital (C)	483	429	389	94	—
Total Risk-Weighted Assets (E)	47,552	49,515	57,477	52,917	49,963
Credit Risk	27,526	29,205	32,767	28,524	25,796
Market Risk* ³	12,758	11,557	14,603	13,606	13,783
Operational Risk* ³	7,268	8,753	10,107	10,788	10,382
Consolidated Common Equity Tier 1 Capital Ratio (A)/(E)	19.0%	20.6%	19.7%	21.0%	22.6%
Consolidated Tier 1 Capital Ratio ((A)+(B))/(E)	19.0%	20.9%	20.4%	21.1%	22.6%
Consolidated Total Capital Ratio (D)/(E)	20.0%	21.8%	21.0%	21.2%	22.6%
Non-Financial Information					
Number of women in management positions	190	221	262	316	375
Number of employees using childcare leave	453	505	710	890	998
Corporate citizenship expenditures	504	463	606	583	497

*1 Net income (loss) per share is calculated on the basis of the average number of shares outstanding during the fiscal year.

*2 Consolidated Capital Adequacy Ratio hereunder is calculated under the principles of Financial Services Agency Public Notice 130 of the Financial Instruments and the Exchange Act (Article 57-17-1). Numerical data from FY2012 is calculated based on Basel III standards in line with revision to the aforementioned Financial Services Agency Public Notice.

*3 Market and Operational Risk hereunder is computed by multiplying each risk amount by 12.5 (the Reciprocal of 8%).



Business Strategy

16	Interview with New CEO Seiji Nakata
28	Message from the CFO
30	Strategies by Division
31	Retail Division
33	Efforts toward Highest Quality in the Industry
34	Wholesale Division
36	Promotion of Global Deals
37	Asset Management Division
39	Investment That Takes ESG into Consideration
40	Investment Division
41	Other
	—Daiwa Institute of Research Group
	—Daiwa Next Bank
42	Initiatives That Utilize FinTech

Interview with New CEO Seiji Nakata

On April 1, 2017, Mr. Seiji Nakata was appointed as the new CEO of Daiwa Securities Group Inc. Further honing its business strategy, as a hybrid securities group that leverages the benefits of being independent, the Group is building a solid reputation as the best partner for customers by offering the highest quality in the industry.

Seiji Nakata
President and CEO
Daiwa Securities Group Inc.

With high levels of integrity and specialization,
we contribute to the betterment of Japanese
lifestyles and Japan's growth strategy

*Quality No. 1:
Establish the industry's highest quality*

How do you evaluate the Daiwa Securities Group's management strategy so far? How can it be improved going forward?

From early on, the Group's management strategy has emphasized growth in stable revenues and the concept of a fixed cost coverage ratio, defined as the percentage of fixed costs that can be offset by stable revenues. The securities business has typically been a volatile one with significant exposure to stock market trends. I believe the strategy to expand stable revenues has been the best one available in an increasingly challenging business environment, marked by the deregulation of brokerage fees during the Financial "Big Bang" in the 2000s. We must continue to advance this strategy going forward. In the next Medium-Term Management Plan to be unveiled in FY2018, we will continue to rely on the basic concept of a coverage ratio for stable revenues to fixed costs.

In FY2016, ROE was 8.4% and the fixed cost coverage ratio was 66%, coming in below the numerical targets for the final fiscal year of the Medium-Term Management Plan for ROE of at least 10% and a fixed cost coverage ratio of at least 75%. Nevertheless, although it depends on market conditions, we will continue working toward these targets.

However, there has always been flow-based revenue that depends heavily on market conditions. Mindful of

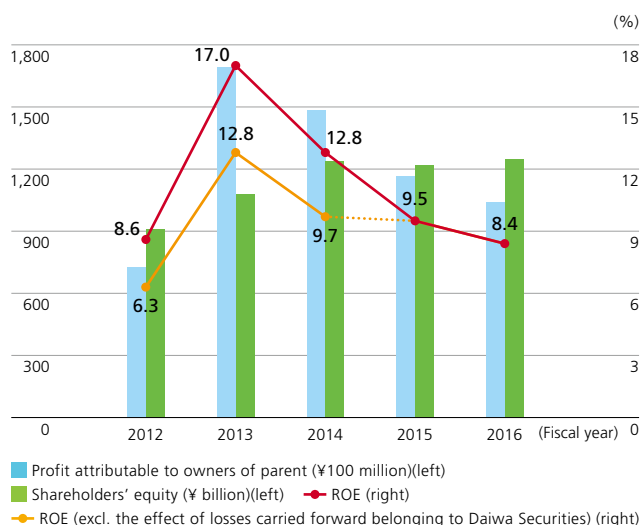
the fact that this type of revenue adds volatility to our earnings, I believe efforts must be made to stabilize flow-based revenue in the future.

This year, the Financial Services Agency issued a guideline titled "Principles for Customer-Oriented Business Conduct," drawing attention to fiduciary duty. In its corporate principles originally drafted in 1998, the Group emphasizes the "building of trust" with customers, financial and capital markets, and society as a whole. In 2008, we came up with the Daiwa Spirit as the code of conduct for employees. Throughout the Group, our employees have consistently taken a customer-oriented approach to conducting business.

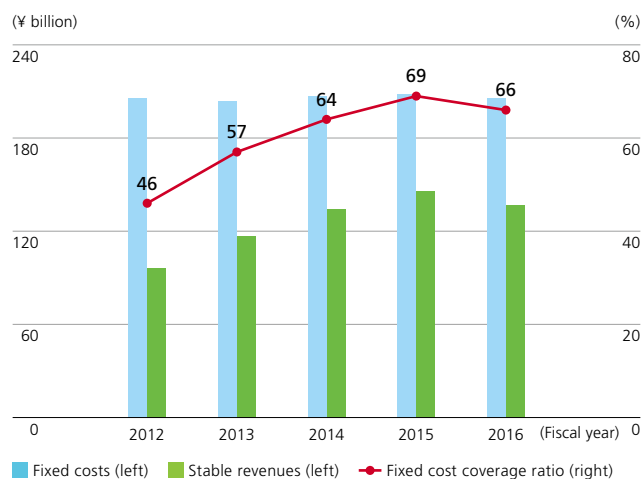
We are well aware that work still needs to be done. In light of the guidelines issued by the Financial Services Agency, the Group has formulated and published its Basic Policy on Customer-first Operations. Through such actions, we intend to always stay one step ahead of the industry and the government in addressing this issue. For example, in FY2017, one of our initiatives entailed abandoning sales targets for each product and establishing a decision-making process driven by sales branches, which are the closest to our customers,

Progress of Numerical Targets

ROE: 10% or more

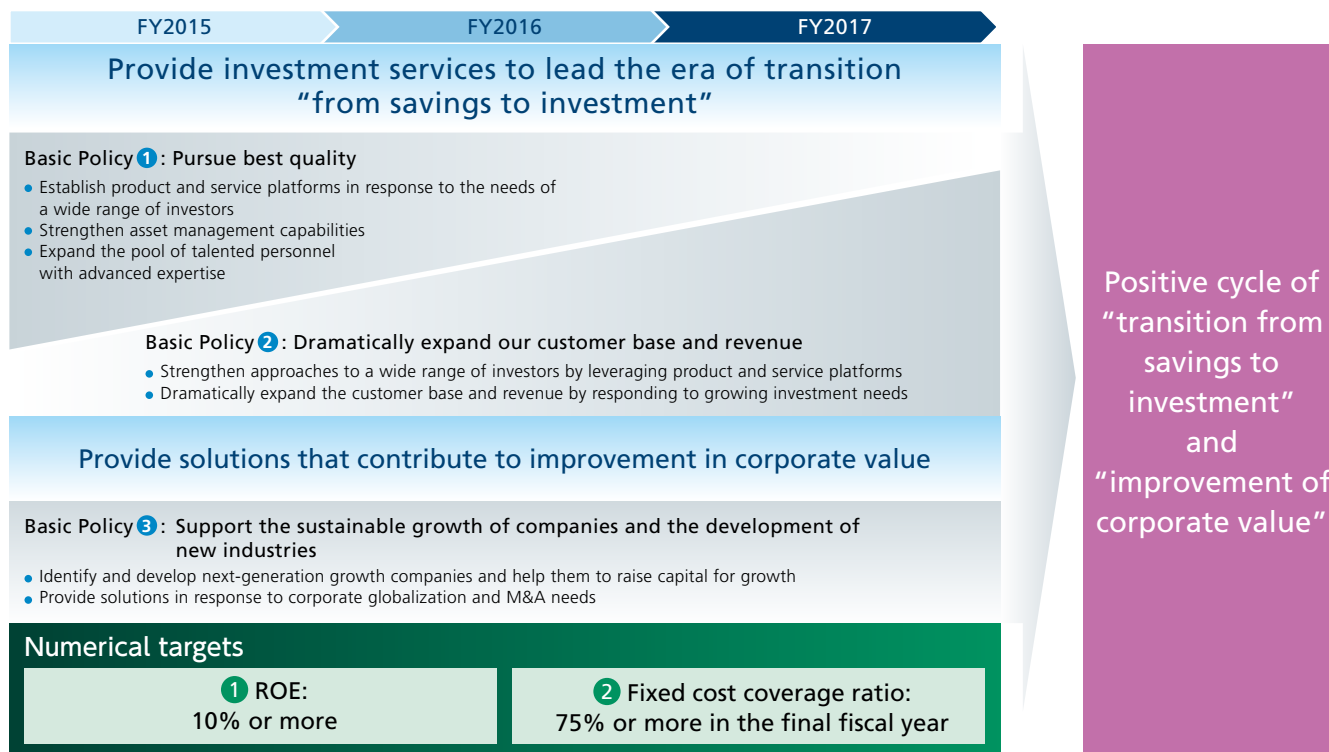


Fixed Cost Coverage Ratio: 75% or more in FY2017



Summary of the Medium-Term Management Plan “Passion for the Best” 2017

In response to the full-fledged start of an era of transition from savings to investment, attract customers with the industry's highest quality, and become their best partner



thereby putting in place a sales structure that is more attentive to the needs of each customer.

Moreover, in our assessments of sales branches, we have placed greater weight on customer satisfaction

and personnel management, spurring improvements in the quality of sales practices. We are currently considering the introduction of new KPIs for measuring customer satisfaction.

02

Question

What is your take on the Group's performance in FY2016?

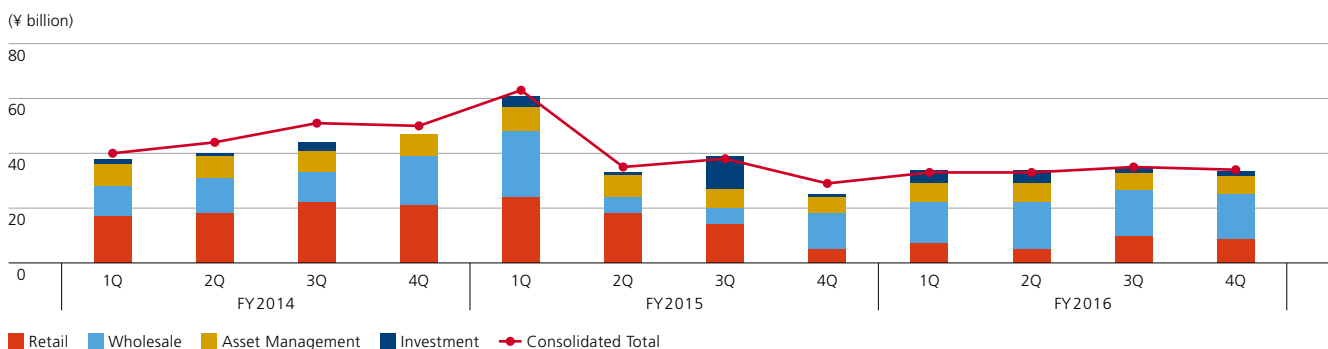
The Retail Division continued to struggle in FY2016 as individual investors avoided risk in the wake of the China Shock in summer 2015. Profits decreased as a result, but this decline in the Retail Division was covered by firm performance in fixed income trading in the Wholesale Division, as we correctly identified changes in the interest rate environment after the introduction of the negative interest rate policy.

Over the past few years, Daiwa Securities Group has

worked to create a balanced profit structure. Now, we are able to maintain profit levels by having the Wholesale Division help out when the Retail Division is struggling, and vice versa.

It should be noted that all of our overseas operations are now profitable. Ordinary income improved sharply to ¥13.4 billion over the course of the year, returning overseas operations to the black for the first time in seven years since FY2009.

Ordinary Income by Business Segments



Earnings have improved in all regions overseas, with strong performance in the fixed income business in the Americas providing momentum for overall growth. In

Europe, the M&A business (DC Advisory) had a good year, and in Asia/Oceania, Asia Private Banking Services were robust, alongside cost reductions.

03

Question

How will you encourage Japanese people to shift their personal financial assets “from savings to investments”?

For nearly two decades, the Japanese government has promoted the idea of moving assets “from savings to investments,” but it remains a fact that 52% of the ¥1,800 trillion in individual financial assets are still held in cash or savings accounts. Only 15% of these assets are invested in marketable securities. In contrast, in the United States, approximately 50% of personal financial assets (including pension assets) are invested in marketable securities, and this figure is around 25% in major European countries. I believe Japan’s prolonged deflationary economy is to blame. From the mid-1980s to the early 1990s, the “Core-Core” CPI (CPI excluding energy and food) in Japan rose at a gentle pace of 1-2%, and during these years the ratio of personal assets in marketable securities was 25-30%. The investment behavior of individuals is influenced by a variety of factors, but in terms of the Japanese economy as a whole, I believe it would be correct to say that Japanese people have sought to protect their financial assets by holding onto cash during the period of deflation. If a period of mild inflation were to return, I believe it would incentivize people to move their assets “from savings to investments.”

FY2016 saw several major events that had the effect of increasing uncertainty, such as Britain deciding to leave the European Union (Brexit) and the outcome of the U.S. presidential election. The global outlook is rather unclear. Although geopolitical risks cannot be controlled, turning our attention to economic matters, we note that the U.S. economy has remained strong. The International Monetary Fund (IMF) has also raised its outlook for global GDP growth. In Japan, Abenomics policies have corrected the excessively strong yen, and Japanese corporate earnings have risen to record-setting levels.

Under these circumstances, if a period of mild inflation were to arrive, we would expect people to shift their financial assets “from savings to investments,” and lead to an increase in customers opening up new trading accounts at securities firms. Since the customer decides which securities firm to trust with their life savings, we think it is imperative that we are the customer’s first choice securities group, as stated in our Management Vision. Our success depends on the quality of the services we provide and the quality of the personnel who provide them.

Since becoming CEO, you have stressed the Highest Quality as a strategic theme. What is this about?

Daiwa Securities Group has positioned human resources at the core of its business model, and from an early stage has undertaken various measures and reforms to make it easier for all employees to fully engage in their work, by creating workplaces that facilitate work, promoting an advanced level of work-life balance, and encouraging diversity in human resources. Daiwa Securities Group has been selected for three years in succession as a “Nadeshiko Brand” and a “Health and Productivity Stock Selection” jointly by the Ministry of Economy, Trade and Industry and Tokyo Stock Exchange, Inc. We are one of only six listed companies in Japan to have received this honor for three years in a row.

Through training programs, we have endeavored to improve the quality of our employees. As a result, Group employees who are Certified Financial Planners (CFP) now number about 680 people*, the most in the industry.

In order to realize the Highest Quality, however, I believe we must further enhance the skills of our employees. I think it is especially important to train employees in their 20s on the fundamentals of being a responsible member of society. For these employees, we have created an education program called Q-Road, as in the road to reaching the Highest Quality, for the first five years of their employment with Daiwa Securities Group.

The Group’s new graduate hires are enrolled in a training system that receives the full commitment of the entire company to refine and improve their quality over the first five years of their career.

I believe employee quality is the sum of three elements. The first element is “knowledge,” or a highly specialized knowledge of finance, the second element is “skill & technique,” which refers to the ability to leverage this knowledge and offer the best solutions for the customer, and “mindset,” comprising the basis for everything else. Only when these three

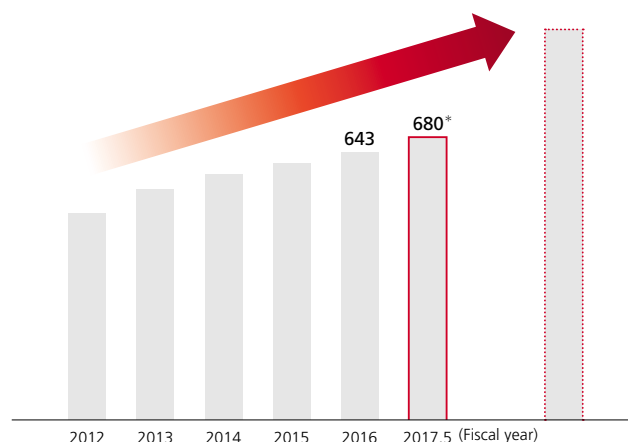
elements come together, can high quality be attained for the first time. Of the three elements, mindset makes the biggest difference, in my opinion. Without the proper mindset, value cannot be derived from knowledge or skill & technique.

Moreover, there are three types of mindsets: a customer mindset that always puts the customer first, a legal mindset that complies with all statutory and regulatory requirements as a matter of course and steers decisions based on correct ethical values, and a self-aware mindset that challenges people to set high goals and achieve them.

Our aim is for customers to hold Daiwa Securities Group in the highest regard in terms of quality, as Group employees engage in business as high-quality professionals with the proper mindsets through Q-Road training.

Daiwa Management Academy is a training program for line managers at the Group. On a personal note, in FY2016, I began taking charge of the Daiwa Spirit course that covers the mindsets required for success.

The Number of CFP Holders



* Includes the number of employees who have passed all six subjects and are in the process of applying for certification. (As of May 2017)

What services are being strengthened in order to achieve the Highest Quality?

We intend to always stay one step ahead of the industry in customer-first operations.



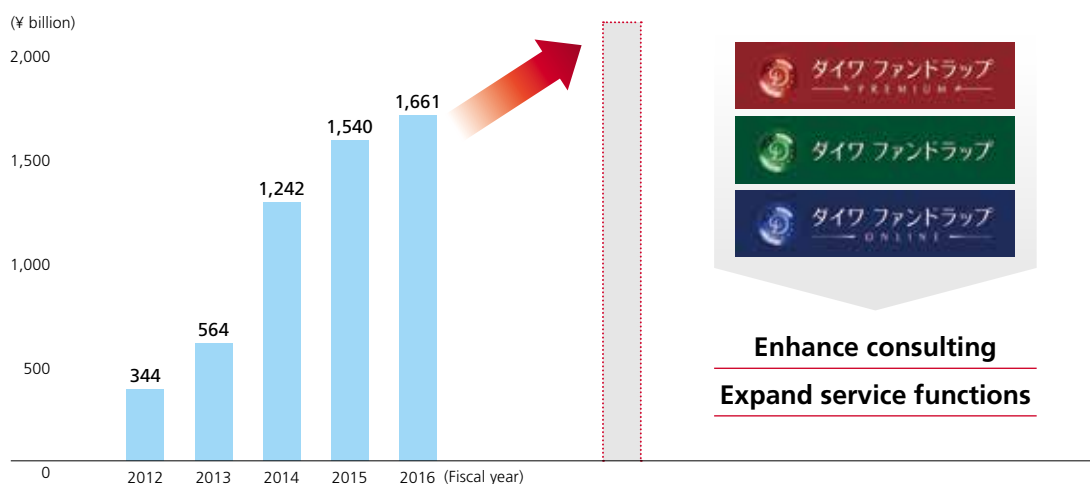
Now, more than ever, it is crucial that we expand our offerings of products and services from a customer perspective.

Investment Trusts and Wrap Account Services

In investment trusts, we are arranging a lineup of the best products for customers, based on a quantitative analysis of publicly offered funds using a variety of parameters such as management performance, cash flow and ratings.

Daiwa Securities Group has been a driving force behind the spread of wrap account services in Japan, and is now transitioning to a stage where the aim is to differentiate by enhancing service offerings. In addition to Daiwa Fund Wrap, we have diversified our wrap account services to include the new Daiwa Fund Wrap Premium, a highly customizable service, and the new Daiwa Fund Wrap Online, which allows small investments at low cost with robo-advisor functions. Our lineup now has products for every customer need depending on their life stage, from asset accumulation to wealth management and retirement.

Contract AUM for Wrap Account Services



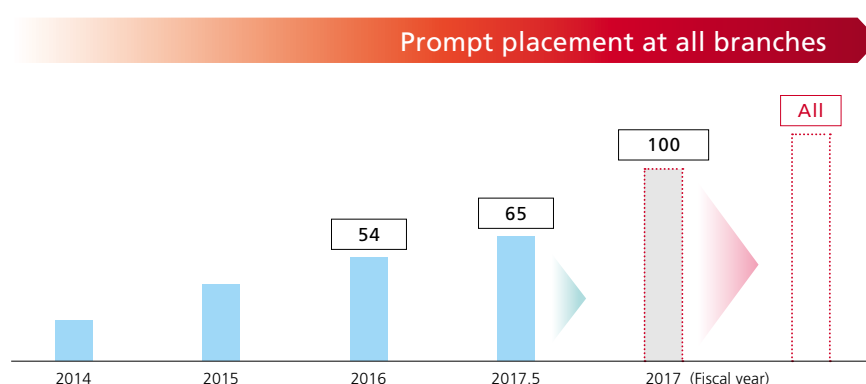
Inheritance-related Business

With an aging population in Japan, the inheritance-related business and wealth management services require sophisticated solutions and broad, specialized knowledge. Daiwa Securities Group has expanded the number of sales branches with Inheritance Consultants to 65 branches as of May 2017. Our Inheritance Consultants are CFPs who have also passed a stringent selection process that requires a passing grade in our internal training program that focuses on inheritance issues. They are a factor that sets us apart from the competition with other

securities firms in terms of quality. Daiwa Securities Group plans to expand the number of sales branches with Inheritance Consultants to 100 branches by the end of FY2017, with the aim of assigning one to each sales branch as soon as possible.

Daiwa Fund Wrap Premium offers inheritance-related services, such as an inheritance beneficiary designation service and a service for cashing out the inheritance. As a result of these services appealing to customers, the percentage of new contracts was about 25% as of March 2017.

Number of Sales Branches with Inheritance Consultants



Private Banking Services in Asia

In wealth management services, Daiwa Securities Group has offered Asia Private Banking Services since July 2015 to meet increasing needs overseas for asset management, business development and relocation, by leveraging the Group's offices in Asia, centered on Singapore, and its network of Asian financial institution alliance partners. Both assets under management and revenues have been steadily increasing. The Group expects further growth as it addresses the needs of high-net-worth individuals for business development overseas, relocating overseas and investing in overseas assets through its network of overseas alliance partners.

Promotion of Investment for Savings

It is important that we improve our responsiveness to customers with asset formation needs.

Since NISA (Japan's individual savings account system) became available in 2014, the total amount of

investments made in NISA and Junior NISA accounts has been climbing steadily. Daiwa Securities Group is augmenting its products and services to further align with customer needs ahead of the launch of the Monthly Investment-type NISA in January 2018. In the defined contribution pension plan business for individuals, iDeCo, Daiwa Securities Group entered into a capital and business alliance with SBI Group and invested in SBI Benefit Systems Co., Ltd. Based on this alliance, Daiwa Securities Group launched Daiwa iDeCo New Plan in April 2017 with the most competitive fee structure and the most attractive product lineup in the industry (as of May 2017).

We aim to facilitate the shift from savings to asset formation by raising awareness of investment for savings as a vehicle for small investments over the long term through promotions and seminars for asset forming generations, and by approaching local public organizations.

What are Daiwa Securities Group's unique qualities that differentiate it from rival securities firms?

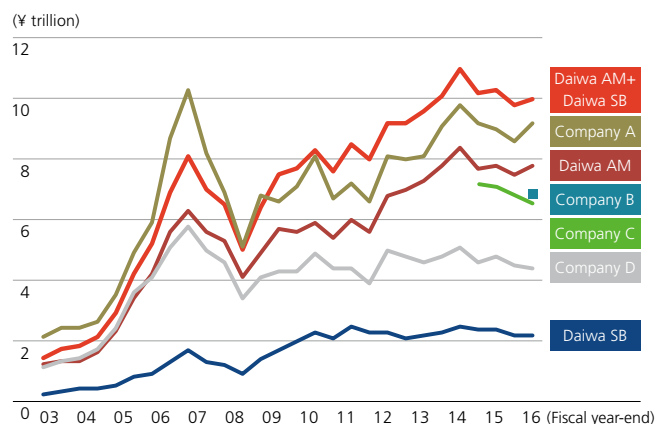
Along with the Highest Quality, another strategic key word in FY2017 is Hybrid Securities Group, which entails combining the traditional securities business with a diversified business portfolio. This is a key part of our strategy to differentiate us from our peers. The competitive landscape is dotted with independent securities firms like Daiwa Securities Group, bank-affiliated securities firms, and pure online securities brokerages. Bank-affiliated securities firms as defined by the Banking Act are heavily regulated businesses. Wholesale-centered business models have large balance sheets but face restrictions on the business risks they can take due to Basel capital adequacy regulations and high earnings volatility. However, Daiwa Securities Group is an independent securities group, a financial institution with a stable, highly efficient earnings foundation and robust financial health. I believe we are in a very advantageous position from the standpoint of freedom in our strategic options.

Image of Hybrid Securities Group

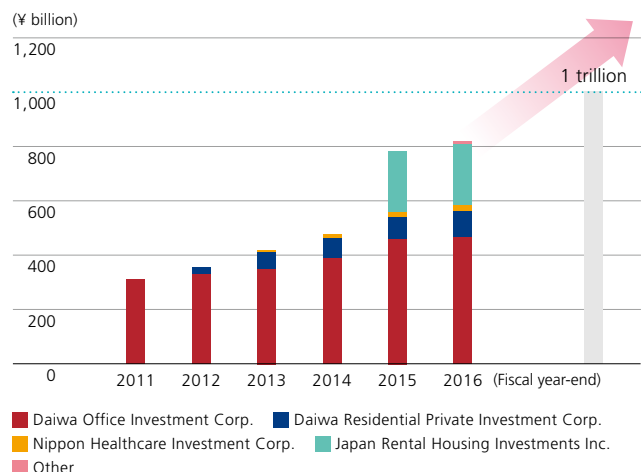


For example, the Group's online bank, Daiwa Next Bank, Ltd., has a successful business model as a gateway to the shift "from savings to investments." Our real estate asset management business, which began with the acquisition of a REIT management company, has grown from ¥260 billion in assets under management, centered on office buildings, to ¥820 billion today, while diversifying into residential assets and healthcare facilities as well. IDI Infrastructures, Inc., a company we acquired in 2016, has already formed its third investment fund (total equity of ¥69.2 billion) for investing in energy projects and other fields in Japan and other Asian countries.

AUM of Publicly Offered Stock Investment Trusts (excluding ETFs)



AUM of Real Estate AM Business



How is Daiwa Securities Group diversifying its sources of earnings?

IPO Business

One area of focus is strengthening our ability to obtain IPO mandates. The Group scaled back its IPO business during the 2008 global financial crisis, but then began to increase IPO personnel again in stages from 2013. In FY2016, Daiwa Securities Group returned to third position on the IPO League Table as a result of lead-managing major fund-related deals and concentrating on the J-REIT and real estate-related business.

To expand the IPO business further, we changed the name of our business matching events, which bring together large corporations and venture companies, to Daiwa Innovation Network in a bid to increase the quality and quantity of business matching.

We are forging alliances outside the Group in addition to using investment companies within the Group. As a business-academic cooperative project, for example, Daiwa Securities Group has set up the Hongo Tech Garage with the University of Tokyo with the aim of nurturing the next generation of entrepreneurs. The Group also invests in funds created by World Innovation Lab (WiL), one of the largest independent venture capital funds in Japan. Moreover, Daiwa Securities Group and Digital Garage, Inc. have together launched the DG Lab Fund, a venture capital fund. In addition, the Group aims to support venture firms through fund investments with SBI Group.

Global Business Development

In FY2017, we aim to diversify not only our products, but also our regional exposure. For example, we intend to enhance our presence as a comprehensive securities group in Asia by expanding REIT and other real estate asset management operations throughout the region.

The U.S. market cannot be ignored for its economic scale and growth potential under the Trump administration. However, Daiwa Securities Group does not intend to compete against securities firms on their home turf using similar business models. The Group's principal field of operations is the domestic market.

Accordingly, we will look to reinforce the functions required to meet the needs of customers in Japan, and are concentrating on the M&A business in particular. As Japanese companies are increasingly expected to improve their profitability under the Corporate Governance Code, cross-border M&A has been brisk as Japanese companies seek an effective means of using their retained earnings, which is said to total ¥390 trillion, including unlisted companies. Led by DC Advisory, Daiwa Securities Group has a global network that includes a 27% stake in Sagent Advisors, LLC in the U.S. in its M&A business. The Group is considering its options for M&A, business alliances, and dispatching personnel with the objective of strengthening the business in the U.S. market.

We continue to forge new alliances with overseas financial institutions. In April 2017, Daiwa Securities Group acquired a 14.9% stake in COL Financial Group, Inc. the largest online securities brokerage in the Philippines, where the retail securities market is expected to grow over the long term.

In the overseas business, we aim to be a comprehensive securities group that leads Asia from our home base in Japan, diversifying into a wide range of business domains with our eye on earnings growth for the longer run, while supplementing the services we provide in Japan and controlling costs.

FinTech

Daiwa Securities Group is also actively engaged in FinTech, which has been a major theme of the industry. In April 2016, the Group set up the Financial Innovation Committee to prepare for the practical application of FinTech.

One of our initiatives is to develop a stock price prediction model. In this project, Daiwa Institute of Research Ltd. developed an AI-based system to pick stocks that are likely to increase modestly. In May 2017, the Group began offering its customers information about investments and asset management based on the output of this stock price prediction model.

Moreover, the Group is working to improve operational efficiency in its Compliance Division and contact centers by deploying AI and other cutting-edge technologies, such as curation technology that augments in-house e-mail

distribution services and knowledge sharing sites, and chatbot services, which are programs that automate conversations in chat windows on websites. We are also conducting experiments with blockchain technology.

08

Question

Even on capital markets, expectations have grown higher for companies to be good corporate citizens through ESG* investments and other activities. What do you think a “good securities company” should be like?

The Group has received high marks for ESG from several external organizations as a result of extensive efforts made over many years. For three years in a row, we have been selected as a “Nadeshiko Brand” and also in the “Health and Productivity Stock Selection” by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange Inc. Daiwa Securities Group has been a composite stock in the DJSI Asia/Pacific Index for seven years running and the FTSE4Good Index for eleven consecutive years. We have obtained the Platinum Kurumin Mark certification for providing superior childcare support from the Ministry of Health, Labour and Welfare. In 2017, Daiwa Securities Group was included in the Bloomberg Gender-Equality Index.

I have always been keen on the concept of what I refer to as “the most excellent firm.” The definition of the most excellent firm goes beyond the size of the company and profits. My definition has three elements. First, all employees must have integrity and sincerity, and be trusted without a doubt and respected by their customers, company, coworkers and their coworkers’ families. Second, the company consistently generates healthy profits. Third, these profits are properly distributed to shareholders and other stakeholders.

In my opinion, Daiwa Securities Group has not yet become one of the most excellent firms. We must refine our mindsets further in order to become one.

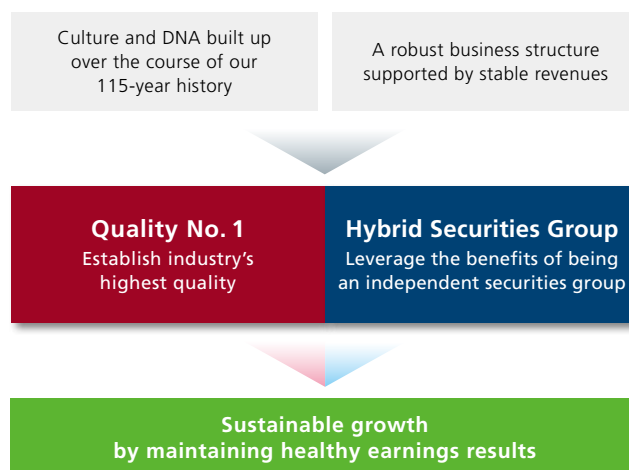
Only when the value of our services is truly understood for the first time by our customers, will we be able to generate a healthy profit by providing value-

added services like consulting to customers. For Daiwa Securities Group to become one of the most excellent firms, we must continue to improve quality.

We make concerted efforts to create work environments that allow all employees, regardless of age, to continue working throughout their careers with high levels of motivation. After extending the length of employment for sales positions to 70 years of age, Daiwa Securities Group took one step further by abandoning the 70-year mark as the maximum age eligible for rehiring. This can be viewed as an evolved form of work style reforms under way at the Group, and I believe it is an extremely effective strategy considering the business environment surrounding the Company, namely an increasingly elderly society in Japan.

* ESG stands for “Environment,” “Social,” and “Governance.”

For Sustainable Growth





09

Question

What is management's policy on shareholder returns?

The Group's basic dividend policy is to target a payout ratio of 40%. In FY2016, Daiwa Securities Group paid a full year dividend of ¥26 for a payout ratio of 42.3%. The Group also bought back about ¥19 billion of its own shares for a total return ratio of 60.4%. The Company cancelled 50 million shares (2.86% of shares outstanding before cancellation).

The consolidated total capital ratio is at a high level of 22.6%, giving us the option of investing for growth in the future, but first we will examine investments in business fields that need to be strengthened and expanded. If we are unable to identify any promising investment candidates, and surplus capital is clearly strong, we will consider additional share buybacks while taking into account market conditions and share price levels.

Please explain Daiwa Securities Group's approach to corporate governance.

In 1999, Daiwa Securities Group became the first listed company in Japan to move to a holding company structure. The Group then adopted a company with committees structure that included three committees—the Nominating Committee, the Audit Committee, and the Compensation Committee. In FY2016, the Group created the Outside Directors Council. From FY2017, an outside director started to chair the Nominating Committee and as a result all three committees are now chaired by outside directors.

However, I believe both Japanese companies and foreign firms have not discovered the ideal format for corporate governance yet.

For example, the Chairman and CEO of Daiwa Securities Group Inc. hold concurrent positions as the

Chairman and President, respectively, of Daiwa Securities Co. Ltd. The Chairman of the holding company performs a supervisory role by chairing the Board of Directors, while also fulfilling the responsibilities of a representative director at Daiwa Securities Co. Ltd., an operating company. At other major financial groups, there are cases where different people hold the positions of president at the holding company and operating companies. Since company backgrounds and business scales differ by company, the ideal format for corporate governance differs by company. Daiwa Securities Group constantly thinks about whether its current governance structure is the ideal one for the Company, and will continue to pursue an optimal structure unique to the Group.

You were appointed as CEO the year Daiwa Securities Group celebrated its 115th anniversary. On this occasion, what are your thoughts on the Daiwa Securities Group?

During my first 20 years here, I mainly built up a career in investment banking operations in the Wholesale Division. I was directly and indirectly involved in hundreds of financing deals. There were many complicated deals, but through this, I was able to gain experience that is hard to come by. When I was in charge of corporate planning and human resources, I was involved in the creation of Daiwa Spirit, our code of conduct for employees that expresses our uniqueness, based on the corporate principles of the Group. Around the same time, I was in charge of unwinding joint operations with Sumitomo Mitsui Financial Group, and then I assumed responsibility for the Corporate Business Division. Having dissolved its

alliance with a megabank group, Daiwa Securities Group embarked on the Wholesale Business by itself, a move that has been criticized and pessimistically viewed by some, but we have rebuilt operations to their strong position today and our employees have worked together to overcome tough times, experiences that have benefitted the Group culture, which is a wonderful achievement in my opinion.

When I first joined Daiwa Securities, I had no idea how many years I would work here. My career of 34 years so far has been a cornerstone in the foundation of my own life. In gratitude for this opportunity to lead a fulfilling life, it is now my turn to give back to our customers and Daiwa Securities Group.

Message from the CFO



In April 2017, Daiwa Securities Group Inc. issued 1 billion in U.S. dollar-denominated senior notes in the overseas markets for the first time as the Group. The bonds were sold to leading institutional investors around the world, including in the United States, and despite being debut bonds, the issuance was very favorably received.

Daiwa Securities Group issued the bonds in line with its efforts to improve the Group's ability to fulfill its obligations, and in particular to improve its creditworthiness. Credit ratings are generally regarded as a key measure of creditworthiness, and with the stable expansion in Group earnings supporting stability and growth as well as the enhanced strength in the Group's financial base, U.S. credit ratings firm S&P Global Ratings Japan issued an A (single A minus) rating for the Company in July 2016.

For a comprehensive securities group with operations around the world, the ability to acquire funds in foreign currencies, particularly U.S. dollars, at a reasonable cost is considered a basic requirement. The success of this offering is proof that the Group has sufficient capability to procure U.S. dollar funds.

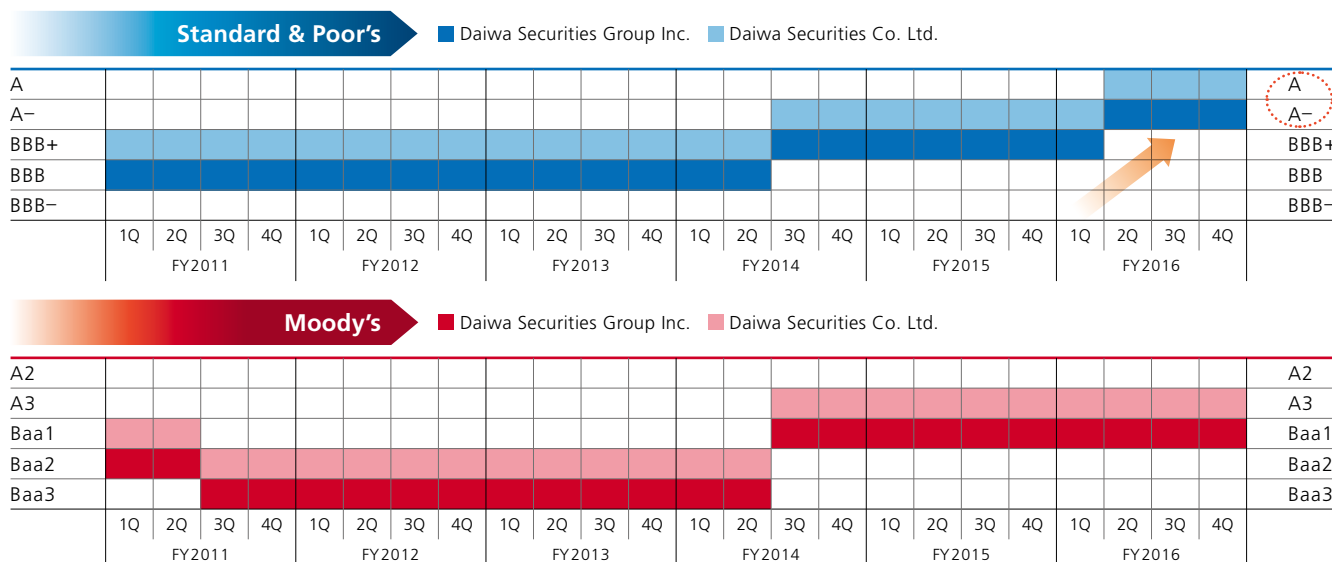
The Daiwa Securities Group has adopted in stages the Basel III package of comprehensive regulatory reforms since the end of March 2013 and we believe 2017 is likely to be a pivotal year in determining trends in global financial regulation, including in regard to the postponement of a final agreement on regulatory frameworks.

Under current conditions, we believe the Group has fulfilled its obligations in regard to the Basel III regulatory capital and liquidity requirements.

The Group remains committed to maintaining a healthy financial position and the Company's consolidated total capital ratio as of the end of March 2017 stood at 22.6% under Basel III.

As an indicator complementing the capital adequacy ratio, the leverage ratio discourages financial institutions from taking on too much leverage, including by excessively borrowing funds and issuing bonds. As of the end of March 2017, Daiwa Securities Group's leverage ratio was 5.92%, well above the Basel III requirement of at least 3%.

Daiwa Securities Group Credit Ratings



Summary for the Issue of USD-denominated Senior Notes by Daiwa Securities Group Inc.

Maturity Period	5 years
Issue Amount	US\$1 billion
Interest Rate	3.129% per annum

The liquidity coverage ratio (LCR) was introduced in 2015 and financial institutions under Basel III are required to have enough liquidity to be able to continue operations for at least 30 days under very stressful conditions. LCR of at least 100% will eventually be required under Basel III (at least 70% in 2016 and at least 80% in 2017). In FY2016, the Group's LCR substantially exceeded the Basel III requirement. In other areas, the net stable funding ratio (NSFR), which requires that stable capital and debt (net stable funding) exceeds non-liquid assets (required amount of stable funding), is soon to be introduced, and we are accordingly working toward further diversifying our methods of securing stable funding.

Our shareholder returns policy includes dividends paid twice a year at a payout ratio of about 40% of consolidated profit, though we aim to return an even greater level to shareholders after securing the internal reserves necessary for future business development. We paid a dividend of ¥26 per share in FY2016, resulting in a dividend payout ratio for that year of 42.3%.

As part of our effort to return a greater share of profits to shareholders by improving capital efficiency, the Group implemented a share buyback equivalent to

1.59% of shares outstanding (excluding treasury stock) and retired treasury shares equal to 2.86% of total shares issued prior to the cancellation.

The Group in principle plans to deploy capital for investment in future growth, though if there is sufficient capital we may also decide whether or not to repurchase shares after comprehensively taking into account business conditions, our financial situation, regulatory trends and share price levels.

The Group will continue to maintain appropriate levels of capital while responding to changes in the regulatory environment and securing the resources necessary for investment in future growth. We will also continue to elevate corporate value as we ensure liquidity and expand shareholder returns.

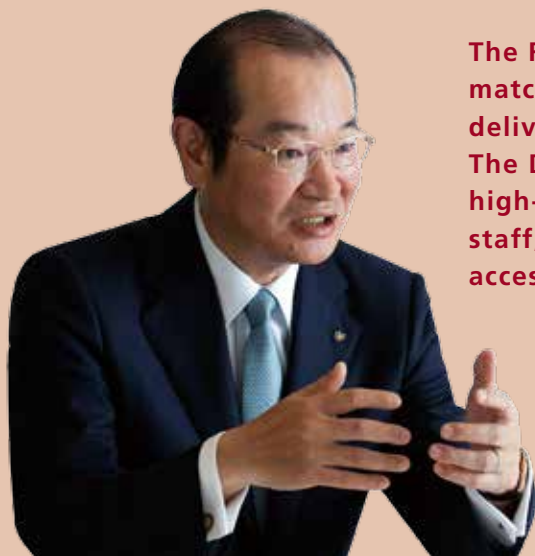
小松 幹太

Mikita Komatsu
Senior Executive Managing Director and CFO
Daiwa Securities Group Inc.



Retail *Investment* *Wholesale* *Strategies by Division* *Asset Management* *Daiwa Institute of Research Group* *Daiwa Next Bank*

All divisions and Group companies in Japan and overseas work in concert to further strengthen collaboration in an effort to become the customer's first choice securities group.



Seiji Nakata

President and CEO
Head of Retail
Daiwa Securities Group Inc.

The Retail Division offers customers two courses of service to match various investment needs, allowing Daiwa Securities to deliver a full lineup of products and services to customers. The Daiwa Consulting course offers hands-on service, including high-value-added proposals and investment advice from sales staff, while the Daiwa Direct course offers superior flexibility and access to Daiwa services through the Internet, or contact centers.

Retail Division

Initiatives and Performance in FY2016

In its Retail Division, the Daiwa Securities Group concentrated its efforts on expanding its products and services that respond to needs in tune with wide-ranging customer life stages, from asset-building customers to seniors.

With regards to new products, in October 2016 we added a variety of functions related to asset and wealth management as well as inheritance-related services, and began offering Daiwa Fund Wrap Premium high-quality investment discretionary services. In January 2017, we also launched Internet-only Daiwa Fund Wrap Online, which enables asset-building customers to make small investments at low cost.

As for new services, we further strengthened inheritance support relating to inheritance procedures in accordance with customer needs. Specifically, we made progress with the assigning of Inheritance Consultants, who have acquired advanced inheritance-related expertise, to branch offices and increased the number of such branch offices to 54, as of the end of FY2016. Under our Inheritance Total Service, which supports inheritance measures and inheritance procedures in general, we focused on expanding the service menu, and the number of applications increased as a result.

As a banking agent for Daiwa Next Bank, Ltd. (balance of customer deposits as of March 31, 2017: around ¥3.1 trillion), Daiwa Securities offers yen-denominated and foreign currency-denominated deposit accounts, giving clients greater convenience and the ability to earn better interest rates on deposits via the Daiwa Securities branch office network.

With regard to individual-type defined contribution (iDeCo) pension plans, for which eligibility has expanded since January 2017, we entered into a capital and business alliance agreement with the SBI Group that same month, invested in SBI Benefit Systems and prepared the new “Daiwa iDeCo” plan, which we started offering at Daiwa Securities from April.

FY2016 Highlights

- Began offering Daiwa Fund Wrap Premium high-quality investment discretionary services and Internet-only Daiwa Fund Wrap Online that enables the making of small investments at low cost.
- Further strengthened support in response to inheritance needs, increased the number of branch offices with an assigned Inheritance Consultant to 54 as of the end of FY2016.

Action Plan for FY2017

- 1 Provide customer service befitting a “Best Partner”
- 2 Dramatic expansion of the stable revenue base
- 3 Enhancement of customer development capabilities in both the inbound and outbound aspects
- 4 Provide high-value-added products and services that suit the customer's stage of life
- 5 Creation of a new business model utilizing external channels and resources

Retail Division

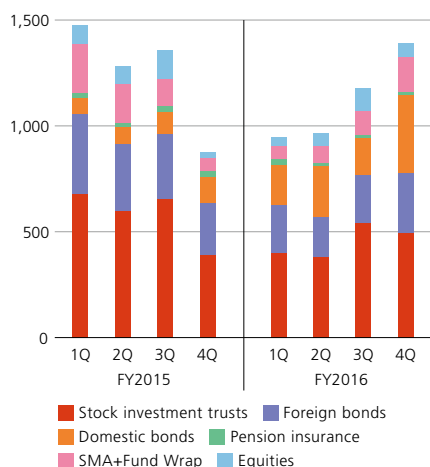
Operational Data

	Billions of yen (Except as otherwise specified)		
	FY2014	FY2015	FY2016
Daiwa Securities			
Customer assets*	54,678	51,000	53,678
Equities	32,574	30,119	32,971
Bonds	12,248	11,854	12,065
Investment trusts	8,590	7,764	7,500
Others	1,265	1,262	1,140
Sales of core products (Retail division)			
Stock investment trusts	2,236	2,317	1,811
Foreign bonds and others	1,306	1,243	922
Net inflow of retail assets (Retail division)	1,067	662	299
Individuals	707	335	145
Unlisted corporations, etc.	359	327	154
Cash Management Service (CMS) accounts* (thousands)	3,719	3,821	3,886
Online trading accounts* (thousands)	2,904	3,040	3,127

* As of the end of each fiscal year

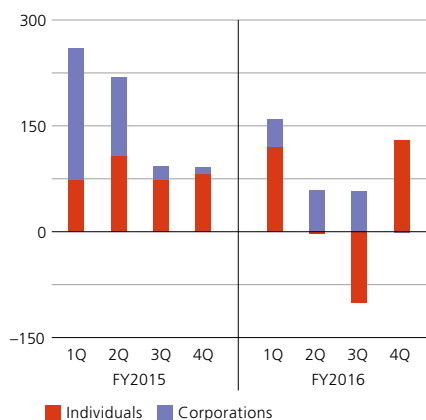
Sales and Distribution Amount by Product (Daiwa Securities)

(¥ billion)



Net Inflow of Assets (Daiwa Securities' Retail Division)

(¥ billion)

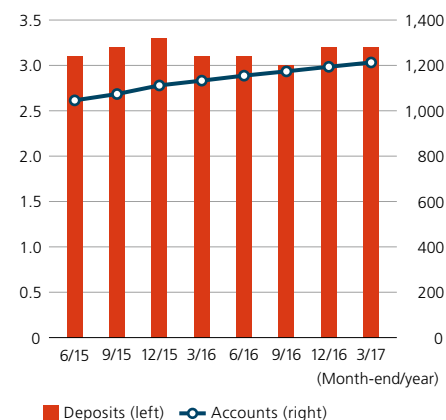


[Reference]

Balance of Deposits and Number of Accounts at Daiwa Next Bank

(¥ trillion)

(thousand)



Efforts toward Highest Quality in the Industry

As specific efforts toward the realization of the Highest Quality in the industry, Daiwa Securities' Retail Division is newly putting into practice the introduction of a bottom-up sales promotion system and the reflecting of customer satisfaction on branch office evaluations.

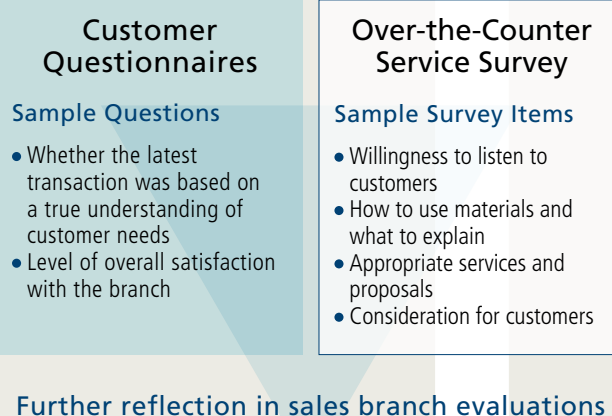
A sales staff member who has a close affinity with a customer will thoroughly consider that customer's issues and needs, and establish a decision-making process to make the best proposal depending on the market. In sales branch evaluations, we will expand the evaluation system that will greatly reflect, more than ever before, the emphasis placed on customer satisfaction levels and build a sales system that places even more of an emphasis on the customer's perspective.

Establish a sales model with more emphasis on the customer's perspective



Customer Satisfaction

Expand Evaluation System

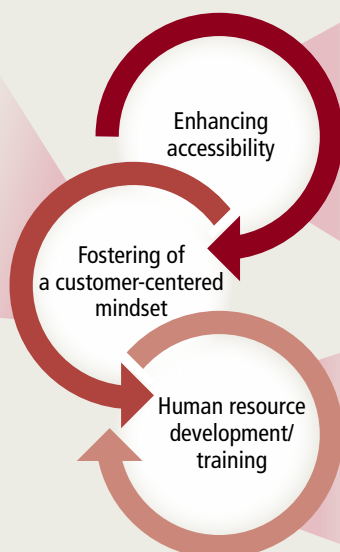


Realizing Highest Quality in Daiwa Securities Branch Offices

Daiwa Securities has announced its Hospitality Declaration, by which the Company promises to provide heartfelt, sincere services to customers in order to make them feel comfortable when using the services at branches. We also aim to realize the Highest Quality in the industry in terms of branch responses by enhancing accessibility for all customers, the fostering of a customer-oriented mindset, and human resource development and training.



(From June 2014)



- Assignment of **service assistants*** and **support staff for customers with dementia** to all sales branches
- Provision of writing boards, logos denoting someone who is hard of hearing and installation of walking stick holders at all sales branches



- Conducting of regular training sessions
- Introduction of **response surveys conducted in front of sales branches by external institution**
- Provision of assessment feedback/conducting of training

* Service assistant: A qualification to nurture the spirit of hospitality and learn about assistive technologies, in order to create a society where the elderly and those with disabilities are able to participate with equal peace of mind



Shinya Nishio
Deputy President and COO
Head of Wholesale
Daiwa Securities Group Inc.

The Wholesale Division covers Global Markets and Global Investment Banking. The Global Markets business provides sales and trading services of equities, bonds, foreign exchange and derivative products to customers, mainly institutional investors and corporations, while providing financial products to the Retail Division. Global Investment Banking offers underwriting services for equities and bonds, IPOs, and M&A advisory services.

Wholesale Division

Initiatives and Performance in FY2016

In the Global Markets business, the unstable market environment continued due to the influences of the introduction of the negative interest rate and the referendum on the withdrawal of the United Kingdom from the European Union, and the earnings environment, centered on equities-related business, became harsh as a result. Bond-related business, on the other hand, was steady due to flexible investment positions that accurately ascertained changes in the environment. Amid efforts to provide services and information in line with the market environment, earnings from equity-related business also expanded as the market environment changed for the better following the U.S. presidential election.

In Global Investment Banking, underwriting deals included, for Japanese companies, serving as bookrunner^{*1} and joint lead manager in the secondary equity offering for Keyence Corporation, the Komeda Holdings IPO^{*2} and the Mitsui Fudosan Logistics Park Investment Corporation IPO. For overseas companies, Global Investment Banking operations served as bookrunner for the Acushnet Holdings Corp. IPO in the United States.

In M&A advisory services, Daiwa Securities served as advisor to JX Holdings in its merger with TonenGeneral Sekiyu. Through its links with other Group companies, the Daiwa Securities Group was involved in many M&A deals, for example Daiwa Capital Markets Hong Kong Limited acting as advisor to a joint venture led by China's Daily-Tech Beijing Co., Ltd. and involvement in its acquisition of shares in the UK company Global Switch Holdings Limited.

Also, as measures to strengthen our sales bases in overseas markets that are expected to grow in the years to come and to broaden the services offered, we invested in CSC Financial Co. Ltd. in China and strengthened cooperation with the company in business fields such as M&A, while also entering into an alliance with Indian investment bank Ambit Private Ltd in the M&A business. Moreover, we made an additional investment in the Vietnamese company Saigon Securities Inc., which we made into an equity-method affiliate.

^{*1} At the time of executing primary/secondary offerings of shares, the lead manager securities brokerage company that manages and promotes primarily the sales aspects

^{*2} IPO (Initial Public Offering): The offer and sale of an initial issuance of securities to the general public

FY2016 Highlights

- Bond-related business was steady due to flexible investment positions that accurately ascertained changes in the environment.
- In the M&A advisory services business, in addition to DC Advisory in Europe and Sagent Advisors in the United States, the strengthening of cooperation with alliance partners in Asia was successful, and consolidated M&A earnings increased significantly.

Action Plan for FY2017

- 1 Improve capabilities to supply products that accurately respond to customer needs
- 2 Promote a global strategy focused on Asia
- 3 Identify and develop next-generation growth companies and help them to raise capital for growth
- 4 Provide solutions in response to corporate globalization and M&A needs and strengthen the M&A structure in the Americas

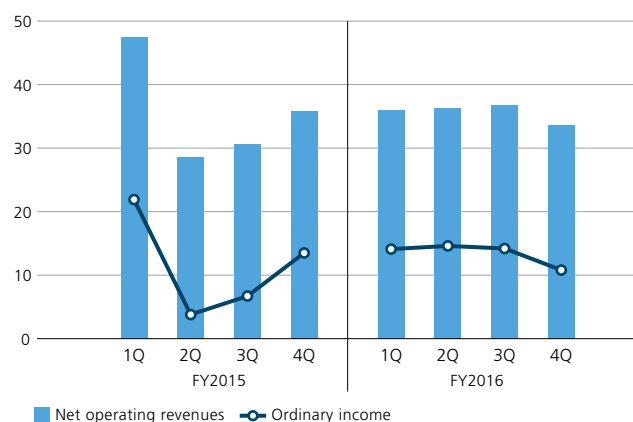
Wholesale Division

Major Lead-Managed Deals and Publicly Announced M&A Advisory Activities in FY2016 (Including Participation as a Joint Bookrunner)

Primary and secondary equity offerings	KEYENCE CORPORATION	PO	¥128.0 billion
	Mitsui Fudosan Logistics Park Inc.	REIT IPO	¥60.2 billion
IPO	KOMEDA Holdings Co., Ltd.	IPO	¥60.2 billion
	MACROMILL, INC.	Global IPO	¥53.3 billion
	Acushnet Holdings Corp.	US IPO	US\$380 million
Bond	SoftBank Group Corp.	SB	Total of 4 issues: ¥500.0 billion
	Daiichi Sankyo Co., Ltd.	SB	Total of 2 issues: ¥100.0 billion
	JBIC	Global US\$ bond	US\$2.0 billion
	United Mexican States	Samurai bond	¥135.0 billion
M&A	<ul style="list-style-type: none"> ■ Merger of JX Holdings, Inc. and TonenGeneral Sekiyu K.K. ■ Acquisition of Global Switch Holdings Limited (UK) by the consortium of Daily-Tech Beijing Co., Ltd (China) ■ Capital and business alliance between Taisho Pharmaceutical Co., Ltd. and DHG Pharmaceutical (Vietnam) ■ Acquisition of Zanotti S.p.A. (Italy) by DAIKIN INDUSTRIES, LTD. 		

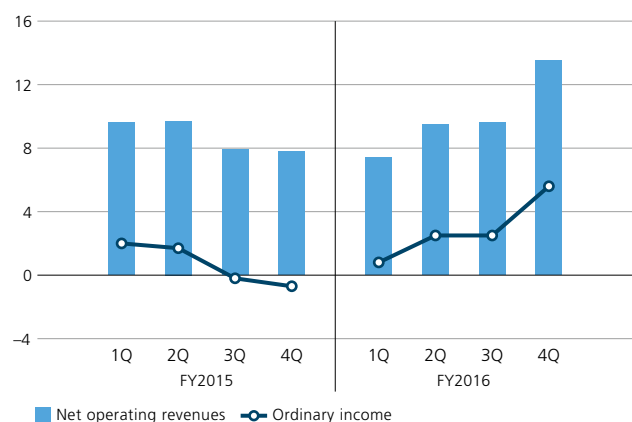
Quarterly Earnings Trends Global Markets

(¥ billion)



Global Investment Banking

(¥ billion)



Promotion of Global Deals M&As That Leverage Alliance Networks

The Daiwa Securities Group has established a four-pronged structure in Japan, the Americas, Europe and Asia, thereby enabling its robust support of cross-border M&As. In FY2016, in addition to Daiwa Corporate Advisory (DC Advisory) in Europe and Sagent Advisors in the United States, we strengthened collaboration with alliances in Asia and succeeded in accumulating a number of cross-border projects.

The need for cross-border projects aimed at global expansion remains high, and the Group will leverage to the maximum its domestic and overseas networks while focusing its efforts on providing solutions to burgeoning M&A needs.

Daiwa Corporate Advisory



DC Advisory is an investment bank whose main M&A advisory business was acquired by the Group from Close Brothers Group PLC in 2009. Having located its headquarters in London, the company has an extensive network in Europe, mainly in the UK, Germany and France.

The M&A advisory function within the European region is consolidated in DC Advisory, which is a wholly owned subsidiary and provides M&A advisory services that make maximum use of its flexibility and close relationships that the company has with European corporations. In FY2016, as a result of accumulating mutual M&A transactions among European corporations, the company continued to raise its position in the industry, for example attaining third place in a European mid-cap advisory ranking.*

In cross-border projects with Japan, the Americas and Asia, DC Advisory cooperates with project teams in each region to provide a broad range of M&A advisory services to customers.

* Mergermarket European Mid-Cap (500 million euros or less) Advisory Ranking (based on number of projects)



Sagent Advisors

Sagent Advisors was established in 2004 as an investment bank specializing in M&A advisory services. Since 2007, the company has been in a capital and business alliance with the Group, which has invested more than 20% through a local subsidiary. Since its establishment, the company has completed more than 200 M&A transactions, totaling more than US\$6.0 billion.

In cross-border projects with Japan as well as Europe and Asia, Sagent Advisors collaborates with project teams in each region to provide a broad range of M&A advisory services to customers. In the years to come, the company will consider expanding its M&A system in the United States, including increasing the number of bankers.





Nobuyuki Iwamoto

Deputy President
Head of Asset Management
Daiwa Securities Group Inc.

The Asset Management Division consists mainly of the following companies: Daiwa Asset Management Co. Ltd. focuses on the establishment and management of investment trusts mainly for individual investors and financial institutions; Daiwa SB Investments Ltd. (an equity-method affiliate) has an established history of results and reliability in providing investment advisory services to pension funds and other institutional investors; and Daiwa Real Estate Asset Management Co. Ltd. manages assets for J-REITs, including Daiwa Office Investment Corporation (an equity-method affiliate).

Asset Management Division

Initiatives and Performance in FY2016

Investment Trusts and Investment Advisory Services

Daiwa Asset Management and Daiwa SB Investments marketed products through a network of diverse distribution channels and strengthened their asset management capabilities to expand the balance of assets under management.

At Daiwa Asset Management, in addition to two funds—"Daiwa US REIT Fund" and "Daiwa US REIT Open"—attracting a total net inflow of ¥269.6 billion, the "US Infrastructure Builder Equity Fund," which was newly set up to promptly focus on the policies of the new U.S. administration, brought in new cash flow of ¥41.2 billion. The main contributory factor being investment inflow into listed investment trusts (ETFs), Daiwa Asset Management's publicly offered stock investment trusts brought in an increase in the amount of assets under management of ¥1.6 trillion in FY2016, expanding assets under management to ¥12.5 trillion by the end of FY2016.

Daiwa SB Investments focused efforts on improving its skills in investment advisory operations for pension funds in Japan and overseas. At the same time, the company's investment trust business worked to increase the balance of its assets under management, mainly private investment trusts with foreign bonds as the main target for investment. The increase in investment trusts for institutional investors

in FY2016 amounted to ¥260.1 billion, and the balance of net assets in investment trusts was ¥3.2 trillion* at the end of FY2016.

* Total of assets under management of public investment trusts and private investment trusts

Real Estate Asset Management

Having in June 2015 conducted its first global public offering (equity offering) after changing sponsors in July 2009, Daiwa Office Investment Corporation, which is managed by Daiwa Real Estate Asset Management, also conducted a public offering in August 2016, which continued to attract sufficient investor demand. The funds raised were ¥24.2 billion for the acquisition of three properties and ¥8.1 billion for the acquisition of four properties, respectively.

Following its listing on the REIT section of the Tokyo Stock Exchange on November 5, 2014, Nippon Healthcare Investment Corporation—Japan's first REIT specializing in healthcare facilities, launched by Daiwa Real Estate Asset Management in January 2014—conducted the first primary and secondary offerings in Japan as a REIT specializing in healthcare facilities in November 2015 and acquired four properties (for a total of ¥2.55 billion). In October 2016, the company acquired one property (¥710 million) with cash on hand and loans.

FY2016 Highlights

- At Daiwa Asset Management, there was an increase in the amount of assets under management of ¥1.6 trillion into its publicly offered stock investment trusts.
- Daiwa Real Estate Asset Management and Mi-Casa Asset Management's total AUM in J-REITs expanded to around ¥820 billion (as of March 31, 2017).

Action Plan for FY2017

- 1 Strengthen and improve management ability, and pursue excellence in performance
- 2 Develop products aimed at growth in investor return and high external ratings
- 3 Enhance products that meet customers' needs and strengthen the communication of information and support capabilities
- 4 Make a concerted effort to manage operations in a manner that puts the customer first
- 5 Further strengthen the real estate asset management business

Asset Management Division

In FY2016, Daiwa Residential Private Investment Corporation, a private REIT, twice raised funds, of about ¥4.3 billion in September 2016 and about ¥4.4 billion in March 2017, and used these funds to acquire five properties and four properties, respectively.

In total, for the three aforementioned REITs, Daiwa Real Estate Asset Management's balance of assets under management expanded to roughly ¥585.1 billion as of March 31, 2017, as a result of continued property acquisitions.

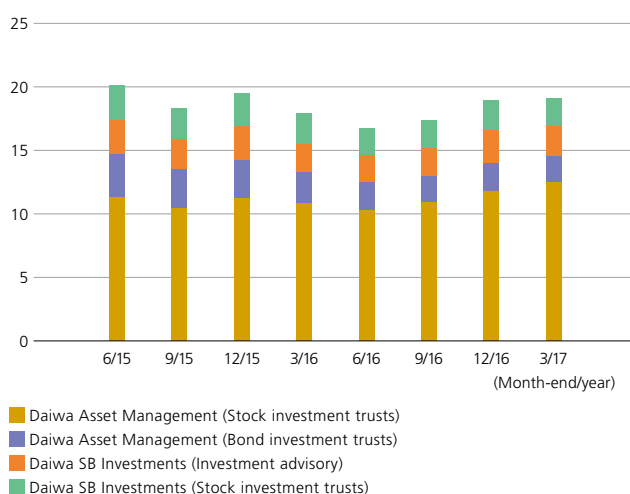
Moreover, Daiwa Real Estate Asset Management is involved in managing renewable energy power

generation facilities (solar power) and logistics facilities.

In December 2015, the Daiwa Securities Group Inc. acquired an additional stake in Mi-Casa Asset Management Inc., the asset management company of Japan Rental Housing Investments Inc., a listed REIT that specializes in housing, and turned it into a subsidiary. As of March 31, 2017, Mi-Casa Asset Management Inc. had about ¥223.2 billion in assets under management. Combined with Daiwa Real Estate Asset Management, the balance of assets under management in the real estate asset management business expanded to approximately ¥819.3 billion.

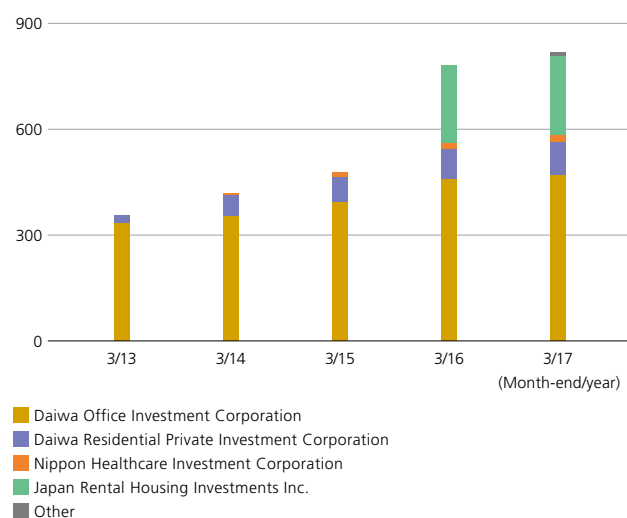
Balance of Major Assets under Management at the Asset Management Division

(¥ trillion)



Assets under Management of Real Estate AM Business

(¥ billion)



Investment That Takes ESG into Consideration

We interviewed Katsuya Kikuchi, who is involved in the analysis of environmental, social and governance (ESG) information at Daiwa Asset Management.



Katsuya Kikuchi

Investment Planning Department
Managing Director
Daiwa Asset Management Co. Ltd.

ESG investment, which considers not only financial information but also non-financial information in the selection of investment stock, is becoming more widespread.

Against the backdrop of the introduction of Japan's Stewardship Code and Japan's Corporate Governance Code, the level of attention that ESG investment is attracting is on the rise. Moreover, it seems that the trend for ESG investment has been accelerating, due to the signing up to the Principles for Responsible Investment (PRI) by Japan's Government Pension Investment Fund (GPIF) in September 2015, and the beginning of investment tracking ESG indices by the GPIF in July 2017.

Could it be said that ESG information represents special information for investors?

We apply ESG information as a part of the general factors used to assess a company from a medium- to long-term perspective and thus do not believe it is in any way special information. With regard to themes such as how companies go about developing the essential human resources for growth or how they intend to build a global supply chain, it is not uncommon for institutional investors to undertake an analysis and engage in dialogue with companies. The information used mainly in such situations is generally considered to be ESG information rather than financial information.

What are the concerns when analyzing ESG information?

The high cost of obtaining information is the biggest problem. There are naturally financial costs incurred, but as the information is divided into a variety of media, such as integrated reports and CSR reports, the time taken to collect the necessary information is becoming a concern. Efforts aimed at the building of various databases are progressing, and if the cost of obtaining information decreases, the level of ESG information utilization is expected to further improve.

How do you utilize ESG information?

We recognize that the utilization of ESG information is essential for corporate assessments based on medium- to long-term perspectives, such as the predominance of a business model and risk response capabilities, and incorporate an assessment in relation to ESG issues when assessing a company's fair value. As companies that excel in disclosing ESG information and whose activities on ESG issues are assessable are able to be estimated at fair value more precisely, the level of attention placed on such companies as investment targets will increase.

What does the future hold for ESG investment?

I believe that the trend for ESG investment expansion is set to continue. It also seems that there is still room for improvement with respect to the relationship between companies that put out information and investors who assess that information. I think that it will be necessary for companies to actively enhance the disclosure of ESG information, for example by utilizing their integrated reports. In the years to come, Daiwa Asset Management will continue to convey to companies what ESG information is necessary for corporate assessments.

The Investment Division of the Daiwa Securities Group encompasses primarily two companies: Daiwa Corporate Investment Co., Ltd., which manages venture capital and private equity investment funds raised from third-party investors; and Daiwa PI Partners Co. Ltd., which uses the Group's own capital to make direct investments. Both companies invest in a wide range of targets, such as venture investments, domestic and overseas private equity investments, corporate loan investments, and energy investments.

Investment Division

Action Plan for FY2017

- 1 Secure returns by strengthening investment ability
- 2 Execute investments linked to Group businesses through the utilization of principal funds
- 3 Support the sustained growth of companies and development of new industries through the provision of growth funds

DCI aims to support the development of new industries and to enhance the corporate value of start-ups and venture businesses in its portfolio by providing risk money and hands-on support through investments by its managing funds. DCI believes that its investment activities contribute to the creation and activation of new technologies and markets and to the sustainable development of society.

Initiatives and Performance in FY2016

Daiwa Corporate Investment Co., Ltd.

In August 2016, Daiwa Corporate Investment ("DCI") announced the final closing of DAIWA-SSIAM Vietnam Growth Fund II LP, a fund run in collaboration with the Saigon Securities Group, the largest securities company in Vietnam. Its final capital commitment to the Fund is US\$39 million, including the parallel investment scheme in Vietnam. The Fund primarily invests in unlisted companies in Vietnam that continues to exhibit robust economic growth in Asia. This Fund is jointly managed by leading securities groups from both Japan and Vietnam, and is the first of its kind as a Vietnam-dedicated successor private equity fund to be managed by a Japanese private equity firm.

In collaboration with China's state-owned industrial investment organization and major private companies, we also decided to newly establish Hubei Tongying Equity Investment Fund Partnership (expected total investment commitment is RMB 800 million). This fund will be the successor fund to the fund that DCI is currently managing in collaboration with a Chinese partner.

DCI continues to promote its investment activities by identifying and making investments in promising private companies in various industrial sectors and stages. DCI also made efforts to maximize returns from its existing investment portfolio through IPOs or other exit strategies. During FY2016, three companies of the portfolio, two Japanese and one overseas, went public.

Daiwa PI Partners Co. Ltd.

Daiwa PI Partners ("DPI") conducts private debt and equity investments targeting corporations both in Japan and overseas, particularly in Asia. It also invests in alternative energy-related businesses.

Private debt investments focus mainly on purchasing loan portfolios from regional banks and other financial institutions in Japan as well as collecting existing loans in its own portfolio. In addition to this secondary debt investment, DPI also offers a variety of debt finance schemes, including the provision of development loans for real estate projects in Japan and the United Kingdom.

DPI's private equity activities in this fiscal year include investment in SEKAIE Inc. (formerly known as Q Inc.), a company that manages a real estate sales assessment website, and the exit of Rinkai Nissan Construction Co., Ltd.

In alternative energy investment, a large-scale solar power generation facility in Nikkotakatoku, Tochigi Prefecture, was added to DPI's portfolio, and now all six of DPI's energy projects are operating steadily. DPI is also working with Green Thermal Co., Ltd. to construct a biomass power project in Yonezawa, Yamagata Prefecture, which will be completed in FY2017.

DPI is committed to supporting the sustainable growth of companies and the development of new industries by supplying growth capital and other financial expertise by utilizing Daiwa Securities Group's network.

The Daiwa Securities Group's "Other" businesses include research and consulting activities, information systems and other support functions, which are overseen by the Daiwa Institute of Research Group, and banking operations, which are overseen by Daiwa Next Bank.

Other

Daiwa Institute of Research Group

Action Plan for FY2017

- 1 Increase synergies by strengthening coordination with Group companies
- 2 Communicate information centered on the economy and finance in a timely manner
- 3 Strengthen consulting capabilities aimed at the provision of comprehensive solutions
- 4 Provide highly competitive IT that contributes to customers' business

Initiatives and Performance in FY2016

As part of its research operations, the Daiwa Institute of Research Ltd. (DIR) contributes toward raising the profile and enhancing the reputation of Daiwa Securities Group. Providing policy advice to the councils and committees of government agencies, DIR co-sponsors seminars with overseas research institutions and undertakes various activities, based on its surveys in the economic and financial fields, about economic trends in Japan and overseas through a wide range of channels, including TV programs and newspapers. With regard to the consulting business, we are developing diverse services. In addition to focusing on projects relating to regional revitalization, health management and organizational restructuring in Japan, outside Japan DIR is engaging in projects related to governmental overseas development assistance and projects from public institutions in Asian countries.

In the DIR Group's IT systems business, we steadily responded to institutional projects such as global financial regulation compliance, while also supporting new Daiwa Securities Group service offerings, such as Daiwa Fund Wrap Premium, from the systems side. In the field of advanced technology, we are starting to offer support for improving contact center operations by big data analysis, a Q&A service that utilizes a chatbot, and management services by virtual operator that utilize AI and voice recognition technologies. In Myanmar-related business, we are continuing to support the development of the capital market centered on the Yangon Stock Exchange and have begun new efforts, including demonstration experiments on applications of blockchain technology for the securities market.

Daiwa Next Bank

Action Plan for FY2017

- 1 Expand new customer segments (strengthen inbound)
- 2 Promote customer transactions by strengthening securities-banking business model (expand functions and services)
- 3 Strengthen ALM*¹ (pursue appropriate ALM under a negative interest rate environment)
- 4 Strengthen all management systems

Initiatives and Performance in FY2016

Daiwa Next Bank's mission is to build the momentum "from savings to investment" by serving as the gateway that connects financial assets held by individuals, more than half of which are bank deposits, to securities investment. In cooperation with Daiwa Securities, which serves as the banking agent, Daiwa Next Bank introduced many promotional offers in FY2016, as it did in FY2015. At the end of FY2016, the bank established 1.21 million accounts, and the balance of total deposits (including CDs) reached ¥3.2 trillion*².

Daiwa Next Bank expanded its products and services that utilize foreign currency-denominated deposit accounts, such as by implementing a U.S. dollar interest rate extra (Nikkei Stock Average Projection Type) campaign in October 2016, and by introducing "Duet: Foreign Currency + Yen Time Deposit," which gives preferential treatment to the respective deposit interest rates in January 2017, apart from foreign currency- and yen-denominated time deposit set plans. Daiwa Next Bank will continuously improve the attractiveness of its foreign currency deposit products while strengthening its partnership with Daiwa Securities.

Daiwa Next Bank does not have any ATMs or branch offices, nor does it issue cash cards or passbooks. This low overhead operation helps to save operating costs, which allows the bank to offer customers more attractive interest rates.

*1 Asset Liability Management: A method of risk management to comprehensively manage the amounts of assets and liabilities

*2 For details on the number of deposit accounts and the total account balance, please refer to page 32.

Initiatives That Utilize FinTech

A coined word that combines finance with technology, FinTech refers to a new financial service that makes full use of information technology (IT). Utilizing FinTech enables the provision of advanced financial products and services and improved business efficiency by incorporating technologies as well as products and services offered by companies other than existing financial institutions. Here we would like to showcase Daiwa Securities Group's initiatives that utilize FinTech.

Organizational Structure That Promotes FinTech

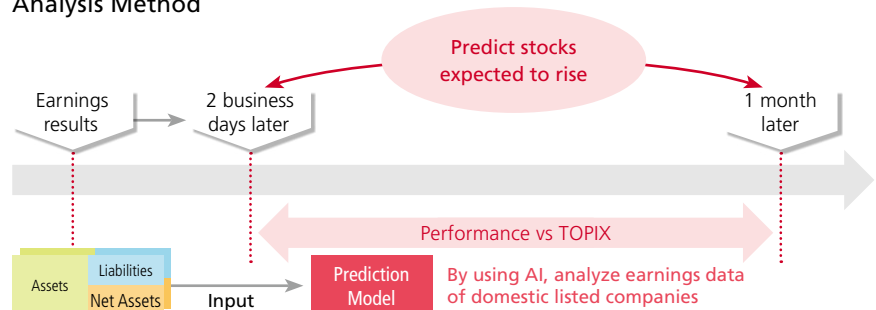
In April 2015, Daiwa Securities established an Artificial Intelligence (AI) Office to promote utilization of AI technologies related to overall sales activities. In October of that year, an Advanced IT Strategy Department was formed at Daiwa Securities Group Inc. and at Daiwa Securities Co. Ltd., thereby strengthening the FinTech strategic planning and proposal functions of the entire Group. In April 2016, we established the Financial Innovation Committee as a forum to consider intra-Group collaboration, including the Daiwa Institute of Research Group, and built up information sharing and a system of cooperation across the entire Group.

Examples of FinTech Use

1 AI for Stock Price Prediction Model

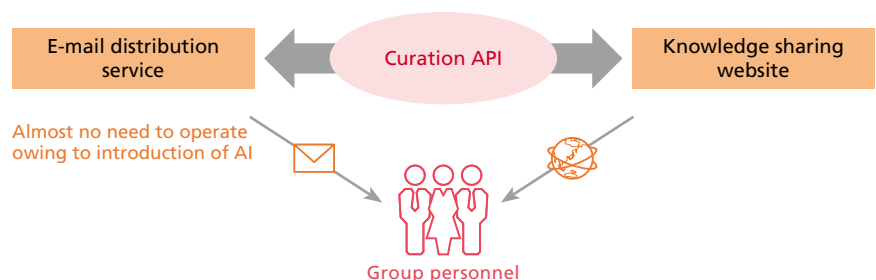
Utilizing an AI stock price forecasting model, which was developed by Daiwa Institute of Research Ltd., we select stocks that can be expected to rise gradually. In May 2017, we began offering investment management reference information to Daiwa Securities customers via sales staff and research reports.

Analysis Method



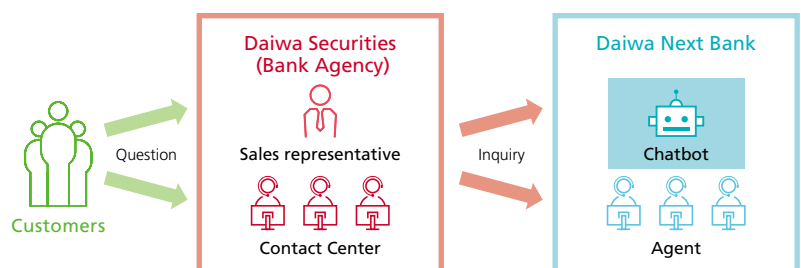
2 Utilization of Curation Technologies

Organizing information that was gathered via the Internet, we utilize AI technology that extracts information related to a particular theme and utilize that information to improve the operational efficiency of Group employees.



3 Utilization of Chatbot Services

Daiwa Next Bank is working to improve its operational efficiency by utilizing an automatic conversation program to respond to inquiries from Daiwa Securities bank agencies.



Daiwa Securities Group's ESG Approach

Daiwa Securities Group recognizes the need to address environmental, social and governance (ESG) concerns in order to secure sustainable growth. At the same time, the Group is aware that the disclosure of non-financial information including ESG data to investors and stakeholders is closely linked to efforts aimed at enhancing corporate value. Included in the Integrated Report 2017 is a special feature on the Group's ESG approach and initiatives.

Governance

44 Special Dialogue

The Corporate Governance Built by Daiwa Securities Group

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53 Initiatives to Promote Economic/ Financial Education

54 Impact Investment Initiatives

Environment

55 Renewable Energy Initiatives

The Corporate Governance Built by Daiwa Securities Group

Daiwa Securities Group has pursued the establishment of a highly transparent and objective system of corporate governance that is in line with international standards. As the economy and society become more globalized, the way corporate governance is implemented is now an ever-more critical issue to a company's continued viability. In the following, Keiichi Tadaki, an outside director at Daiwa Securities Group Inc., and Takashi Hibino, who this year resigned his position as President and CEO and was newly appointed as Chairman of the Board, exchanged their opinions with regard to corporate governance at the Daiwa Securities Group.



Keiichi Tadaki

Outside Director

SPECIAL DIALOGUE

Takashi Hibino

Chairman of the Board

Corporate Governance Has Raised Corporate Value

Tadaki: I was appointed as an outside director at Daiwa in 2009, and the eight years which followed was a tumultuous time. We were confronted with the worldwide financial crisis, and the Nikkei 225 tumbled to the 6,000-yen level. Severity in the business environment continued for some period after that. In 2009 we also dissolved our joint venture with the Sumitomo Mitsui Financial Group, and decided to return to being an independent-type securities company.

Dissolution of the joint venture amidst such a harsh environment, I think, put us at a disadvantage with regard to the procurement of funds. In those days, the biggest issue for Daiwa was how we could build a strong company that could continue to generate profits. After having been appointed as CEO in 2011, now Chairman Hibino set about reducing headcount among back office personnel, while boosting front office capacity, and doing his utmost to build a highly productive, robust business structure. It was so impressive to see the Daiwa employees at that time stand as one, and face those difficult circumstances with such fortitude. We outside directors also had our vision of how the securities industry should look in the future, and we continued our work on making proposals that would take us to where we are at today.

Next, in the current Medium-Term Management Plan, launched in FY2015, we positioned as a goal of the Group the support for people to conduct asset building activities in an era of transition “from savings to investment.” This goal is a clear banner raised not for the simple acquisition of profit, but is a signal intended to press Daiwa on its significance to society. Taking the perspective of stakeholders, including shareholders, we outside directors also deepened our deliberations on whether or not the Executive Management Committee’s stance was appropriate in terms of social common sense. It has become evident now that this was the right direction to take, and I believe that Daiwa has been leading the securities industry as the standard bearer of Japan’s securities business.

Hibino: Mr. Tadaki and others with expertise in a variety of areas make up the members of the Group’s outside directors. The role that the CEO expects the outside directors to perform is to keep a close eye on things when formulating a major strategy to make sure that the decisions made on the executive side are not

mistaken, and that they are not straying from the direction that the Group should be pursuing.

The Group was quick off the mark to adopt the Committee System format, meaning that we are moving forward on the delegation of authority to executive officers, enabling a fast and decisive response on the front lines of business. However, in the eight years since we asked Mr. Tadaki to become an outside director, even in the history of the Group, this was a period of ongoing momentous events and decisions. When management and employees are constantly responding to such tough conditions, the people in the Group and I may have a feeling of doubt about the appropriateness of what we are doing. However, given all of the outside directors providing to us their sound opinions and guidance, more than just at the management level, the Group as a whole had the confidence, and was able to come together. I feel that this gave us great strength.

Tadaki: My own personal belief is that corporate governance really gained serious attention around the world from the mid-2000s, but Daiwa had already adopted a Committee System and had commenced the engagement of independent outside directors. At present, independent outside directors chair all three committees, covering nomination, compensation and audit, and in each of the committees, outside directors make up more than half the members. FY2016 saw an increase in the number of outside directors, and together with that, there were more members in both the Nominating Committee and Audit Committee,



“ Daiwa Securities Group positioned as a goal of the Group the support for people to conduct asset building activities. This goal is a clear banner raised not for the simple acquisition of profit, but is a signal intended to press Daiwa on its significance to society. ”

among other initiatives to strengthen governance that is agile and sustainable. I believe that governance at Daiwa is quickly reaching global standards.

In addition, from FY2017, an outside director became the chair of the Nominating Committee, which I believe was another turning point. Daiwa, being an enormous global organization of some 15,000 employees, means that it is extraordinarily difficult for outside directors to make comparative assessments for each individual, and to make decisions on the executive officers who will fairly oversee respective divisions both in Japan and overseas. As a specific role, there is the selection based on face-to-face meetings with director candidates, and in an unfortunate case, in the event that an executive's behavior runs counter to the interests of shareholders or other stakeholders, the Nominating Committee can execute its authority and replace the director, or suggest that a CEO be replaced, among other actions. I believe that the very existence of such a system will work to insure a company's transparency and viability over the long term.

Hibino: As Mr. Tadaki stated, the trust of society is one of the most important values for a company. Actually, what spurred us to take serious action on corporate governance was the 1997 corporate extortionist incidents. Starting with the big four securities companies at the time, the securities industry as a whole had completely lost the trust of society, and the situation was such that most of the presidents of the main securities houses had resigned. It just so happens that this occurred right around the time of the financial panic of the Asian economic crisis, and the securities industry fell into a critical situation.

Amidst such conditions, Daiwa Securities Group became the first listed company in Japan to adopt a holding company structure, so as to somehow regain trust in the Group, and to bolster our financial situation. A holding company is an excellent structure for its function of oversight of Group business operations. With the intent to further reinforce this, we voluntarily established our Advisory Board by inviting experts, including those with legal specialties. The Advisory Board meets once a quarter, and has a structure that works to elicit management-related opinions. At the time, we also used our discretion and established a Compensation Committee. Following that, the executive officer system and committee system came to gain legal recognition, and from 2004 to the present, the Group has adopted a Three Committees System.

Positioning of the Corporate Governance Code

Hibino: As a code of conduct that should serve to protect listed companies, the Corporate Governance Code, which started from 2015, was a topic for deliberation at the Board of Directors. In light of this, our approach is from the perspective that we "comply" with all principles. All companies have their respective characteristics, and of course there are a variety of business types, with large and small scale, degree of overseas expansion and format of ownership. The true form of corporate governance, I suppose, is uniquely structured to operate by matching the respective conditions within an individual company. I also believe that each company has different expectations for outside directors.

What this means is that the Corporate Governance Code is something that has clearly organized common categories with regard to the unique conditions within respective companies. There are many companies that have the view of an "explanation" of the Corporate Governance Code, but at the Daiwa Securities Group we interpret the Code in a more universal sense.

The Group operates in the financial industry which is responsible for financial markets, and consequently, we also come from a perspective of providing to our client companies advice based on a proper understanding of, and working with the Corporate Governance Code. The Code is one template, and clarifies points in question. Rather than just that all listed companies should strictly adhere to the Code, I believe it is more of a working draft upon which each company can consider respective corporate governance.

Tadaki: Presently, the percentage of Japanese company stocks held by foreign investors is increasing, and the percentage held by institutional investors is just as much as that of shares held by corporations. Given this situation, and because corporations also retain risks such as derivative lawsuits from shareholders themselves, both corporations and institutional investors find themselves in an era in which there is intense monitoring by the market with regard to the exercising of voting rights.

In such an environment, companies will to the extent possible disclose information to stakeholders, and it is critical that the public gain an understanding of what they are thinking. The same goes for communicating with employees. You may have the

image of corporate governance as something in which orders go from top to bottom, and that everything will be fine as long as those orders are carried out. But that is not the case. True corporate governance is when people who are doing the work have a grasp of what the current goals of a company happen to be, and they buy in to these goals, working as one. This raises productivity, and boosts corporate value. Of course, this will also positively influence share price, and will have a huge impact on the way society views Daiwa's presence.

In this context, you can say that corporate governance in Japan has been systemized in line with the Code. Our outside directors stand in between these stakeholders and the Executive Management Committee, which is responsible for corporate management. With an understanding of what is proper in today's society, and what is required in order to keep the Daiwa Securities Group developing into the long term, the outside directors, I believe, have the role of continuing to provide counsel.

Further Enhancing Governance

Tadaki: To make corporate governance functions even more robust, in 2016 we launched the Outside Directors Council. Meetings are currently held twice a year, and attending one of those are the CEO and Chairman so that they can exchange opinions with the outside directors.

The CEO and Chairman will provide their unofficial comments on things like what the intention of the Group is with regard to issues that are currently being deliberated, and regarding such issues, the outside directors will convey their respective opinions. The outside directors have their different backgrounds, and their own individuality, so there likely will not be a single opinion. The CEO will take those views as a guide for the next meeting, and for their part, the outside directors will have a reference for knowing the direction of future Board of Directors' meetings.

In the other meeting, the outside directors discuss a variety of matters amongst only themselves. For example, as Daiwa is a pioneer of fund wrap services in Japan, it has come to be the leading driver of the market. Nonetheless, in order for more of the Japanese public to have an understanding of fund wraps, and to further expand upon their prevalence, the outside directors deliberated on the idea that there might be merit in having a management fee structure that is easier to understand, therefore better gaining client

interest. We then organized the topic, taking a single perspective, and made a proposal to the executive side so that it would be taken up as a topic for deliberation at the next Audit Committee meeting.

Hibino: The Outside Directors Council I attended as a CEO last year was a more unofficial venue than the Board of Directors meeting, so it was significant in that it was easier to discuss things in a more frank manner. Communication between the Group's outside directors and the executive side, including about this initiative, is, I believe, sufficiently achieved.

The Corporate Governance Code also cites holding meetings in which only the outside directors attend, so this also prompted the Group to develop such meetings.

In addition, with regard to the evaluation of the Board of Directors' effectiveness, each outside director and executive officer have their respective functions at the Board of Directors meeting, and self-appraisals are made from a variety of perspectives. It is through such self-appraisals that the effect is magnified, namely, this raises the consciousness of governance held by members of the Board of Directors.



“The trust of society is one of the most important values for a company.”

Looking to Realize Our Vision

Hibino: Corporate management, at its essence, should be thought out by the corporate executive officers; however, for objectivity, it is also extremely important to have the opinions and judgments of outside directors.

Moving forward, under the management of newly appointed CEO, Mr. Nakata, we will commence the formulation of a medium-term management plan set to start in FY2018. In future Executive Management Committee meetings, we will work up a rough draft of strategies, but to do this we ask for the varied advice of the outside directors, which we will then reflect in the planning and formulation process of the management plan.

In order to realize the Group's vision of "leading the development of capital markets in Japan and Asia, and being the customer's first choice securities group," we will take measures to fully leverage the consulting function provided by outside directors.



To become the customer's first choice securities group, and to lead the transition "from savings to investment."



Tadaki: Daiwa's foremost corporate principle of "building trust" espouses the policy of putting the customer first. As the standard bearer of this customer-first ideology in the securities industry, moving forward it will be necessary to present the specific measures of all our business divisions, which I believe will be an enormous undertaking. We outside directors will offer our cooperation, and hope to contribute so that Daiwa will be the leader in the transition "from savings to investment."

Daiwa Securities Group's Human Resource Development and Support Systems

One of the major pillars of Daiwa Securities Group's corporate principle is "placing importance on personnel." The Group recognizes that its competitiveness derives from its human resources. On this basis, Daiwa Securities Group does its utmost to create work environments that allow employees to fully deploy their abilities with the best intentions. Here in this special feature, the Group provides details of its human resource development and support initiatives.

Employees are the most important asset for the Group

Daiwa Securities Group makes every effort to put in place work environments that keep all employees highly motivated, regardless of gender and years of experience. This recognizes the fact that maximizing

the motivation of employees will lead to improved customer satisfaction and consequently enhance shareholder value. Accordingly, we implement a variety of measures aimed at creating environments that help foster passion

and loyalty among employees. Our goal is to remain a company in which our employees as well as their friends and families can take great pride.

HR-related Policies

Supporting the Success of Female Employees

- 2005**
 - Established Women Promotion Team
 - Implemented Women Promotion Plan
 - Introduced Professional Return Plan (Program to promote the rehiring of sales staff)
- 2008**
 - Reviewed Childcare leave (Paid holidays extended to two weeks)
- 2010**
 - Implemented shorter working hours system
- 2014**
 - Implemented Childcare Support leave
 - Implemented Spouse Work Reassignment Leave System
 - Launched female employee career support training initiative
- 2015**
 - Expanded Professional Return Plan (From 5 years to 10 years after leaving the company)
- 2016**
 - Implemented a nanny introduction system
- 2017**
 - Expanded shorter working hours system (Extended period by three more years)

Work-life Balance/Health and Productivity Management

- 2007**
 - Began efforts to leave work by 7pm
- 2008**
 - Established Work-life Balance Promotion Team within HR Dept.
 - Began promotion to take paid annual leave
 - Began open house for families of employees
- 2010**
 - Implemented Long-term Care leave
- 2015**
 - Created the position of CHO (Chief Health Officer)
 - Established Health and Productivity Management Team
 - Introduced Kids Ceremony leave
- 2016**
 - Started healthy life promotion project
 - Expanded support for balancing work and long-term care
 - Introduced Celebration of Parents' Longevity leave
- 2017**
 - Expanded Long-term Care leave (Extended maximum leave period from 1 year to 3 years which can be taken separately)
 - Established Work-life Balance Committee, Takashi Hibino (Chairman of the Board) and Seiji Nakata (President and CEO) serve as co-chairmen

Developing Securities Business Professionals

“Inheritance consultants demand a high degree of specialist knowledge and expertise. Obtaining accreditation as a certified financial planner (CFP) has helped considerably in my ability to provide a broad range of proposals. Even after receiving my credentials, I participate in monthly training to improve my skills and ensure that I remain up-to-date with the latest information. The Daiwa Securities Group offers a multitude of opportunities to continuously improve skills. This in turn helps to maintain a high degree of motivation.

Moving forward, I will endeavor to consistently improve my skills and knowledge so that I can provide customers with the very best counseling and advice.”

Sayuri Nanjo

Associate Director
Jiyugaoka Branch

Developing the highest quality professionals in the industry

With the aim of becoming a corporate organization that is comprised of the highest quality professionals, the Daiwa Securities Group places the utmost emphasis on developing its human resources. To date, we have implemented training programs tailored to employees according to the level of their skills based on a Group-wide policy. In addition to upgrading and expanding joint training opportunities across the Group, we have worked diligently to enhance the quality of staff.

The Daiwa Securities Group views the first two years of an employee's

career as a period for their basic training and development into a professional. The Daiwa Basic Program covers this period of training. With a view to providing staff with the basic skills necessary to reach the highest quality in the industry by their fifth year of employment, the Group launched Q-Road, a new education program. The “Q” in Q-Road is the first letter in the word “quality” and reflects the Group's emphasis on nurturing highly trained specialists and developing employee expertise. As a comprehensive program, Q-Road combines a variety of techniques,

including e-learning and group training, while also providing support in the acquisition of qualifications.

Daiwa Securities Co. Ltd. positions Affiliated Financial Planner (AFP), CFP®, and securities analyst qualifications as core requirements, and encourages employees to acquire these certifications. Owing to this initiative, Daiwa Securities has the highest number of CFPs in the industry, at approximately 680*.

* Includes the number of employees who have passed all six subjects and are in the process of applying for certification.

Introduction of New Education Program Q-Road



Aiming for a Women-Friendly Work Environment

“Daiwa Securities Group strives not only to put in place an environment that allows its employees to properly balance work and family needs, but also to understand the circumstances of someone like myself who is endeavoring to fulfill both career and child-rearing aspirations. This type of corporate culture is not something that can be achieved over a short period of time and is a valuable asset of the Group. In addition to the nanny introduction system that I currently use, the Group offers a variety of programs that I plan to actively use in the future.”

Aki Muto

Director
Hibiya Branch

Supporting female employees to succeed

Daiwa Securities Group has continued to implement a variety of measures aimed at supporting its female employees. In addition to expanding eligibility of the shorter working hours system to cover children up to the sixth year of elementary school, up from the previous third year, the Group has, for example, launched the nanny introduction system and continues to conduct female employee career support training. Through these and other initiatives, the Daiwa Securities Group has made every effort to help its female employees balance work and childcare needs while also providing career support.

The number of women in management positions has increased each year, totaling 375 Group-wide as of March 31, 2017. The ratio of women in management positions has

risen from 2.2% (at the end of FY2004) to 8.8% on a Group-wide basis, and from 2.3% to 10.6% at Daiwa Securities. By increasing the number of role models, we are making it easier for the Group's female staff to envision their career path. In this context, there has been a sharp increase in female employees aspiring to advance their careers by switching to career-track and regional career-track positions in recent years. To date, more than 1,100 female employees converted to career-track positions.

In 2015, Daiwa Securities Group identified specific objectives regarding the empowerment of women. At the same time, steps were taken to clarify quantitative targets for such targets as the number of women in management positions and the ratio of men



Daiwa WLB Station, a website that focuses on various support systems that promote work-life balance

utilizing childcare leave and to implement measures accordingly. Looking ahead, we will redouble our efforts to create an environment in which women can work actively after experiencing many of life's events, including marriage and the birth of a child, in order to maximize the capabilities of our female employees and help nurture the female leaders who will steer Japan's financial sector in the future.

Daiwa Woman's Forum

Starting in FY2014, Daiwa Securities launched the female employee career support training initiative, Daiwa Woman's Forum, making it easier for female staff to envision their career path. In addition to career planning and skills advancement training, steps are also being taken to incorporate into the curriculum opportunities for female staff to interact with female executives and managers, who play an active part in the company's operations, as well as co-workers. This initiative is helping women build networks among themselves. Extending beyond divisions and departments, more than 100 women participate each year.



Female employees participating in the Daiwa Woman's Forum career support training

Supporting Efforts to Motivate Veteran Employees

“Daiwa Securities Group newly launched the Senior Advisor System when I was 59. While this system allowed veteran employees to engage in community-based consulting and sales up to the age of 70, this upper age limit has recently been removed. Currently aged 68, I am able to speak with customers, who are close to my age and older, about their financial asset management needs. With similar experiences, I can also discuss about a host of familiar topics, including the family and health. I strongly believe that this kind of effort to provide a variety of options to veteran employees with the desire to work is a major strength of the Group.”

Tetsuji Tsuruno

Managing Director
Kobe Branch

Supporting the success of veteran employees

The employee demographic trends of the Daiwa Securities Group continue to mirror the aging of Japan's society. In order to address this trend, we extended the upper age limit for the rehiring of sales staff from 65 to 70 from FY2013. In 2017, the decision was made to remove the upper age limit altogether.

Daiwa Securities is pushing forward plans to establish a designated consulting team for its elderly customers. At the same time, the Company is looking to assign consultants around the same

age as customers at sales branches.

As the careers of employees grow longer, steps are being taken to introduce training programs that allow employees to continuously improve their skills. The Advanced Skill-building Program for employees aged 45 and older is one such initiative that has been designed to help improve business, management, specialized, and other skills. Daiwa Securities has also introduced the License Certification System as a means of providing incentives through remuneration to employees who

have acquired a certain level of professional skills.

As a part of efforts to upgrade and expand support systems that help employees balance work and caregiving needs, the cumulative period of leave allowed for the care of family members was extended from one year to three years in March 2017. In this manner, considerable weight is being placed on creating an environment in which employees can continue to excel at work free from anxieties regarding the future.

External Evaluations of Daiwa Securities Group's ESG Endeavors

Nadeshiko Brand
(Companies with excellent track records in empowering women)

Selected 3 consecutive years



Ministry of Economy, Trade and Industry and Tokyo Stock Exchange

Health and Productivity Stock Selection

Selected 3 consecutive years



Ministry of Economy, Trade and Industry and Tokyo Stock Exchange

MSCI Japan Empowering Women Index

Selected for inclusion as a company that exhibits outstanding gender diversity

MSCI

FTSE Blossom Japan Index



FTSE Russell

Bloomberg Financial Services Gender Equality Index

Selected for the first time in 2017



Bloomberg

Certified as Family-Friendly Employer



Ministry of Health, Labour and Welfare

Initiatives to Promote Economic/Financial Education

–Engaging with society through educational websites–

Daiwa Securities Group has positioned economic and financial education as a key component of its efforts to engage with society. In 2016, we launched two educational and informative websites and are working diligently to continuously raise the financial literacy of a diverse customer base.

Websites for the young generation and investment beginners

With an emphasis on good corporate citizenship, the Daiwa Securities Group is making every effort to engage with society. We are pushing forward a variety of initiatives, including efforts to promote economic and financial education.

Daiwa Securities Group is a supporter of KidZania and the Finance Park, which target children and young adults focusing mainly on junior and high school students. In March 2016, the Group also launched and operates the “Okane no Mikata,” an educational website

about finance and the economy. This website also helps these students learn how to manage their money and plan a budget for their own lifestyles in the future, while giving them a basic and broad introduction to finance, the economy and investing in an enjoyable format.


In addition, in April 2016, the Daiwa Securities Group opened SODATTE, a website designed to help families with small children looking to engage in investments for the first time. In addition to providing information across the

five broad asset building categories of investment, education funding, household budgets, child-raising, and money planning, the website posts articles offering assistance on child-raising and money from a variety of angles.

We will continue to engage in economic and financial education activities in a bid to help raise financial literacy among a diverse customer base.

Okane no Mikata



 <http://edu.daiwa.jp>

SODATTE



 <http://www.daiwa.jp/sodatte>

Impact Investment Initiatives

Daiwa Securities Group markets and distributes many financial products that focus on impact investing, thereby working to resolve social issues as a financial institution.



Compared with typical forms of Socially Responsible Investment (SRI), Impact Investment focuses more on the direct impact of investment on society. It is a method that not only pursues economic benefits, but is also a way to allocate assets solely to activities targeted at resolving social issues, such as poverty and climate change.

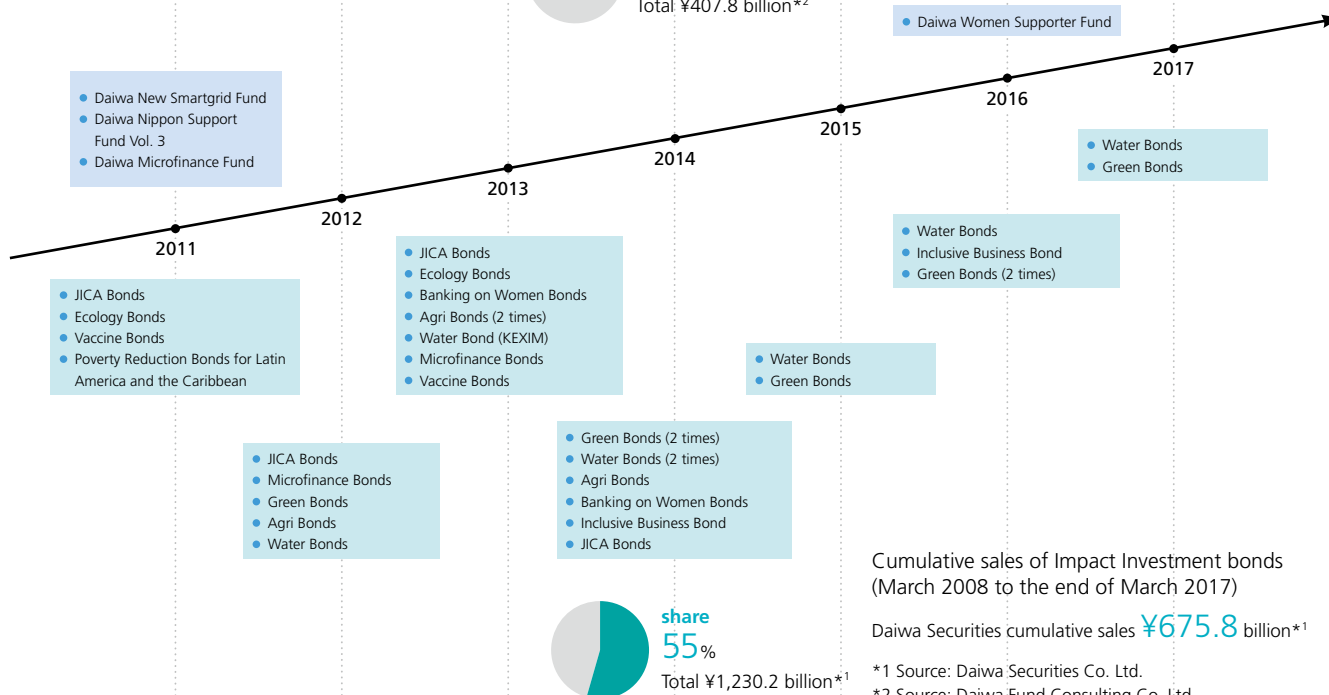
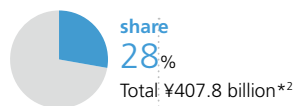
In May 2017, Daiwa Securities Co. Ltd. arranged and distributed to Japanese retail and institutional investors the first Green Bond issued by the Asian Development Bank (ADB) to finance ADB's continuous work in addressing the mitigation of emissions as well as climate change, and to help realize sustainable growth in Asia and the Pacific.

The Daiwa Securities Group has arranged and distributed a variety of products, including vaccine, water, and microfinance bonds that have been designed to support society. Looking ahead, we will continue to vigorously develop and market these types of Impact Investment products.

Daiwa Securities Group's History of SRI Funds and Impact Investment Bonds (from FY2011)

Net assets of SRI funds (As of the end of March 2017)

Daiwa Securities Group net assets **¥116.6 billion***1



Renewable Energy Initiatives

–Investments in solar power generation facilities–

Daiwa PI Partners Co. Ltd. (PIP), which uses the Group's own capital to make direct investments, secures opportunities to invest in energy- and infrastructure-related assets through investments in energy businesses. At the same time, PIP works diligently to resolve social issues by promoting a variety of initiatives, including conversion of the energy supply structure.

Iwamizawa Solar Power Plant

PIP brings together its investment track record and know-how relating to alternative asset investment and actively invests in energy businesses. With the increased pace of business development in the renewable energy field following the introduction of the renewable energy feed-in tariff system in July 2012, PIP has stepped up its development and operation of renewable energy power generation projects, including solar and biomass energy, leveraging the network of the Daiwa Securities Group.

In February 2016, operations commenced at the Iwamizawa Solar Power Plant, a facility that PIP developed on its own in Iwamizawa, Hokkaido. One of the largest of its kind in the Sorachi area of Hokkaido, this plant was developed and



Iwamizawa Solar Power Plant (Iwamizawa City, Hokkaido)

constructed in the Kamihoromui Industrial Park in Iwamizawa City. With an output of about 8.97MW, the amount of energy generated at the plant is equivalent to the amount consumed by approximately 2,800 households per year. PIP has developed and invested in seven solar power generation facilities, including the Iwamizawa Solar Power Plant. Of the six facilities that have been completed, all are operating stably.

Daiwa Securities Group will continue to actively promote development investment in energy- and infrastructure-related assets, which are expected to continue expanding in the future. Every effort will be made to resolve social issues by promoting a variety of initiatives, including conversion of the energy supply structure.

PIP Development of and Investment in Solar Power Generation Plants (including under construction)

Kan-onji Solar Power Plant
(Kan-onji City, Kagawa Prefecture)

1.3%

Boyo Kushiro Solar Power Plant
(Kushiro City, Hokkaido)

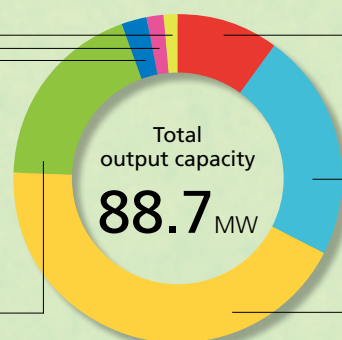
1.6%

Masuura Kushiro Solar Power Plant
(Kushiro City, Hokkaido)

2.4%

Takatoku Nikko Solar Power Plant
(Nikko City, Tochigi Prefecture)

18.9%



Iwamizawa Solar Power Plant
(Iwamizawa City, Hokkaido)

10.1%

Ofunato Solar Power Plant
(Ofunato City, Iwate Prefecture)

22.4%

Tomakomai Solar Power Plant
(Tomakomai City, Hokkaido)

43.3%

Total output capacity

About **88.7** MW

Amount of electricity

Consumed by approximately

21,000 households per year

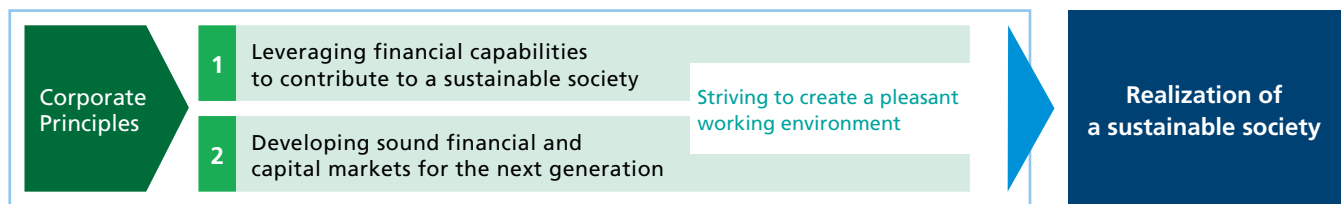
(converted to a per household power consumption basis)

Corporate Social Responsibility (CSR) of Daiwa Securities Group

CSR Key Issues for the Daiwa Securities Group

At the Daiwa Securities Group, we regard “building trust” as one of our corporate principles. We believe that contributing to the development of society and the economy through financial and capital markets is our social mission and that trust from customers and society supports the Group’s sustained growth.

We are promoting the Group’s CSR activities under three pillars. They comprise the following two CSR key issues and the development of a work environment which serves as a base for promoting these issues:



Daiwa Securities Group CSR

Website

<http://www.daiwa-grp.jp/english/csr/index.html>



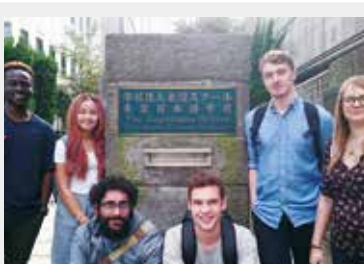
Initiatives through business activities



Creating a rewarding workplace



Initiatives through NPOs and other organizations



Assistance to communities inside and outside of Japan through foundations



Support for culture and the arts



Volunteer activities



58 Corporate Governance

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Corporate Governance

Corporate Governance System

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

Basic Stance on Corporate Governance

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

The Group has adopted a company with Three Committees System with the objective of supervising management through:

- a** Better decision-making agility by having the Board of Directors assign significant authority to corporate executive officers while clarifying the division of duties among corporate executive officers;
- b** More effective supervisory functions at the Board of Directors from the appointment of outside directors with highly specialized skills, and better transparency in management from the establishment of the Nominating Committee, Audit Committee and Compensation Committee with outside directors a majority of their members; and
- c** Highly independent and ethical outside directors providing advice from an outside perspective to the Board of Directors and the three committees based on their knowledge and experiences.

The Group also proactively engages in CSR activities to gain the trust of stakeholders. CSR encompasses providing excellent products and services to customers with integrity, appropriately returning profits and disclosing information to shareholders, creating pleasant work environments and fair personnel evaluation systems for employees, strictly observing regulations and following corporate ethics, managing the environment, and contributing to society.

Through these initiatives, the Group aims to further enhance its corporate governance structure in terms of transparency, agility and efficiency, in order to continuously improve corporate value.

The corporate governance structure consists of the Board of Directors and the three aforementioned committees (Nominating Committee, Audit Committee and Compensation Committee) as supervisory functions. Business execution functions are embodied in the Executive Management Committee and its sub-committees comprising the Group Risk Management Committee, the Disclosure Committee, the Group IT Strategy Committee, and the Overseas Management Committee, as well as the Group Internal Audit Committee, the internal audit organization that reports directly to the Chief Executive Officer (CEO).

Corporate Governance System at Daiwa Securities Group



Major Initiatives in Corporate Governance

- Published the Corporate Governance Report detailing our response to the Corporate Governance Code
- Decided more than two members and more than one-third of the Board of Directors should be independent outside directors
- Established the Outside Directors Council in October 2015 for the purpose of increasing communication amongst outside directors
- Elected one additional outside director and six out of 14 Board of Directors as outside directors for FY2016. Strengthened management transparency and oversight functions by increasing the ratio of outside directors on the Nominating Committee and the Audit Committee
- Determined that all of the chairpersons of the three committees be outside directors from FY2017 while taking steps to further improve the governance system

History of Daiwa's Corporate Governance

June 1998	Elected outside auditors
April 1999	Became the first listed Japanese company to adopt a holding company structure
	Established the Advisory Board
	Established the Group Management Committee
June 2000	Established the Compensation Committee
June 2002	Elected outside directors
	Shortened directors' terms of office from two years to one year
July 2003	Established the Internal Control Committee
June 2004	Shifted to a Committee System (currently, a company with Three Committees System)
October 2015	Complied with the Corporate Governance Code
	Established the Outside Directors Council
April 2017	Appointed outside directors as chairpersons of all three committees

Meetings of Three Committees and Board of Directors in FY2016

The Nominating Committee met four times to discuss matters, including the composition of the Board of Directors with consideration for corporate governance, the basic policy for nominating candidates for directorships, and the selection of director candidates. The Nominating Committee selects candidates for directorships in light of the Group's selection standards for directors. These standards include criteria to ensure the independence of outside directors.

The Audit Committee met 12 times. The committee evaluated the activities of directors and corporate executive officers, audited documentation, including financial statements and business reports, and prepared an audit report for the period under review.

The Compensation Committee met five times to discuss the compensation policy, and to determine the compensation of each director and corporate executive officer. It also studied a Group-wide incentive plan aimed at improving consolidated earnings results.

The Board of Directors met 10 times, and outside directors had a 98% record of attendance.

Committee Members

Nominating Committee		Audit Committee		Compensation Committee	
Tadashi Onodera (Chairman)	Outside Director	Keiichi Tadaki (Chairman)	Outside Director	Hiroataka Takeuchi (Chairman)	Outside Director
Takashi Hibino		Morimasa Matsuda		Takashi Hibino	
Seiji Nakata		Nobuko Matsubara	Outside Director	Seiji Nakata	
Nobuko Matsubara	Outside Director	Michiaki Ogasawara	Outside Director	Tadashi Onodera	Outside Director
Keiichi Tadaki	Outside Director	Ikuo Nishikawa	Outside Director	Ikuo Nishikawa	Outside Director
Michiaki Ogasawara	Outside Director				
Hiroataka Takeuchi	Outside Director				

Executive Compensation That Is Closely Linked to Performance

Compensation for directors and corporate executive officers is determined by the Compensation Committee. Executive compensation has three components: basic compensation; performance-based compensation; and share price-linked compensation.

Comprehensive criteria used in calculating performance-based compensation include ROE and consolidated ordinary income, as well as other factors such as results of management targets as outlined in the Medium-Term Management Plan.

Compensation Paid to Directors and Corporate Executive Officers of Daiwa Securities Group Inc. in FY2016

	Directors		Corporate Executive Officers		Total	
	Recipients	Amount	Recipients	Amount	Recipients	Amount
Amounts based on resolution of the Compensation Committee	9 persons	¥132 million	14 persons	¥1,219 million	23 persons	¥1,351 million

Notes: 1. The above amounts include performance-based compensation paid in this fiscal year.

2. The above compensation amounts include a total of ¥90 million in stock acquisition rights granted as stock options to directors and corporate executive officers.

3. Compensation paid to the six outside directors totaled ¥105 million.

4. Seven directors also served as corporate executive officers; their total compensation is included in the "Corporate Executive Officers" category.

Internal Control System and Internal Audit

In recognition that management is responsible for maintaining an internal control system to ensure the sound and appropriate execution of business, the Group, under the main initiative of Daiwa Securities Group Inc., has established a system for managing the Group's major business risks. Through this system, the Group endeavors to ensure business effectiveness and efficiency, reliable financial reporting, compliance with laws related to business activities, and asset preservation.

The Internal Audit Department verifies the internal control system. This department sits independently from all other departments, reports to a dedicated corporate executive officer, and ensures internal audits to act as an important function of raising Group value through the creation of a sound and efficient internal control system. The authorization of internal audit plans and reporting of audit results are undertaken by the Group Internal Audit Committee. Internal audit plans are authorized by the Audit Committee or a designated member of the Audit Committee who has received the prerequisite authority from the Audit Committee. The results of audits are also reported to the Audit Committee.

Daiwa Securities Group seeks to raise its corporate value by effectively conducting internal audits, and implements risk-based internal audits primarily through its Internal Audit Department.

The Internal Audit Department pays special attention to certain aspects of the Group's business activities. They include the internal control systems at Daiwa Securities Co. Ltd. and overseas offices as a foreign business operator, the internal control systems at Daiwa Next Bank, Ltd. as a bank, the status of businesses that involve the collaboration between Group companies, and the status of control over Group companies by the holding company.

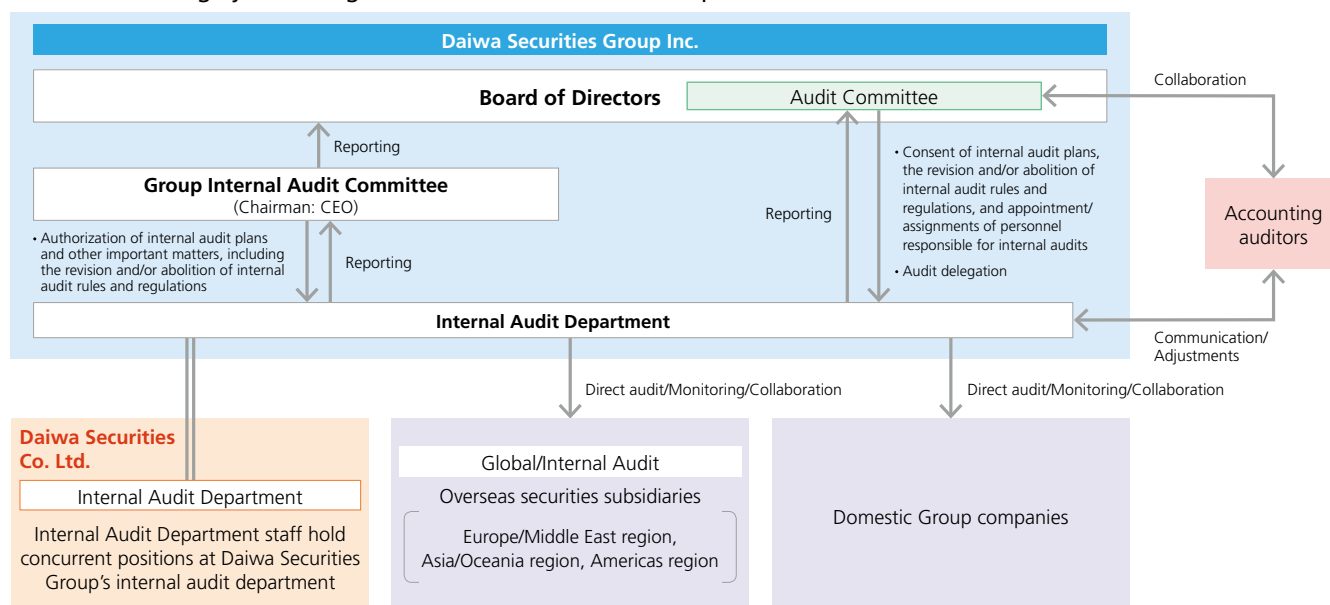
Reports to the Group Internal Audit Committee are not limited to the audit results conducted at Daiwa Securities Group Inc. and Daiwa Securities Co. Ltd., but also include highly important findings made during audits conducted on companies in Japan and overseas.

The Internal Audit Department collaborates with the internal auditing divisions of Group companies through periodic meetings, monitoring, and audits.

The Internal Audit Department maintains communications with the Audit Committee and accounting auditor, making any necessary adjustments to ensure that audits are performed efficiently, and receives audit requests from the Audit Committee.

The degree to which these internal auditing activities satisfy The Institute of Internal Auditors' "International Standards for the Professional Practice of Internal Auditing," the global standard for internal auditing, is routinely evaluated by independent outside third parties, which helps to constantly improve the system.

Internal Auditing System Diagram of Daiwa Securities Group



Directors (Members of the Board)

Chairman of the Board

Takashi Hibino



Takashi Hibino
Chairman of the Board

Chairman of the Board

1979 Joined Daiwa Securities Co. Ltd.
2002 Head of Corporate Planning Dept., Daiwa Securities Group Inc. Senior Managing Director, Daiwa Securities SMBC Co. Ltd.
2004 Member of the Board and Executive Managing Director, Daiwa Securities Group Inc.
2007 Member of the Board and Senior Executive Managing Director
2008 Senior Executive Managing Director, Daiwa Securities SMBC Co. Ltd.
2009 Member of the Board and Deputy President, Daiwa Securities Group Inc. Deputy President, Daiwa Securities SMBC Co. Ltd.
2011 Member of the Board, President and CEO, Daiwa Securities Group Inc. President, Daiwa Securities Co. Ltd. President, Daiwa Securities Capital Markets Co. Ltd.
2012 Member of the Board, President and CEO, Daiwa Securities Group Inc. President, Daiwa Securities Co. Ltd.
2017 Chairman of the Board, Daiwa Securities Group Inc. Chairman of the Board, Daiwa Securities Co. Ltd.



Toshihiro Matsui
Member of the Board

Senior Executive Managing Director Head of Corporate Planning Deputy Head of Wholesale

1985 Joined Daiwa Securities Co. Ltd.
2008 Head of Corporate Planning Dept., Daiwa Securities Group Inc.
2009 Senior Managing Director
2011 Executive Managing Director, Senior Managing Director, Daiwa Securities Co. Ltd.
2012 Executive Managing Director, Daiwa Securities Group Inc. Executive Managing Director, Daiwa Securities Co. Ltd.
2014 Senior Executive Managing Director, Daiwa Securities Group Inc.
2016 Member of the Board and Senior Executive Managing Director, Daiwa Securities Co. Ltd. Member of the Board and Senior Executive Managing Director, Daiwa Securities Group Inc. Member of the Board and Senior Executive Managing Director, Daiwa Securities Co. Ltd.

Directors

Seiji Nakata
Shinya Nishio
Kazuo Takahashi



Seiji Nakata
Member of the Board

President and CEO Head of Retail

1983 Joined Daiwa Securities Co. Ltd.
2005 Head of Structured Products Dept., Daiwa Securities SMBC Co. Ltd.
2006 Senior Managing Director
2007 Senior Managing Director, Daiwa Securities Group Inc.
2009 Member of the Board and Executive Managing Director
2010 Member of the Board and Executive Managing Director, Daiwa Securities Capital Markets Co. Ltd.
2012 Member of the Board and Senior Executive Managing Director, Daiwa Securities Co. Ltd.
2015 Senior Executive Managing Director, Daiwa Securities Group Inc. Member of the Board and Senior Executive Managing Director, Daiwa Securities Co. Ltd.
2016 Member of the Board and Deputy President, Daiwa Securities Group Inc. Deputy President, Daiwa Securities Co. Ltd.
2017 Member of the Board, President and CEO, Daiwa Securities Group Inc. President, Daiwa Securities Co. Ltd.



Keiko Tashiro
Member of the Board

Senior Executive Managing Director Head of Overseas Operations

1986 Joined Daiwa Securities Co. Ltd.
2005 Head of Daiwa Direct Planning Dept.
2009 Senior Managing Director
2011 Senior Managing Director, Daiwa Securities Capital Markets Co. Ltd.
2012 Senior Managing Director, Daiwa Securities Co. Ltd.
2013 Executive Managing Director, Daiwa Securities Group Inc. Chairwoman of the Board, Daiwa Capital Markets America Holdings Inc.
2014 Member of the Board and Executive Managing Director, Daiwa Securities Group Inc. Chairwoman of the Board, Daiwa Capital Markets America Holdings Inc.
2016 Member of the Board and Senior Executive Managing Director, Daiwa Securities Group Inc. Member of the Board and Senior Executive Managing Director, Daiwa Securities Co. Ltd.

Toshihiro Matsui
Keiko Tashiro
Mikita Komatsu
Morimasa Matsuda



Shinya Nishio
Member of the Board

Deputy President and COO Head of Wholesale Deputy Head of Retail

1981 Joined Daiwa Securities Co. Ltd.
2004 Head of Corporate Clients Banking Dept. (III), Daiwa Securities SMBC Co. Ltd.
2005 Senior Managing Director
2009 Executive Managing Director
2010 Member of the Board and Executive Managing Director
2012 Member of the Board and Senior Executive Managing Director, Daiwa Securities Co. Ltd.
2016 Member of the Board and Deputy President, Daiwa Securities Group Inc. Deputy President, Daiwa Securities Co. Ltd.
2017 Member of the Board and Deputy President, Daiwa Securities Group Inc. Deputy President, Daiwa Securities Co. Ltd.



Mikita Komatsu
Member of the Board

Senior Executive Managing Director and CFO Deputy Head of Overseas Operations

1985 Joined Daiwa Securities Co. Ltd.
2008 President, Daiwa Securities SMBC Europe Limited
2010 Senior Managing Director, Daiwa Securities Capital Markets Co. Ltd.
2011 Senior Managing Director, Daiwa Securities Group Inc. Senior Managing Director, Daiwa Securities Co. Ltd. Senior Managing Director, Daiwa Securities Capital Markets Co. Ltd.
2012 Senior Managing Director, Daiwa Securities Group Inc. Senior Managing Director, Daiwa Securities Co. Ltd.
2013 Executive Managing Director, Daiwa Securities Group Inc. Executive Managing Director, Daiwa Securities Co. Ltd.
2016 Member of the Board and Senior Executive Managing Director, Daiwa Securities Group Inc. Member of the Board and Senior Executive Managing Director, Daiwa Securities Co. Ltd.

Michiaki Ogasawara
Hirotaka Takeuchi
Ikuo Nishikawa



Kazuo Takahashi
Member of the Board

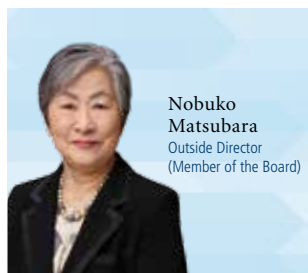
Deputy President Deputy Head of Wholesale

1982 Joined Daiwa Securities Co. Ltd.
2005 Head of Financial Institutions Dept., Daiwa Securities SMBC Co. Ltd.
2007 Senior Managing Director
2010 Executive Managing Director, Daiwa Securities Capital Markets Co. Ltd.
2012 Member of the Board and Executive Managing Director, Daiwa Securities Co. Ltd.
2013 Member of the Board and Senior Executive Managing Director, Daiwa Securities Co. Ltd.
2017 Member of the Board and Deputy President, Daiwa Securities Group Inc. Deputy President, Daiwa Securities Co. Ltd.



Morimasa Matsuda
Member of the Board

1989 Joined Daiwa Securities Co. Ltd.
2013 Head of Internal Audit Dept., Daiwa Securities Group Inc. Head of Internal Audit Dept., Daiwa Securities Co. Ltd.
2016 Member of the Board, Daiwa Securities Group Inc.



Nobuko Matsubara
Outside Director
(Member of the Board)

1964 Entered Ministry of Labour
1987 Director of International Labour Division
1991 Director-General of Women's Bureau
1997 Vice-Minister of the above Ministry
1999 President of Japan Association for Employment of Persons with Disabilities
2002 Ambassador of Japan to Italy
2006 Ambassador of Japan to Albania
2006 Ambassador of Japan to San Marino
2006 Ambassador of Japan to Malta
2006 Chairwoman, Japan Institute of Workers' Evolution
2008 Outside Director (Member of the Board), Daiwa Securities Group Inc.
2012 Honorary Chairwoman, Japan Institute of Workers' Evolution



Keiichi Tadaki
Outside Director
(Member of the Board)

1969 Public Prosecutor of the Tokyo District Public Prosecutors Office
1996 Chief Prosecutor of the Oita District Public Prosecutors Office
1997 Public Prosecutor of the Supreme Public Prosecutors Office
2004 Deputy Vice-Minister of Justice
2002 Vice-Minister of Justice
2004 Superintending Prosecutor of the Tokyo High Public Prosecutors Office
2006 Prosecutor General
2008 Stepped down as Prosecutor General
2009 Attorney-at-law
2009 Outside Director (Member of the Board), Daiwa Securities Group Inc.



Tadashi Onodera
Outside Director
(Member of the Board)

1989 Director of DDI Corporation (currently, KDDI Corporation)
1995 Associate Senior Vice President, Director
1997 Executive Vice President, Director
2001 President of KDDI Corporation
2005 President and Chairman
2010 Chairman
2014 Outside Director (Member of the Board), Daiwa Securities Group Inc.



Michiaki Ogasawara
Outside Director
(Member of the Board)

1976 Entered Ministry of Posts and Telecommunications
2003 Director-General of Tohoku Bureau of Comprehensive Communication, Ministry of Internal Affairs and Communications
2004 Director-General of Kantou Bureau of Telecommunication, the above Ministry
2005 Deputy Director-General of the above Ministry
2006 Director-General of Local Public Service Personnel Department, Local Administration Bureau, the above Ministry
2006 Director-General of Civil Protection and Disaster Management Department, Fire and Disaster Management Agency, the above Ministry
2007 Director-General of the Information and Communications Policy, the above Ministry
2008 Director-General of the Global ICT Strategy Bureau, the above Ministry
2010 Assistant Vice-Minister of the above Ministry
2012 Vice-Minister of the above Ministry
2013 Advisor of Daiwa Institute of Research Ltd.
2015 Resigned as Advisor of Daiwa Institute of Research Ltd.
Outside Director (Member of the Board), Daiwa Securities Group Inc.



Hirotaka Takeuchi
Outside Director
(Member of the Board)

1976 Lecturer of Harvard Business School
1977 Assistant Professor of Harvard Business School
1983 Assistant Professor of Hitotsubashi University, Faculty of Commerce and Management
1987 Professor of Hitotsubashi University, Faculty of Commerce and Management
1998 Dean of Hitotsubashi University, the Graduate School of International Corporate Strategy
2010 Professor Emeritus of Hitotsubashi University
2016 Professor of Harvard Business School
2016 Outside Director (Member of the Board), Daiwa Securities Group Inc.



Ikuko Nishikawa
Outside Director
(Member of the Board)

1990 Representative Partner of Century Audit Corporation (currently known as Ernst & Young ShinNihon LLC)
1993 Representative of JICPA in International Accounting Standards Committee
1995 Executive Director of the Japanese Institute of Certified Public Accountants
2001 Deputy Chairman of Accounting Standards Board of Japan
2007 Chairman of Accounting Standards Board of Japan
2012 Professor of Keio University, Faculty of Business and Commerce
2016 Outside Director (Member of the Board), Daiwa Securities Group Inc.
2017 Guest Professor of Graduate School of Keio University, Faculty of Business and Commerce

Messages from Outside Directors

In 1999, Daiwa Securities Group Inc. became the first listed company in Japan to adopt a holding company structure. In 2004, the Group introduced a Committee System* that included three committees reporting to the Board—the Nominating Committee, the Audit Committee,

* A Company with Committees since May 2006; a Company with Three Committees since May 2015



Nobuko Matsubara
Outside Director

Daiwa Securities Group is placing the utmost emphasis on ensuring customer-oriented business practices in FY2017, the final year of its Medium-Term Management Plan. This builds on and reflects a policy of further development from the customer-first mindset that the Group has continued to instill in each and every employee. In addressing employees, Mr. Nakata, the Company's newly appointed CEO, has commented that enjoying one's work is the only way through which to lead a rich and valuable life. I believe this reflects the role work plays in garnering the satisfaction of all stakeholders, including customers and the acclaim of society. As a member of the Board of Directors, I would like to contribute to efforts aimed at ensuring customer-oriented business practices and realizing the Group's aspiration to become the most excellent firm.

Nobuko Matsubara is currently the Chairwoman of the Japan Institute of Workers' Evolution. Before that, she was the Vice-Minister of Labour, and served as the Ambassador of Japan to Italy, among other posts. The Company has drawn on Ms. Matsubara's expertise and broad experience nurtured throughout her career in providing management advice. Ms. Matsubara has been a director for nine years.



Keiichi Tadaki
Outside Director

In advocating to always place the needs of customers first, and striving to develop the advanced, specialized skills to offer them the most attractive products and services of any securities group, Daiwa Securities Group has historically positioned "building trust" as its top corporate principles priority. On March 30, 2017, Japan's Financial Services Agency put in place and announced details of its Principles concerning the Operation of Fiduciary Duty. Covering financial institutions, including securities companies, the aim of these principles is to promote the stable accumulation of individual assets.

As a key corporate governance issue for the year, it is vital that Daiwa Securities Group identify how to best ensure the Highest Quality customer-oriented business practices. It is equally important that all employees and executives of the Group understand this management issue and form a robust uniform resolve to uncover a solution.

Keiichi Tadaki is currently an attorney-at-law. Before that, he was the Vice-Minister of Justice, and served as the Superintending Prosecutor of the Tokyo High Public Prosecutors Office and the Prosecutor General. The Company has drawn on Mr. Tadaki's wealth of experience and expertise on legal and compliance issues nurtured throughout his career in providing management advice. Mr. Tadaki has been a director for eight years.



Tadashi Onodera
Outside Director

In highlighting the importance of the fixed cost coverage ratio, Daiwa Securities Group is making steady progress in putting in place a robust business structure that is capable of supporting stable revenues. I would like to especially mention the success achieved in substantially improving earnings from overseas operations and putting in place a structure that is capable of contributing to profits in FY2016. For a financial institution, a robust business structure is imperative to progress going forward.

Without a doubt, the acceleration of the shift "from savings to investment" is critical to the further development of Daiwa Securities Group. Accordingly, I will constantly keep the Corporate Principles of building trust uppermost in my mind and endeavor to contribute to making Daiwa Securities Group the customer's first choice securities group.

Tadashi Onodera is currently Chairman of KDDI Corporation. The Company has drawn on Mr. Onodera's wealth of management experience and insight nurtured throughout his career at KDDI. Mr. Onodera has been a director for three years.

and the Compensation Committee. The Group has also established a clear separation between the oversight functions of the Board and the execution functions of corporate executive officers.

Furthermore, in October 2015 we established the Outside Directors Council, whose main objective is to facilitate the sharing of information among the outside directors.



Michiaki Ogasawara
Outside Director

For a company to develop and continue as a going concern, it must first address how to meet the requirements of society. Under the significant and simultaneous burdens of a declining population and aging society, Japan's wealth and the standards of living enjoyed by our children and grandchildren depend on how to ensure a robust and vital economy. With this in mind, society is calling on Daiwa Securities Group to ramp up initiatives that help individuals effectively manage their accumulated assets for the future and contribute to the development of new businesses.

Against the backdrop of rapid advances in technology and competition with increasingly diverse players, I am committed to helping enhance the governance function so that the new CEO can realize the goal of achieving the Highest Quality in the industry.

Michiaki Ogasawara has held positions as the Director-General of the Global ICT Strategy Bureau at the Ministry of Internal Affairs and Communications and as Vice-Minister at the same ministry. The Company has drawn on Mr. Ogasawara's expertise and experience nurtured throughout his career in providing management advice. Mr. Ogasawara has been a director for two years.



Hirotaka Takeuchi
Outside Director

Effective from the current fiscal year, Mr. Hibino has assumed the position of Chairman of the Board. Taking on the position of president, Mr. Nakata has identified the efforts to achieve the Highest Quality in the industry as a key component of the Company's basic management policy. In an era in which AI and Big Data are attracting widespread attention, there is considerable significance in this decision by the new management to showcase a strategy that focuses on quality from a perspective of "knowledge-based strategy." This focus by Daiwa Securities Group as a true global retailer reflects the basic stance toward taking the next major leap forward on the world stage.

Drawing on my experience in developing employees at a number of companies, I hope to play a role in accelerating efforts aimed at enhancing the quality of employees and contribute to the Group's future growth.

Hirotaka Takeuchi has served as Professor of the Faculty of Commerce and Management at Hitotsubashi University and is currently Professor at Harvard Business School. The Company has drawn on Mr. Takeuchi's expertise and experience nurtured throughout his career in providing management advice. Mr. Takeuchi has been a director for one year.



Ikuo Nishikawa
Outside Director

Two core components of Daiwa Securities Group's four corporate principles are building trust and maintaining healthy earnings results. In line with these corporate principles, ensuring customer-oriented business practices provides the means through which to continue generating sound profits and securing sustainable growth, which are in turn positioned as key performance targets. Moreover, Daiwa Securities Group is recognized as a leading company in advancing work style reform. This reflects the Company's emphasis on establishing a working environment that matches placing importance on personnel.

Amid recent calls for increased compliance and governance, I am convinced that the integrity of corporate disclosure is key. Making the most of my experience in developing accounting standards, I hope to contribute to the Group mainly in this field.

Ikuo Nishikawa has served as Representative Partner of Century Audit Corporation and Chairman of the Accounting Standards Board of Japan. The Company has drawn on Mr. Nishikawa's expertise and experience nurtured throughout his career in providing management advice. Mr. Nishikawa has been a director for one year.

Corporate Executive Officers

President and CEO
Head of Retail
 President,
 Daiwa Securities Co. Ltd.



Seiji Nakata

Deputy President and COO
Head of Wholesale
Deputy Head of Retail
 Deputy President,
 Daiwa Securities Co. Ltd.



Shinya Nishio

Deputy President
Head of Asset Management
 President,
 Daiwa Asset Management Co. Ltd.



Nobuyuki
Iwamoto

Deputy President
Head of Think Tank
 President, Daiwa Institute of Research
 Holdings Ltd.
 President, Daiwa Institute of Research Ltd.
 President, Daiwa Institute of Research
 Business Innovation Ltd.



Yoriyuki
Kusaki

Deputy President
Deputy Head of Wholesale
 Deputy President,
 Daiwa Securities Co. Ltd.



Kazuo
Takahashi

1980 Joined Daiwa Securities Co. Ltd.
 2001 Head of International Finance Dept.,
 Daiwa Securities SMBC Co. Ltd.
 2005 Senior Managing Director, Daiwa Securities Group Inc.
 2006 Member of the Board and Senior Managing Director
 2008 Member of the Board and Executive Managing Director
 2009 Member of the Board and
 Senior Executive Managing Director
 2011 Deputy President, Daiwa Securities Group Inc.
 Deputy President,
 Daiwa Securities Capital Markets Co. Ltd.
 2012 Member of the Board and Deputy President,
 Daiwa Securities Group Inc.
 Deputy President, Daiwa Securities Co. Ltd.
 2016 Deputy President, Daiwa Securities Group Inc.
 President, Daiwa Asset Management Co. Ltd.

1980 Joined Daiwa Securities Co. Ltd.
 2002 Head of Corporate Clients Banking Dept. (III),
 Daiwa Securities SMBC Co. Ltd.
 2004 Senior Managing Director
 2007 Executive Managing Director
 2009 Member of the Board and
 Senior Executive Managing Director,
 Daiwa Securities Co. Ltd.
 2012 Member of the Board and Deputy President,
 Daiwa Securities Group Inc.
 Deputy President, Daiwa Securities Co. Ltd.
 2016 Deputy President, Daiwa Securities Group Inc.
 President, Daiwa Institute of Research Holdings Ltd.
 President, Daiwa Institute of Research Ltd.
 President, Daiwa Institute of Research Business
 Innovation Ltd.

Senior Executive Managing Director
Head of Corporate Planning
Deputy Head of Wholesale
 Senior Executive Managing Director,
 Daiwa Securities Co. Ltd.



Toshihiro
Matsui

Senior Executive Managing Director and CFO
Deputy Head of Overseas Operations
 Senior Executive Managing Director,
 Daiwa Securities Co. Ltd.



Mikita
Komatsu

Senior Executive Managing Director and CIO
Senior Executive Managing Director
 Daiwa Securities Co. Ltd.



Masahisa
Nakagawa

Executive Managing Director and CRO
Executive Managing Director
 Daiwa Securities Co. Ltd.



Hiroyuki
Inose

Senior Executive Managing Director
Head of Overseas Operations
 Senior Executive Managing Director,
 Daiwa Securities Co. Ltd.



Keiko Tashiro

1987 Joined Daiwa Securities Co. Ltd.
 2009 Head of Omiya Branch
 2010 Senior Managing Director
 2011 Senior Managing Director, Daiwa Securities Group Inc.
 Senior Managing Director, Daiwa Securities Co. Ltd.
 Senior Managing Director,
 Daiwa Securities Capital Markets Co. Ltd.
 2013 Executive Managing Director, Daiwa Securities Group Inc.
 Executive Managing Director, Daiwa Securities Co. Ltd.
 2016 Executive Managing Director, Daiwa Securities Group Inc.
 Member of the Board and Executive Managing Director,
 Daiwa Securities Co. Ltd.
 2017 Senior Executive Managing Director,
 Daiwa Securities Group Inc.
 Member of the Board and Senior Executive Managing
 Director, Daiwa Securities Co. Ltd.

1984 Joined Daiwa Securities Co. Ltd.
 2010 Head of Group Risk Management Dept.,
 Daiwa Securities Group Inc.
 2011 Senior Managing Director, Daiwa Securities Group Inc.
 Senior Managing Director, Daiwa Securities Co. Ltd.
 Senior Managing Director,
 Daiwa Securities Capital Markets Co. Ltd.
 2012 Senior Managing Director,
 Daiwa Securities Group Inc.
 Senior Managing Director, Daiwa Securities Co. Ltd.
 2014 Senior Managing Director, Daiwa Securities Group Inc.
 Member of the Board and Senior Managing Director,
 Daiwa Securities Co. Ltd.
 2015 Executive Managing Director, Daiwa Securities Group Inc.
 Member of the Board and Executive Managing Director,
 Daiwa Securities Co. Ltd.

Executive Managing Director
Head of Internal Audit
 Executive Managing Director,
 Daiwa Securities Co. Ltd.



Masaru
Shirataki

Executive Managing Director,
Head of Human Resources
 Executive Managing Director,
 Daiwa Securities Co. Ltd.



Atsushi
Mochizuki

Executive Managing Director
Head of Legal
Deputy Head of Corporate Planning
 Executive Managing Director,
 Daiwa Securities Co. Ltd.



Akihiko
Ogino

Chairman of the Board



Takashi
Hibino

1985 Joined Daiwa Securities Co. Ltd.
 2011 Head of Group Internal Audit Dept.,
 Daiwa Securities Group Inc.
 Head of Internal Audit Dept.,
 Daiwa Securities Co. Ltd.
 Head of Internal Audit Dept.,
 Daiwa Securities Capital Markets Co. Ltd.
 2013 Member of the Board, Daiwa Securities Group Inc.
 2016 Executive Managing Director,
 Daiwa Securities Group Inc.
 Executive Managing Director, Daiwa Securities Co. Ltd.

1988 Joined Daiwa Securities Co. Ltd.
 2011 Head of Yokohama Branch
 2013 Senior Managing Director, Daiwa Securities Group Inc.
 Senior Managing Director, Daiwa Securities Co. Ltd.
 2016 Executive Managing Director, Daiwa Securities Group Inc.
 Executive Managing Director, Daiwa Securities Co. Ltd.

1989 Joined Daiwa Securities Co. Ltd.
 2010 Head of Corporate Planning Dept.,
 Daiwa Securities Group Inc.
 2014 Senior Managing Director, Daiwa Securities Group Inc.
 Senior Managing Director, Daiwa Securities Co. Ltd.
 2017 Executive Managing Director, Daiwa Securities Group Inc.
 Executive Managing Director, Daiwa Securities Co. Ltd.

Note: Please also refer to details of directors on page 62 of this report for information on corporate executive officers whose career histories are not presented on this page.

Compliance

Daiwa Securities Group has four corporate principles. They are “building trust,” “placing importance on personnel,” “contributing to society,” and “maintaining healthy earnings results.” The Group believes that compliance is a significant element for achieving these principles. The goal of the Group’s compliance activities is not merely to “comply with laws and regulations,” but to earn the trust of customers, markets, society, and stakeholders.

Raising Compliance Awareness

Daiwa Securities Group rigorously observes regulations and exercises self-discipline so that it can contribute to the sustainable growth of society while maintaining high ethical standards. We conduct training programs for new graduates when they join the Group, and continue through regularly scheduled training sessions throughout their careers, thus ensuring that every employee is aware of, and thoroughly understands, compliance issues.

The Group trains its employees so that even when the Group pursues new business ventures in areas where the regulatory structure is incomplete, they can return to the basic approach of laws and regulations, act sincerely in light of socially accepted ideas and common sense, and maintain strong self-discipline and legal awareness.

As basic standards that should be fulfilled at a bare minimum, the Group has formulated Group Minimum Standards for securing information, preventing insider trading, and eliminating relationships with anti-social forces. Based on these standards, the Group aims to further improve awareness of compliance.

Compliance Initiatives for FY2017

To support the building out of internal management systems at each Group company, Daiwa Securities Group will continue to enhance information security, strengthen Group efforts to eliminate connections with anti-social forces, and reinforce measures to prevent insider trading.

From FY2016, the Group holds Group Compliance Liaison Meetings as a venue for periodically sharing information among compliance departments of Group companies. We aim to further improve internal management as a Group by strengthening collaboration among Group companies.

Compliance Training

In addition to raising compliance awareness and spreading corporate ethics, Group companies routinely conduct verification and training while encouraging employees to exercise self-discipline under any and all circumstances. The Group conducts a wide range of compliance training on a variety of topics, including information security, the prevention of insider trading and the elimination of relations with anti-social forces. The methods used encompass group training and e-learning systems.

As a part of our education and training programs on cybersecurity, the Group conducts drills in targeted attack emails in a bid to raise awareness of cybersecurity among managers and employees.

Daiwa Securities conducts a broad range of training with a practical emphasis starting with Compliance Training for all employees, as well as compliance education, instruction and group training for new graduates and newly appointed managers, group training, and training on firewall regulations.

Disclosure

Daiwa Securities Group works to communicate proactively and provide fair and appropriate information in a timely manner so that customers, stakeholders, investors, local communities, employees and executives clearly understand and properly evaluate the Group's activities.

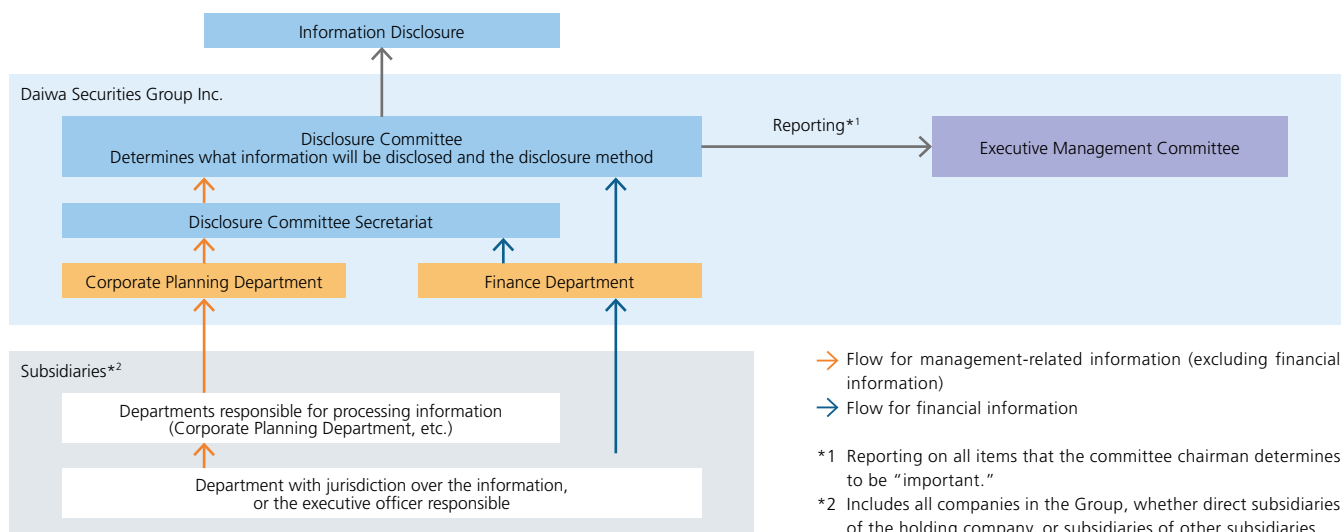
Disclosure System

The Group has formulated a Disclosure Policy, which outlines the Group's basic approach to information disclosure, and strives to provide information that is fair, prompt, and appropriate.

In order to realize the policy's spirit, Daiwa Securities Group Inc. has established the Disclosure Committee—a sub-committee of the Executive Management Committee—based on the Group's Disclosure Regulations, which makes final decisions regarding the disclosure of information. Main Group companies have also established their own regulations on management-related information, which govern the appropriate collection of information and presentation of reports to Daiwa Securities Group Inc.

The Group clearly allocates responsibilities for disclosure, depending on the intended recipient of the information. The Group's Investor Relations Office handles disclosure to shareholders, investors, and analysts. The Corporate Communication Department is responsible for communications with the mass media and local communities. Information is released through a variety of media, including via the Internet and in print. In addition, representatives from disclosure-related divisions of Group companies take part in the Group PR/IR Meeting, which convenes once a month, to share disclosure-related information across the Group.

Flowchart of the Daiwa Securities Group's Disclosure Activities



Daiwa Securities Group Disclosure Policy

- The Daiwa Securities Group will disclose important financial, social, and environmental information about the Group ("Management-related Information") in a prompt, fair, and appropriate manner, so that our stakeholders (including shareholders, investors, and the communities we operate in) may understand and maintain realistic expectations of the Daiwa Securities Group.
- The Group will comply with the Financial Instruments and Exchange Act and other laws and ordinances related to securities transactions and the various rules of the financial instruments exchanges on which our stock is listed.
- The Group will strive to disclose information fairly, in terms of both content and timing.
- The Group will utilize various communication channels, including presentations, telephone conferences, the Internet, and printed materials to disclose information in a manner that is easy for investors to comprehend.
- The Group will keep in mind its responsibility to set an example for other listed corporations, in terms of disclosure, and will strive to promote healthy markets.
- To ensure that these policies are implemented properly, the Group has established "Disclosure Regulations" which include guidelines for disclosing Management-related Information and standards for establishing a "Disclosure Committee."

IT Strategy and the Management of Systemic Risk

Under its Medium-Term Management Plan, “Passion for the Best” 2017, Daiwa Securities Group will promote two IT strategies (basic IT policies), namely, “strategic IT investment” and “strengthening IT governance” in order to achieve the management vision of “leading the capital markets in Japan and Asia, and becoming the customer’s first choice securities group.”

IT Governance Structure

Daiwa Securities Group has established the Group IT Strategy Committee as a sub-committee of the Executive Management Committee and in September 2015, created the IT Strategy Committee at Daiwa Securities, the core company of the Group, as a subcommittee of the Management Committee. These committees deliberate and decide medium- and long-term IT investment policies and budgets for IT investment after taking into account business needs and trends in the business environment, such as systems and regulations. The Group has also established the Group IT Management Committee (the prior consultation organization of the Group IT Strategy Committee), headed by the Chief Information Officer (CIO), putting in place a system for deliberation at the director level to address common issues and the medium-term IT strategies of each Group company.

Against a backdrop of globally tightening financial regulations, increasingly serious and sophisticated cyberattacks, and the spread of advanced services combining finance and IT (FinTech), the CIO has been placed in charge of overseeing all IT-related operations across the Group, including overseas bases, through the aforementioned committees, and is tasked with strengthening collaboration within the Group and managing risk on a global basis.

Strategic IT Investment

Aware of the importance of unifying management and IT strategies, Daiwa Securities Group prioritizes the allocation of resources in IT investments that contribute to the achievement of Group performance targets and business strategies. By aiming to coordinate strategic IT investments with changes in tax systems and infrastructure platforms that are essential for business continuity, the Group strives to enhance the value added of its businesses. In addition to undertaking investments for a variety of purposes, including the upgrade and expansion of the fund wrap lineup as well as online services, steps were taken to push forward initiatives in such areas as artificial intelligence (AI), Big Data, voice recognition, blockchain and other new technologies in FY2016. Moreover, Daiwa Securities Group strengthened management systems to ensure the safe and secure submitting of My Number, the government’s identification system, from customers and further bolstered cyber security measures across the Group as a whole, including overseas bases.

In line with continued advancements in technological innovation, technologies with the latent capability to significantly alter the way in which business is conducted are close to commercial application. With this in mind, Daiwa Securities Group is setting up forums to facilitate discussions regarding financial innovation that utilizes cutting-edge technologies across the Group organization, headed by the CIO. As far as promising technologies and initiatives are concerned, energies are directed toward swiftly conducting verification tests and trials while also promoting alliances and collaboration with external partners. At the same time, Daiwa Securities Group is working diligently to put in place a mechanism that will allow it to flexibly and efficiently provide products and services that place the needs of customers first. Moreover, every effort is being made to employ advanced technologies to address Group-wide management issues, including the need to dramatically improve productivity while taking into consideration work style reform.

Systemic Risk Management

Daiwa Securities Group has worked to maintain and enhance the management of systemic risk in order to reliably provide high-quality services to customers while protecting information assets from various threats and risks. The Group monitors the status of its networks and information systems and makes qualitative improvements to its systems based on periodic risk assessments, in order to prevent risks from occurring.

Against this backdrop, Daiwa Securities Group has positioned the need to ensure cyber security as an important issue in the context of managing risks. This reflects the recent and growing threat of cyberattacks. As a result, the Group has established the Daiwa-CSIRT*, a Group-wide cross-sectional specialist organization that collects and analyzes the latest information on cyberattack methods and vulnerability while coordinating with external institutions. Drawing on this information and analyses, ongoing steps are being taken to strengthen cyber security measures encompassing the Group as a whole, including overseas bases. These steps include building multilayered initiatives that combine a number of technological countermeasures, continuously monitoring networks and equipment, detecting and analyzing attacks, and putting in place the Security Operation Center (SOC), which is charged with the responsibility of formulating countermeasures.

* Computer Security Incident Response Team: the organization that manages cyber security across departments

Risk Appetite Framework

In FY2016, Daiwa Securities Group introduced a risk appetite framework for the purpose of strengthening risk governance on all management levels.

Risk Appetite Framework

As financial regulations have tightened around the world since the global financial crisis of 2008, globally active financial institutions are increasingly required to have sufficient financial health to perform their functions as financial intermediaries during times of stress in economies and markets.

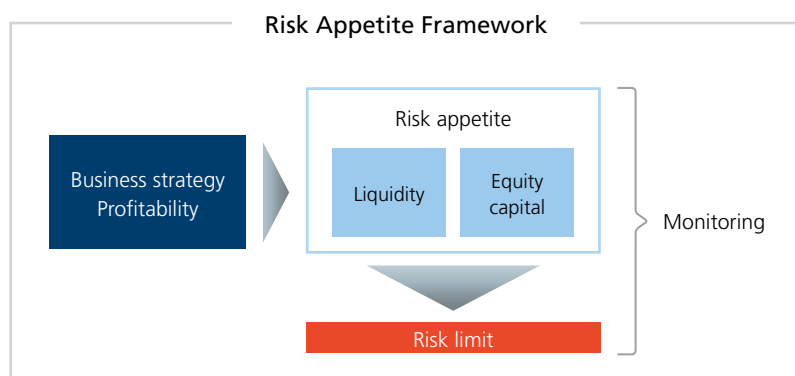
In addition, the Group must appropriately evaluate risks outside the ordinary, and ensure it has sufficient liquidity and equity capital commensurate with these risks in order to be adequately prepared during times of stress.

Under this environment, the Group has introduced a risk appetite framework for the purpose of strengthening risk governance at the management level.

This risk appetite framework defines risk appetite as the type and total amount of risk that should be assumed in order to achieve business strategies. It is a common phrase used internally to discuss risk-taking policies within the context of business management.

Risk appetite is the level of risk to be taken based on a risk appetite index that refers to liquidity and equity capital, among other factors. Risk limits that restrict risk appetite are logically set based on the risk appetite index, and then managed and monitored.

The Group has documented this framework in its Risk Appetite Statement, and aims to foster a risk culture while spreading awareness of risk appetite within the Group and improving the level of business and risk management.



Risk Appetite Framework Management Structure

Daiwa Securities Group has built a risk appetite framework through coordination between the CEO, COO, CFO and Chief Risk Officer (CRO).

The Board of Directors has deliberated and decided on a Risk Appetite Statement that quantifiably sets the risk appetite index within the context of liquidity and equity capital.

The Audit Committee conducts audits of the Board of Directors and management with regard to the risk appetite framework.

Risk Management

While Daiwa Securities Group pursues profitability and growth, it also recognizes the importance of appropriately identifying, evaluating, and effectively managing various risks associated with its business operations. The Group aims to continuously improve its corporate value by maintaining a sound financial base and profit structure that is balanced in terms of risks and returns, and by implementing appropriate risk management.

Risk Management

Risk management policy

Based on its risk appetite framework, Daiwa Securities Group Inc. has established the Rules of Risk Management, which govern the risk management activities of the Group. These rules outline the following basic policies:

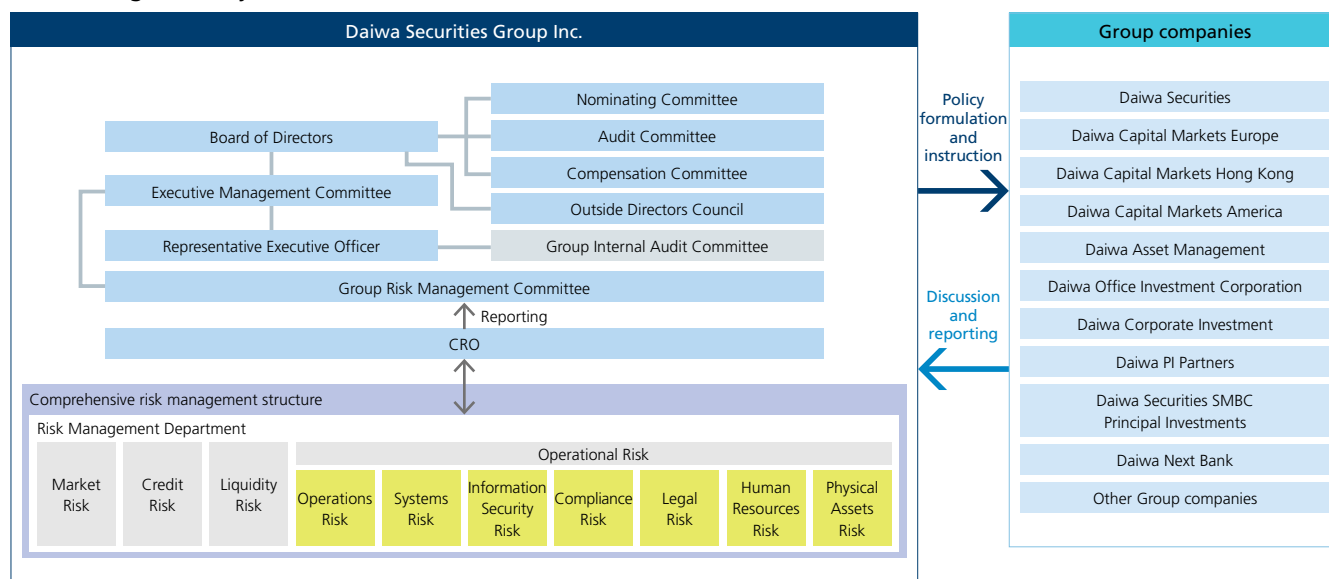
- 1 Management's proactive involvement in risk management.
- 2 The structure of a risk management system that responds to features of the risks held by the Group.
- 3 Understand overall risk based on integrated risk management, secure strong capital and the soundness of liquidity.
- 4 Clarify the risk management process.

Limits are set for each type of risk so as to appropriately manage Group risk.

Types of risks

Daiwa Securities Group faces various risks in the course of its business activities. The Group therefore believes that it is important to identify and appropriately evaluate and manage those risks in order to maintain a sound financial base and earnings structure. Daiwa Securities Group Inc. determines the risks that need to be managed, and conducts risk management based on the respective Group company's business characteristics and risk profile. The types of risks that have been deemed important to manage include: market risk, credit risk, liquidity risk, operational risk, and reputational risk.

Risk Management System



Risk management system

Based on its risk appetite framework, the Board of Directors of Daiwa Securities Group Inc. has approved the Rules of Risk Management. The rules define basic policies related to risk management, the types of risks that need to be managed, and the responsible executive and department for each major risk. Each of the Group's subsidiaries conducts risk management that responds to the risk profile and size of each business in accordance with the abovementioned basic policies. Daiwa Securities Group Inc. monitors its subsidiaries, and reports the risk exposures and issues concerning the risk management system to the Group Risk Management Committee. This is a sub-committee of the Executive Management Committee of Daiwa Securities Group Inc., and it discusses and resolves any issues that are reported. In addition, major Group companies regularly hold risk management meetings in order to strengthen their risk management systems.

Major Risks and Methods of Management

Market risk management

Market risk refers to the risk of incurring losses due to market fluctuations, which affect the value of stock prices, interest rates, foreign exchange rates, and commodity prices. In terms of the Group's trading business, the Group implements suitable hedges to curtail fluctuations in profits and losses. However, as hedges may fail to function effectively in times of stress, the Group sets limits on Value at Risk (VaR)*¹ and loss estimates under various types of stress test*² to ensure that they are within the scope of equity capital after taking into consideration financial conditions and such factors as the business plans and budgets of subject departments. The Group also sets limits on such

facets as position and sensitivity. Risk management departments of Daiwa Securities Group Inc. monitor market risk across the Group, and report the status of market risk to management on a daily basis.

- *1 Value at Risk (VaR) represents the maximum possible loss of a given trading portfolio with a given probability over a given time horizon.
- *2 Stress tests are used to calculate the Group's maximum losses based on scenarios of the most significant market fluctuations of the past and due to scenarios based on hypothetical risk events.

Credit risk management

Credit risk refers to the risk of losses caused in cases where a counterparty of a trade or the issuer of a financial product held by the Group suffers a default, or credibility deteriorates. The credit risk of the Group's trading activities involves counterparty risk and issuer risk.

For counterparty risks, the Group assigns an upper allowable credit amount for each counterparty group and monitors risk on a regular basis. In addition, the Group sets a limit for the total counterparty risk amount.

Issuer risk for financial instruments held through market-making activities is also monitored.

When the Group provides products and engages in asset management and investments, there exists a risk that its exposure to various products and transactions could be concentrated on specific counterparty groups. If the credit situation at such counterparty groups should worsen, large-scale losses could be generated. For this reason, the Group sets limits on its total exposure to individual counterparty groups and monitors this exposure regularly.

The Daiwa Securities Group (Consolidated) Value at Risk

Range and Assumption of VaR • Scope: Trading accounts • Confidence level: 99% (one-side test) Holding period: 1 day
• Adjusted for price correlation between products

	6/15	9/15	12/15	3/16	6/16	9/16	12/16	3/17
VaR (Month-end)	1.74	1.53	1.25	1.55	1.01	1.00	1.74	2.32
Quarterly								
High	2.43	2.59	1.71	3.14	2.26	2.53	2.97	3.16
Low	1.68	1.34	1.13	1.17	0.99	0.98	1.02	1.56
Average	2.04	1.65	1.47	1.67	1.53	1.40	2.02	2.17
By Risk Factor (Month-end)								
Equity	0.56	0.83	0.39	0.28	0.27	0.44	0.40	0.54
Interest	1.98	1.42	1.13	1.64	1.00	1.00	1.38	2.42
Currency	0.25	0.33	0.59	0.33	0.19	0.17	0.26	0.29
Commodities	0.00	0.00	0.00	0.00	0.00	0.00	0.03	0.00

(Billions of yen)

Management of market risk and credit risk unrelated to the trading business

Besides the trading business, the Group also owns operational investment securities related to the investment business, loans and securities related to the banking business, and investment securities that are held for the purpose of maintaining business relationships. Those assets are also exposed to market and credit risks, and risk management is conducted according to the risks that are unique to each line of business.

Liquidity risk management

Liquidity risk refers to the risk of suffering losses due to cash management difficulties or having to finance at markedly higher costs than usual as a result of a change in market conditions or a deterioration of Group companies' finance. The Group uses a variety of financial assets and liabilities to conduct its business with a focus on securities-related operations as its core business. Accordingly, it procures funds based on the policy of efficiently and stably ensuring ample liquidity necessary to continue its business. In order to prevent market fluctuations from affecting the continuation of our business activities, the Group is constantly striving to secure the stability of fund procurement. Particularly in recent years, the Group has been accumulating liquidity through such means as fund procurement through the market as well as loans from financial institutions, in preparation for unforeseen events such as those caused by global financial crises or credit crunches. Additionally, with the anticipation that such crises may make it difficult to procure new funds and reacquire existing funds, the Group diversifies repayment periods and fund sources.

Daiwa Securities Group has established a liquidity management system that consists of the regulatory consolidated liquidity coverage ratio (long term and short term) as well as its own liquidity management indicators. As a part of

efforts to manage short-term liquidity risks, 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. From a long-term liquidity risk management perspective, if stressful conditions are expected to continue for a long period of one year or more, the Group measures and monitors long-term fundraising conditions so that it can continue its business operations even when it becomes impossible to procure funds without collateral for a whole year.

The Group recognizes the emergence of liquidity risks can have a direct impact that leads to the business failure of a financial institution. Accordingly, Daiwa Securities Group has put in place a contingency funding plan in order to ensure that the Group responds appropriately at the time of a liquidity crisis. This plan states the basic policy concerning the reporting lines depending upon the urgency of stress internally originated, including a credit crunch, and externally originated including an abrupt change in the market environment, and the method of raising capital. The contingency plan enables the Group to prepare a system for securing liquidity through a swift response.

Operational risk management

Operational risk is the risk of losses that occur when internal processes, people, and systems do not perform adequately or do not function; it can also arise from external events.

The Group classifies operational risk into operations risk, systems risk, information security risk, compliance risk, legal risk, human resources risk, and physical assets risk, and monitors them by assigning departments responsible for individual risks.

Definitions of Principal Operational Risks

Operations Risk	The risk of suffering losses due to the neglect of proper operations by employees and executives or due to accidents or impropriety
Systems Risk	The risk of suffering losses due to computer systems going down, malfunctioning, or experiencing system inadequacies, and the risk of suffering losses due to the inappropriate use of computers
Information Security Risk	The risk that a threat to information assets could materialize, preventing information security (confidentiality, completeness, or continued availability) from being assured
Compliance Risk	The risk of suffering losses due to the failure of employees and executives to comply with corporate ethics or laws and regulations, and the risk of suffering losses due to lawsuits with customers and other parties in Japan
Legal Risk	The risk of suffering losses due to the inappropriate conclusion of contracts, breaches of contract, or lawsuits with customers or other parties in relation to overseas offices
Human Resources Risk	The risk of suffering losses due to problems in labor management or from the standpoint of workplace safety, and the risk of being unable to secure necessary human resources
Physical Assets Risk	The risk of suffering losses due to damage to physical assets as the result of natural disasters or external factors, or to negligence on the part of executives and employees

As the Group's business becomes more sophisticated, diversified, and systemized, the accompanying risks become more varied. As a result, the importance of managing operational risk has grown each year.

Major Group companies control their operational risks appropriately by measures including risk control self-assessments (RCSAs), in accordance with rules on operational risk management set by Daiwa Securities Group Inc. In addition, the Group has taken other necessary measures, including the implementation of rigid rules concerning authority, the automation of office operations for reducing human errors, and the preparation of procedural manuals. Each Group company strives to reduce operational risk according to the nature of its own business.

Reputational risk management

Reputational risk refers to the possibility of the Group sustaining unforeseen losses and the Group's counterparties being adversely affected due to a deterioration of its reliability, reputation, and assessment caused by the spread of rumors or erroneous information. There are no uniform procedures for managing reputational risk because it can emanate from a variety of sources.

The Group has established various regulations under its Disclosure Policy, with particular emphasis on the management and provision of information. It has also set up the Disclosure Committee within Daiwa Securities Group Inc.

Each Group company is obligated to report information that could turn into reputational risk to the Disclosure Committee. That way, Daiwa Securities Group Inc. can obtain and centrally manage information, and it disseminates accurate information in a prompt manner according to the decisions of the Disclosure Committee.

The Group strives to keep abreast of problems and occurrences that may affect its reputation so that if and when such problems occur, their impact on the Group can be minimized. It also acts to ensure that erroneous and inaccurate information is properly corrected, and that it responds appropriately to libel and other issues. The Group has public relations and investor relations systems in place to prevent and minimize risks regarding its reputation.

Accounting and tax risk management

Accounting and tax risk is the risk of not conducting appropriate accounting treatment and disclosure in accordance with accounting or taxation standards, laws, and regulations, or of not filing or paying taxes appropriately, as well as the risk of losses arising as a result.

The Group strives to reduce accounting risk by operating in accordance with fundamental regulations related to internal controls on financial reporting, and by establishing, putting into practice, and striving to improve its internal controls on financial reporting.

In addition, by notifying principal Group companies of necessary reporting items related to tax risk management and receiving such items in a timely manner, the Group endeavors to appropriately determine the tax risk management status and risk conditions for the Group as a whole, thereby reducing its tax risk.

Tax policy

Daiwa Securities Group has enacted "Daiwa Securities Group Tax Policy" in aiming to develop corporate tax governance, and describes our code of conduct and standard of judgements in taxation.

Daiwa Securities Group Tax Policy

- 1** Daiwa Securities Group complies with laws and ordinances, and contributes to sustainable development of the society through appropriate tax payments with high ethical standards.
- 2** Daiwa Securities Group rewards our shareholders by achieving sound profits based on proper and fair tax planning.
- 3** For cross border intra group transactions, Daiwa Securities Group sets an appropriate price, which can achieve adequate accountability under transfer price tax regulations.
- 4** CFO, executive officer in charge of Finance, and Head of Finance Department of Daiwa Securities Group Inc. from time to time provide guidance and advice to subsidiaries and other departments within the Group as necessary, so that corporate governance over tax matters can be well shared and implemented throughout the Daiwa Securities Group.

Financial Section

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Twelve-Quarter Financial Summary

Daiwa Securities Group Inc. and Consolidated Subsidiaries

	FY2014			
	1Q	2Q	3Q	4Q
MARKET DATA				
Nikkei 225 (end of each quarter, yen)	15,162.10	16,173.52	17,450.77	19,206.99
TSE average daily trading value (billions of yen)	2,206	2,244	2,959	2,905
Net purchases (sales) by investors on two major securities exchanges* (billions of yen)				
Institutions	750	10	2,168	592
Individuals	(1,787)	(1,311)	(2,041)	(1,407)
Foreigners	906	700	1,078	(161)
Securities companies	(90)	(91)	(179)	(128)
Ten-year Japanese government bond yield (end of each quarter, %)	0.565	0.525	0.330	0.400
Foreign exchange rates: Yen per U.S. dollar (end of each quarter)	101.37	109.71	119.44	119.91

* The two major exchanges refer to the Tokyo Stock Exchange and the Nagoya Stock Exchange.

OPERATING PERFORMANCE				Millions of yen
Operating revenues	148,701	155,656	179,583	175,454
Commissions	68,686	70,954	76,029	75,445
Brokerage commission	14,082	16,585	20,010	19,271
Underwriting commission	11,172	10,214	9,678	6,487
Distribution commission	10,569	10,162	10,293	10,025
Other commission	32,861	33,991	36,046	39,660
Net gain on trading	37,579	39,016	38,806	41,817
Profit on equity trading	5,716	3,804	10,597	4,676
Profit on bond and foreign exchange trading	31,862	35,212	28,209	37,140
Net gain on private equity and other investments	1,916	1,543	3,384	570
Interest and dividend income	26,578	29,789	34,612	34,954
Service fees and other revenues	13,940	14,351	26,750	22,667
Interest expenses	16,530	15,381	27,660	20,497
Cost of service fees and other revenues	9,680	10,110	11,674	15,640
Net operating revenues	122,490	130,163	140,248	139,316
Selling, general and administrative expenses	88,164	88,889	91,408	92,918
Commissions and other expenses	17,870	18,569	18,762	18,473
Employees' compensation and benefits	43,618	44,157	46,061	47,935
Occupancy and rental	9,212	9,169	9,076	9,550
Data processing and office supplies	6,332	6,104	6,485	6,521
Depreciation and amortization	6,030	6,140	6,141	5,772
Taxes other than income taxes	1,883	1,738	1,808	1,556
Others	3,215	3,009	3,073	3,107
Operating income	34,326	41,274	48,840	46,398
Non-operating income	5,985	3,604	2,735	4,068
Non-operating expenses	607	639	519	889
Ordinary income	39,705	44,239	51,056	49,578
Extraordinary gains	500	1,863	519	2,514
Extraordinary losses	476	1,146	4,186	2,250
Income before income taxes	39,728	44,956	47,389	49,842
Profit attributable to owners of parent	34,380	37,085	38,502	38,522

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

FY2015				FY2016			
1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
20,235.73	17,388.15	19,033.71	16,758.67	15,575.92	16,449.84	19,114.37	18,909.26
3,060	3,140	2,820	3,025	2,656	2,566	2,870	2,710
(569)	3,347	993	3,005	1,752	925	(921)	(908)
(2,752)	1,124	(1,964)	1,423	(405)	(676)	(3,503)	(19)
2,819	(4,083)	1,173	(5,012)	271	(1,445)	2,498	(1,238)
(191)	79	(74)	96	(23)	(7)	(164)	(30)
0.455	0.350	0.270	(0.050)	(0.230)	(0.085)	0.040	0.065
122.41	120.24	120.38	112.35	102.81	101.14	116.81	111.81

Millions of yen				Millions of yen			
191,389	158,126	153,616	150,579	151,859	145,117	153,198	166,322
80,041	76,460	69,215	62,701	61,693	64,373	70,752	76,515
21,035	18,417	15,922	14,950	13,888	13,197	17,189	16,672
9,031	9,560	6,031	3,930	5,366	8,274	8,161	7,926
11,226	9,439	8,237	5,839	6,320	7,037	10,020	10,909
38,748	39,043	39,023	37,980	36,119	35,863	35,379	41,007
49,043	23,681	29,910	28,688	33,379	32,385	34,025	28,330
10,606	1,929	6,645	4,249	2,063	5,315	7,672	6,419
38,437	21,751	23,265	24,439	31,315	27,070	26,352	21,910
3,704	1,490	12,327	979	4,802	5,614	2,423	2,006
37,830	35,335	33,587	42,697	35,726	33,088	34,808	39,618
20,768	21,158	8,575	15,511	16,257	9,656	11,188	19,850
23,978	24,288	19,551	21,710	26,633	20,701	20,777	30,612
12,746	10,258	9,264	17,095	11,177	9,319	10,434	14,090
154,663	123,579	124,799	111,772	114,049	115,096	121,985	121,618
95,574	91,281	89,331	88,329	86,029	85,772	90,376	91,508
18,871	18,304	17,805	17,357	16,385	16,979	17,505	18,884
49,358	45,616	44,626	43,691	43,240	43,356	44,838	44,395
9,287	9,686	9,235	9,151	8,744	8,538	8,833	9,150
6,501	6,578	7,002	6,689	6,233	6,006	7,843	6,963
5,953	5,921	6,038	5,920	5,897	5,705	5,848	5,955
2,895	2,148	2,078	1,765	2,559	2,467	2,555	2,948
2,707	3,025	2,545	3,753	2,968	2,720	2,952	3,210
59,088	32,297	35,468	23,442	28,019	29,323	31,609	30,110
4,706	3,499	2,636	5,314	4,613	4,305	3,961	4,907
681	340	154	128	95	371	135	622
63,113	35,456	37,950	28,628	32,537	33,256	35,434	34,394
3,143	633	3,787	1,897	1,228	1,607	2,524	12,016
330	290	86	3,991	207	1,082	(47)	12,753
65,926	35,799	41,651	26,535	33,559	33,781	38,007	33,657
44,836	24,347	26,354	21,311	24,571	30,443	26,693	22,358

Management's Discussion and Analysis

Macroeconomic Conditions in FY2016

Overseas Markets

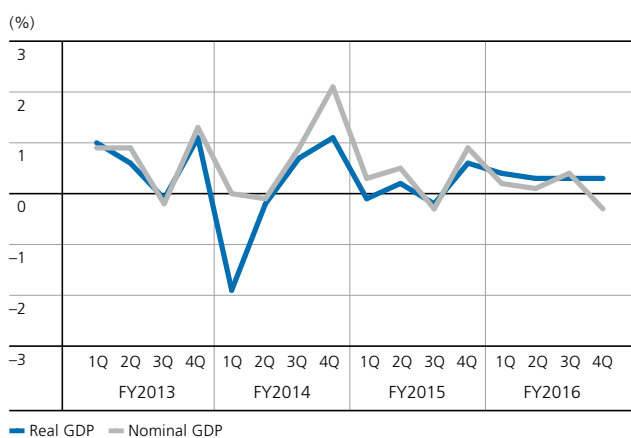
In FY2016, the pace of global economic growth slowed moderately over the first half. After then picking up at the end of the year, the rate of expansion recovered mildly. While the economies of certain emerging countries experienced lingering weak conditions, there were signs of a positive turnaround in China. Led mainly by the US, economic trends in most industrialized nations continue to remain firm. Buoyed by the expansionary fiscal policies of the incoming president following the US presidential election in November 2016, projections of US economic expansion and a positive impact on the rest of the world became increasingly widespread. However, uncertainties surrounding the ability of the new administration to carry out its policies from the start of the year dampened the expectations of global financial markets over the end of March 2017.

In the April-June 2016 quarter, the US economy witnessed a pickup in the pace of consumer spending on the back of steady improvements in the employment environment. Moreover, export activity expanded substantially in the July-September 2016 quarter prompting a high rate of growth in real GDP for the first time in two years. In specific terms, real GDP in the US climbed 3.5% on an annual basis compared with the previous fiscal year. While the pace of real GDP growth slowed during the October-December 2016 quarter, the overall trend was firm thanks largely to the underlying strength of domestic demand, including consumer spending and housing investment activity. In contrast, consumer spending slowed entering the January-March 2017 quarter. Coming in at a modest 1.2% increase, growth was held to a low level. On a positive note, the employment and disposable income environments continue

to exhibit stable trends. With the basic fundamentals that support consumer spending growth remaining brisk, there is a growing consensus that the downturn in the January-March 2017 quarter is only temporary. On the financial front, the Federal Reserve Board (FRB) in the US decided to again lift interest rates in March 2017, following on from the previous increase in December 2016. This largely reflected the positive turnaround in the US economy. In addition to expectations toward the new administration, firm economic conditions continued to fuel a brisk stock market. The New York Dow Jones Industrial Average hit a record high at the beginning of March.

In Europe, the economy overall continued to experience modest yet stable growth. This was mainly due to the negative interest rate policy adopted by the European Central Bank (ECB) and the downturn in crude oil prices. The rate of real GDP growth in the eurozone in the October-December 2016 and January-March 2017 quarters each edged up 0.5% compared with the previous period. This represented a 16th consecutive quarter of positive growth. Against this backdrop, consumer spending is playing a significant role in stimulating economic growth, buoyed by positive flow-on effects of a low interest rate, low inflation environment and improvements in employment conditions. In addition, there are indications that the current pace of production activity in the corporate sector is accelerating. This reflects a variety of factors, including an upswing in the formation of fixed capital, where recovery had been slow compared with consumer spending. From a financial perspective, the ECB's Monetary Policy Committee decided in December 2016 to maintain its asset purchase program at least through to the end of December 2017. This is despite scaling back quantitative easing measures from April 2017.

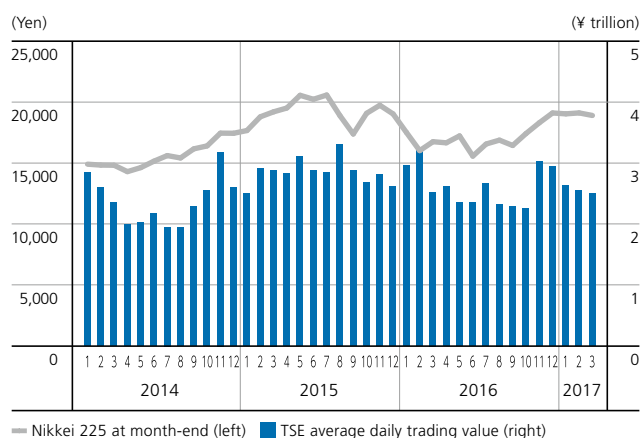
GDP Growth Rate in Japan



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



Source: Tokyo Stock Exchange, Daiwa Institute of Research

Turning to the economies of emerging nations, the rate of real GDP growth in China climbed 6.7% compared with the previous period in each of the April-June 2016 and July-September 2016 quarters. The rate then saw a gradual improvement over the second half of the fiscal year, expanding 6.8% and 6.9% in the October-December 2016 and January-March 2016 quarters, respectively. Signs of a pickup in economic conditions are emerging with continuous stable growth. This largely reflects the various government measures implemented to stimulate the economy. Drawing on the underlying strength of brisk service consumption, consumer spending has helped push the economy as a whole forward. Currently, this trend is growing in momentum. In addition, public policies in such fields as deregulation and infrastructure planning have triggered an upswing in fixed asset investment. Despite these favorable conditions, a variety of issues including the sharp rise in real estate prices as well as excess capacity and debt in the corporate sector warrant ongoing careful examination as potential risks impacting financial markets. As far as other emerging countries are concerned, there are signs of weakness in certain nations. In some instances, however, there are indications of a recovery based on increased export activity and the economic measures implemented by each government.

Japan

Breaking free from a temporary lull period, the Japanese economy is showing signs of a moderate, but still economic upturn. While conditions remain impacted by sluggish domestic demand, robust external demand is serving to drive the economy forward. Industrial output, for example, has continued to improve since the summer of 2016. In addition, the tertiary industry activity index, an indicator of activity in the non-manufacturing sector, has recovered with signs of a modest expansion focusing mainly on business-related services. Despite these positive trends, however, the index is essentially unchanged from the latter half of FY2016.

Consumer spending, which has a major impact on GDP, is expanding, albeit slowly. This largely reflects steady improvements in the employment and income environments. The unemployment rate has fallen below 3% on the back of the tight labor supply and demand. Under these circumstances, demand especially in the service sector is on the rise with a continuous increase in payrolls. From a macro-economic perspective, wages are on a modest upward trajectory. In contrast, households continue to adopt a cautious approach toward expenditures and budgets. This is mainly due to the sluggish nature of disposable incomes and uncertainties regarding the future. Looking at housing investment, activity trends have been mixed. In the first

half of FY2016, investment witnessed double-digit percentage growth year on year. This was largely attributable to the low levels of housing loan interest rates and the increase in rental property construction as an inheritance tax countermeasure. In the second half, however, there are signs of a slight lull in activity.

Meanwhile, corporate sector capital investment activity continues to fluctuate. Amid company earnings that continue to hover at a high level, coupled with tight labor supply and demand, there are indications of vigorous renewal and labor-saving investment. However, unable to dispel uncertainties surrounding the future both in Japan and overseas, the corporate sector as a whole, and in particular the manufacturing sector, is maintaining its cautious stance toward capital investment.

Casting an eye on external demand, export activity is following an upward trend. This is against the backdrop of moderate growth across overseas economies with brisk economic conditions in leading industrialized countries and a recovery in emerging nations. Turning to export trends by region, activity targeting the US and European Union (EU) was firm. While exports to Asia were initially flat owing mainly to a slowdown in the rate of economic growth in China, trends recovered substantially over the second half of FY2016. By product, export volumes of automobile- as well as information-related electronic components such as ICs and capital goods increased steadily. On the import front, amounts were essentially unchanged. This largely was the result of sluggish domestic demand and the impact of the strong yen. However, over the second half of FY2016, signs of a positive turnaround are emerging.

From a financial perspective, the Bank of Japan (BOJ) announced details of its decision to adopt a negative interest rate policy as a part of its quantitative and qualitative easing measures in January 2016. Showing the effects of this negative interest rate policy, long-term interest rates (ten-year Japanese government bond (JGB) yields) fell below zero for the first time in February 2016 and remained entrenched within this negative zone. Moreover, the BOJ decided to introduce the new policy framework of Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control in September 2016. Under this new policy framework, the BOJ plans to directly control both short-term and long-term interest rates through market operations. In this manner, bold steps are being taken to adopt a new policy framework that shifts BOJ's target for its monetary policy from a quantitative to an interest rate aspect. As a result, ten-year JGB yields have exited the negative interest rate zone and are trending stably just above 0%. In the foreign currency exchange market, overseas economies attracted a growing sense of caution

entering 2016. As a result, the value of the yen appreciated. Thereafter in June 2016, a referendum was held in the UK to determine whether the nation would leave the EU. The subsequent decision to withdraw only heightened the overall growing sense of caution, with the yen appreciating sharply against both the US dollar and the euro. Following the US presidential election in November 2016, the US-Japan interest rate differential widened on the back of such factors as expectations toward the future of the US economy. With a pickup in interest in the US dollar, foreign currency exchange rates shifted to a strong US dollar/weak yen trajectory. From January 2017, however, the value of the yen appreciated moderately in line with growing uncertainty surrounding the new US administration.

As of the end of March 2017, the Nikkei 225 closed at ¥18,909.26, up by ¥2,150.59 compared with the end of March 2016. The yield on ten-year JGBs stood at 0.067%, an increase of 0.116 of a percentage point compared with the end of March 2016. The exchange rate was US\$1.00 = ¥111.80, a ¥0.63-per-dollar increase compared with the end of March 2016.

Analysis of Consolidated Income Statements

Total Operating Revenues and Net Operating Revenues

Total consolidated operating revenues in FY2016 decreased by 5.7% compared with FY2015, to ¥616.4 billion. Net consolidated operating revenues declined by 8.2% year on year, to ¥472.7 billion.

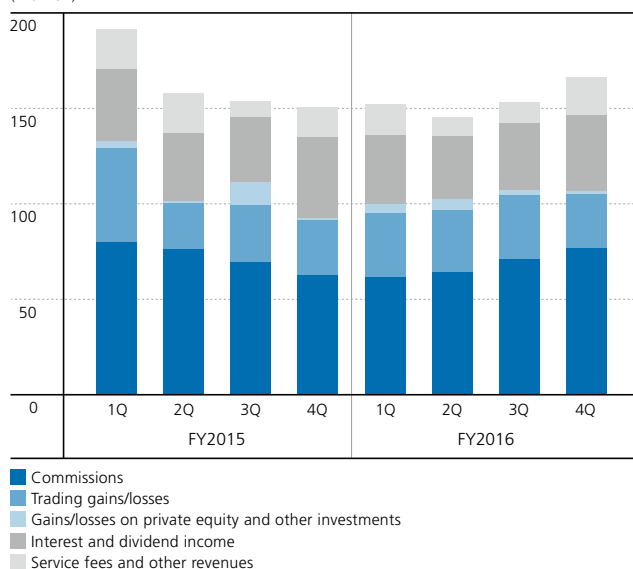
Commissions received were down by 5.2% compared with the previous fiscal year, to ¥273.3 billion. Brokerage commission fell 13.3% compared with FY2015, to ¥60.9 billion owing mainly to the downturn in stock trading over the first half of FY2016. Meanwhile, underwriting activity focusing largely on debt increased against the backdrop of ultra-low interest rates following the introduction of a negative interest rate policy by the BOJ. As a result, underwriting commission climbed 4.1% compared with the previous fiscal year, to ¥29.7 billion. Buoyed by robust conditions in the M&A business, M&A commission jumped 41.6% year on year, to ¥16.1 billion.

Breakdown of Net Operating Revenues

	Millions of yen		
	FY2015	FY2016	YoY
Operating revenues	¥653,712	¥616,497	-5.7%
Commissions	288,419	273,335	-5.2%
Brokerage commission	70,325	60,948	-13.3%
Underwriting commission	28,553	29,729	4.1%
Distribution commission	34,743	34,288	-1.3%
Other commission	154,796	148,370	-4.2%
Net gain on trading	131,324	128,121	-2.4%
Net gain on private equity and other investments	18,503	14,846	-19.8%
Interest and dividend income	149,451	143,242	-4.2%
Service fees and other revenues	66,015	56,953	-13.7%
Interest expenses	89,530	98,725	10.3%
Cost of service fees and other revenues	49,367	45,022	-8.8%
Net operating revenues	¥514,815	¥472,750	-8.2%

Breakdown of Consolidated Income

(¥ billion)



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

Net Gains/Losses on Trading

Net gain on trading edged down by 2.4% compared with the previous fiscal year, to ¥128.1 billion owing mainly to the downturn in the flow of customers' trading as a result of the deterioration in market conditions.

Net trading gains and financial income, calculated on a managerial accounting basis, fell by 7.9% year on year, to ¥35.0 billion. This was primarily due to the drop in Japanese stock trading activity. Fixed income, currency and commodities (FICC) revenues decreased 6.0% compared with the previous fiscal year, to ¥126.0 billion. While efforts were made to accurately grasp investors' needs, this decrease reflected a decline in long-term interest rate volatility in the second half of the fiscal year under review.

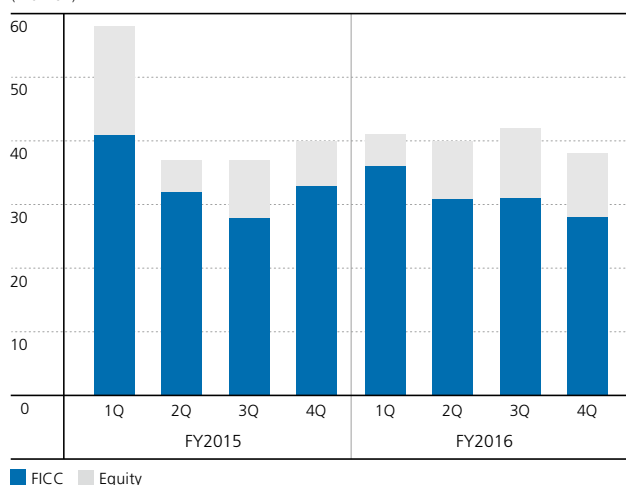
Revenues (Trading Gain/Loss) from Equity and FICC (Net Gain (Loss) on Trading + Net Financial Income, on Managerial Accounting Basis)

	Billions of yen		
	FY2015	FY2016	YoY
Equity	¥ 38.0	¥ 35.0	-7.9%
FICC	134.0	126.0	-6.0%
Total	¥172.0	¥161.0	-6.4%

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 declined 3.0% compared with the previous fiscal year, to ¥353.6 billion. Trading-related expenses fell 3.6% year on year, to ¥69.7 billion. This was mainly due to the drop in commissions paid to distribution and other companies in line with the decline in net assets under management at Daiwa Asset Management Co., Ltd. By the same token, personnel expenses decreased 4.1% compared with the previous fiscal year, to ¥175.8 billion owing to such factors as the downturn in bonuses linked to performance. Real estate expenses including fixtures declined 5.6% year on year, to ¥35.2 billion. Meanwhile, taxes and dues climbed 18.5% compared with the previous fiscal year, to ¥10.5 billion. This largely reflected the increase in the tax rate under pro-forma standard taxation. Accounting for each of the aforementioned factors, ordinary income contracted by 17.9% compared with the previous fiscal year, to ¥135.6 billion.

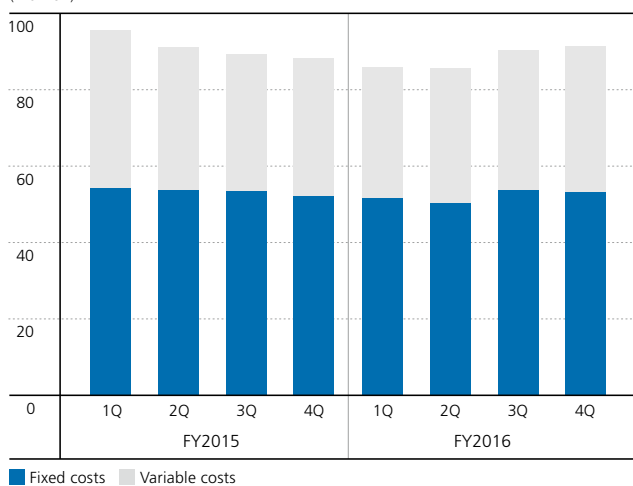
After posting such items as gains on sales of investment securities, extraordinary gains came to ¥17.3 billion. Extraordinary losses totaled ¥13.9 billion after taking into account various entries, including expenses related to redemption of Money Management Fund and other as well as provision for loss on litigation. After deducting corporate income taxes and profit attributable to non-controlling interests, profit attributable to owners of parent declined 10.9% compared with the previous fiscal year, to ¥104.0 billion.

Breakdown of SG&A and Income

	Millions of yen		
	FY2015	FY2016	YoY
SG&A	¥364,517	¥353,688	-3.0%
Trading-related expenses	72,339	69,754	-3.6%
Personnel expenses	183,293	175,830	-4.1%
Real estate expenses	37,360	35,267	-5.6%
Office cost	26,772	27,047	1.0%
Depreciation	23,834	23,406	-1.8%
Taxes and dues	8,888	10,530	18.5%
Allowance for doubtful accounts	673	—	—
Other	11,358	11,852	4.3%
Operating income	150,298	119,062	-20.8%
Non-operating income/expenses	14,851	16,561	11.5%
Ordinary income	165,148	135,624	-17.9%
Extraordinary gains/losses	4,764	3,381	-29.0%
Income before income taxes	169,913	139,004	-18.2%
Income taxes	46,935	34,726	-26.0%
Profit attributable to owners of parent	¥116,849	¥104,067	-10.9%

Cost Structure

(¥ billion)



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

Segment Information

Retail Division

Sales of equity and equity investment trusts rose under favorable market conditions following the US presidential election. However, this upturn was not as strong as the brisk stock market in FY2015. As a result, net operating revenues decreased by 13.7% compared with the previous fiscal year, to ¥188.0 billion, and ordinary income declined 51.9% year on year, to ¥29.3 billion.

Wholesale Division

In addition to firm trends in revenue from bond trading, results in the Wholesale Division were supported by a year-on-year increase in revenue from investment banking businesses, including M&A advisory services. Taking into account these factors, net operating revenues climbed by 2.7% compared with the previous fiscal year, to ¥182.8 billion and ordinary income improved 33.9% year on year, to ¥65.4 billion.

Asset Management Division

While the balance of assets under management expanded toward the end of the fiscal year, the average outstanding balances of publicly offered equity investment as well as bond investment trusts fell during FY2016 compared with FY2015. As a result, net operating revenues decreased 8.1% compared with the previous fiscal year, to ¥46.4 billion, and ordinary income declined 11.4% year on year, to ¥26.5 billion.

Investment Division

Despite progress in some areas, including the exit from certain investments, contributions fell short of the large-scale investment collections of the previous fiscal year. On this basis, net operating revenues decreased 20.2% compared with the previous fiscal year, to ¥15.7 billion, and ordinary income contracted 25.0% year on year, to ¥13.0 billion.

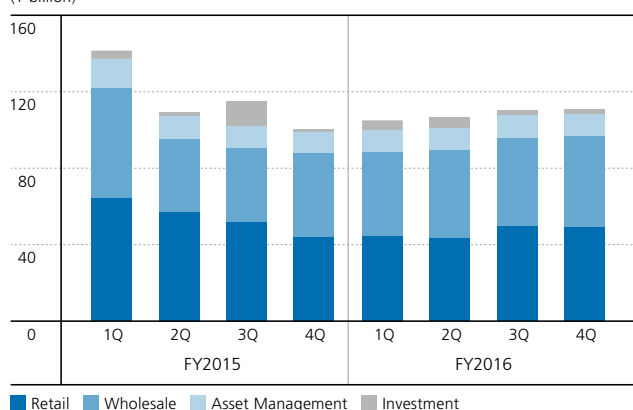
Segment Information

	Net Operating Revenues			Ordinary Income		
	FY2015	FY2016	YoY	FY2015	FY2016	YoY
	Millions of yen					
Retail	¥217,923	¥188,052	-13.7%	¥ 61,080	¥ 29,376	-51.9%
Wholesale	178,015	182,876	2.7%	48,878	65,437	33.9%
Asset Management	50,529	46,438	-8.1%	29,990	26,572	-11.4%
Investment	19,730	15,737	-20.2%	17,397	13,042	-25.0%
Others	48,618	39,647	—	7,801	1,197	—
Consolidated total	¥514,815	¥472,750	-8.2%	¥165,148	¥135,624	-17.9%

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 profit of ¥2.7 billion in Europe on the back of robust trends in the M&A business. This was a return to the black after an absence of seven years. In addition, Asia and Oceania reported a profit of ¥1.4 billion owing mainly to ongoing strong trends in the wealth management and M&A businesses. In the Americas, ordinary income came in at ¥9.2 billion. This was largely due to a brisk performance by the mainstay Bonds Division. Accounting for each of these factors, the Group booked ordinary income of ¥13.4 billion in its overseas operations in FY2016. This represented profits across all regions for the full fiscal year and an improvement in profits since FY2009 on a fiscal year basis.

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

	Millions of yen	
	FY2015	FY2016
Europe	¥(3,240)	¥2,759
Asia & Oceania	(4,130)	1,480
Americas	2,686	9,254
Total	¥(4,684)	¥13,494

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

Total assets as of the end of the fiscal year under review stood at ¥19,827.2 billion, a decrease of ¥593.5 billion compared with the end of the previous fiscal year. Current assets declined by ¥592.6 billion year on year, to ¥19,258.9 billion. This included a ¥955.0 billion year-on-year decrease in trading assets, to ¥6,546.2 billion. Securities declined by ¥348.9 billion year on year, to ¥1,742.1 billion, cash and cash equivalents increased by ¥493.8 billion compared with the end of the previous fiscal year, to ¥3,828.6 billion and collateralized short-term financing agreements climbed by ¥55.3 billion year on year, to ¥5,305.5 billion. The balance of fixed assets decreased ¥0.8 billion compared with March 31, 2016, to ¥568.3 billion.

Liabilities and Net Assets

Total liabilities as of the end of FY2016 stood at ¥18,483.8 billion, a decrease of ¥623.9 billion compared with the end of the previous fiscal year. Current liabilities declined by ¥819.9 billion year on year, to ¥16,007.8 billion. Breaking down current liabilities by category, trading liabilities decreased by ¥642.2 billion compared with the end of the previous fiscal year, to ¥4,658.5 billion while collateralized short-term financing agreements increased by ¥117.0 billion, to ¥6,018.8 billion, short-term borrowings climbed ¥98.9 billion, to ¥918.9 billion and deposits for banking business grew ¥57.1 billion year on year, to ¥2,985.7 billion. Long-term liabilities stood at ¥2,472.0 billion as of the end of FY2016, an increase of ¥196.0 billion compared with the end of FY2015. Specifically, long-term debt rose by ¥174.2 billion compared with the end of the previous fiscal year, to ¥1,179.2 billion and bonds expanded by ¥14.6 billion year on year, to ¥1,219.3 billion.

Net assets as of the end of FY2016 stood at ¥1,343.4 billion, an increase of ¥30.4 billion compared with the end of the previous fiscal year. The sum of common stock issues and capital surplus was ¥478.1 billion, a decrease of ¥1.1 billion. After adding profit attributable to owners of parent

company in FY2016, retained earnings came to ¥718.2 billion, an increase of 34.2 billion compared with the end of the previous fiscal year. Treasury stock at cost decreased by ¥17.2 billion year on year, to ¥12.7 billion. Valuation difference on available-for-sale securities decreased by ¥38.5 billion compared with the previous fiscal year-end, to ¥59.9 billion. Foreign currency translation adjustments declined by ¥14.1 billion year on year, to ¥6.8 billion. Non-controlling interests edged down by ¥0.4 billion compared with the end of the previous fiscal year, to ¥83.8 billion.

Analysis of Cash Flows

Net cash flows provided by operating activities came to ¥44.5 billion in FY2016 compared with ¥221.7 billion in FY2015. This mainly reflected changes in the value of trading assets and liabilities, collateralized short-term financing agreements, operating loans receivable and the balance of deposits for the banking business. Net cash flows provided by investing activities totaled ¥307.7 billion compared with ¥415.6 billion in FY2015. 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 provided by financing activities were ¥143.2 billion compared with net cash flows used in financing activities of ¥229.7 billion in FY2015. This reflected a change 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 FY2016 stood at ¥3,766.1 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 is required to observe the minimum consolidated liquidity coverage ratio (LCR) standard (progressively introduced from March 31, 2015) stipulated under Financial Services Agency Public Notice 61 of 2014. The Group's daily average LCR in the fourth quarter of the fiscal year under review was 145.3%, which conforms to the requirements of the aforementioned Financial Services Agency Public Notice. In addition to this requirement, the Group has put in place a liquidity management system that employs a proprietary liquidity management index. 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 so that the Group can continue its business operations even when it becomes impossible to procure funds without collateral for a whole year.

Details of daily average LCR in the fourth quarter of the fiscal year under review are presented as follows.

Billions of yen		
Daily Average (January 1, 2017 to March 31, 2017)		
High-Quality Liquid Assets	(A)	2,365.8
Cash Outflows	(B)	3,497.1
Cash Inflows	(C)	1,869.4
Consolidated Liquidity Coverage Ratio (LCR)		
Total High-Quality Liquid Assets	(D)	2,365.8
Total Net Cash Outflows	(B)-(C)	1,627.7
Consolidated Liquidity Coverage Ratio (LCR)	(D)/((B)-(C))	145.3%

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 June 30, 2017, 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, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2017	2016	2017
Cash and cash deposits:			
Cash and cash equivalents (Note 5)	¥ 3,766,145	¥ 3,273,640	\$ 33,626,295
Cash segregated as deposits for regulatory purposes (Note 5)	336,338	323,762	3,003,018
Time deposits (Notes 5 and 9)	62,530	66,144	558,304
	4,165,013	3,663,546	37,187,617
Receivables:			
Loans receivable from customers (Note 5)	655,710	432,785	5,854,554
Loans receivable from other than customers	5,546	5,243	49,518
Receivables related to margin transactions (Notes 3 and 5)	202,531	203,377	1,808,313
Other (Note 21)	433,518	533,290	3,870,696
Less: Allowance for doubtful accounts (Note 5)	(502)	(723)	(4,482)
	1,296,803	1,173,972	11,578,599
Collateralized short-term financing agreements (Notes 4, 5 and 21)	5,305,518	5,250,136	47,370,696
Trading assets (Notes 5, 6 and 9)	6,546,229	7,501,243	58,448,473
Securities (Notes 5, 7 and 9)	1,742,128	2,086,090	15,554,714
Private equity investments:			
Private equity and other investments (Notes 5 and 7)	125,040	127,210	1,116,429
Less: Allowance for possible investment losses (Note 5)	(11,052)	(11,053)	(98,679)
	113,988	116,157	1,017,750
Other assets:			
Property and equipment, at cost	236,308	235,468	2,109,893
Less: Accumulated depreciation	(111,328)	(110,906)	(994,000)
	124,980	124,562	1,115,893
Goodwill	6,103	7,972	54,491
Other intangible fixed assets	84,494	76,908	754,411
Investment securities (Notes 5, 7 and 9)	318,752	324,456	2,846,000
Deferred tax assets (Note 14)	12,820	15,082	114,464
Other	111,130	81,438	992,232
Less: Allowance for doubtful accounts	(662)	(744)	(5,911)
	657,617	629,674	5,871,580
	¥19,827,296	¥20,420,818	\$177,029,429

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note1)
LIABILITIES AND NET ASSETS	2017	2016	2017
Debt:			
Short-term borrowings (Notes 5, 9 and 12)	¥ 811,451	¥ 613,093	\$ 7,245,098
Commercial paper (Note 5)	—	137,720	—
Long-term debt (Notes 5, 9 and 12)	2,787,968	2,651,224	24,892,571
	3,599,419	3,402,037	32,137,669
Payables:			
Payables to customers and counterparties (Notes 5 and 11)	677,254	828,200	6,046,911
Payables related to margin transactions (Notes 3, 5 and 9)	62,377	54,387	556,937
Deposits for banking business (Note 5)	2,985,734	2,928,631	26,658,339
Other (Note 5)	51,325	29,720	458,259
	3,776,690	3,840,938	33,720,446
Collateralized short-term financing agreements (Notes 4, 5 and 21)	6,018,813	5,901,795	53,739,402
Trading liabilities (Notes 5 and 6)	4,658,595	5,300,862	41,594,598
Trade account payables, net (Note 5)	216,837	427,257	1,936,045
Accrued and other liabilities:			
Income taxes payable	15,084	40,499	134,679
Deferred tax liabilities (Note 14)	12,025	21,445	107,366
Accrued bonuses	30,873	30,059	275,652
Retirement benefits (Note 13)	40,434	39,144	361,018
Other (Note 21)	111,164	99,807	992,536
	209,580	230,954	1,871,251
Statutory reserves (Note 15)	3,930	3,970	35,089
Total liabilities	18,483,864	19,107,813	165,034,500
Contingent liabilities (Note 16)			
Net assets:			
Owners' equity (Note 17)			
Common stock, no par value;			
Authorized—4,000,000 thousand shares			
Issued—1,699,379 thousand shares as of March 31, 2017	247,397	247,397	2,208,902
Capital surplus	230,712	231,889	2,059,929
Retained earnings	718,239	683,940	6,412,848
Treasury stock at cost	(12,719)	(29,971)	(113,563)
Deposit for subscriptions to treasury stock	7	2	63
	1,183,636	1,133,257	10,568,179
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	59,923	98,484	535,027
Deferred gains or losses on hedges	435	(32,993)	3,884
Translation adjustments	6,896	21,083	61,571
	67,254	86,574	600,482
Stock subscription rights (Note 18)	8,729	8,959	77,938
Non-controlling interests	83,813	84,215	748,330
Total net assets	1,343,432	1,313,005	11,994,929
	¥19,827,296	¥20,420,818	\$177,029,429

See accompanying notes.

Consolidated Statements of Income

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Operating revenues:			
Commissions	¥273,335	¥288,419	\$2,440,491
Net gain on trading (Note 23)	128,121	131,324	1,143,938
Net gain on private equity and other investments	14,846	18,503	132,554
Interest and dividend income (Note 21)	143,242	149,451	1,278,946
Service fees and other revenues	56,953	66,015	508,509
	616,497	653,712	5,504,438
Interest expense (Note 21)	98,725	89,530	881,473
Cost of service fees and other revenues	45,022	49,367	401,982
Net operating revenues (Note 20)	472,750	514,815	4,220,983
Selling, general and administrative expenses (Notes 13 and 24)	353,688	364,517	3,157,929
Operating income	119,062	150,298	1,063,054
Other income (expenses):			
Provision for statutory reserves, net (Note 15)	29	(44)	259
Other, net (Note 25)	19,913	19,659	177,795
	19,942	19,615	178,054
Income before income taxes	139,004	169,913	1,241,108
Income taxes (Note 14):			
Current	39,977	57,739	356,938
Deferred	(5,251)	(10,804)	(46,884)
	34,726	46,935	310,054
Profit	104,278	122,978	931,054
Profit attributable to non-controlling interests	211	6,129	1,884
Profit attributable to owners of parent	¥104,067	¥116,849	\$ 929,170
		Yen	U.S. dollars (Note 1)
Per share amounts:			
Net income	¥61.53	¥68.25	\$0.55
Diluted net income	61.14	67.68	0.55
Cash dividends applicable to the year	26.00	29.00	0.23

See accompanying notes.

Consolidated Statements of Comprehensive Income

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Profit	¥104,278	¥122,978	\$ 931,054
Other comprehensive income:			
Valuation difference on available-for-sale securities	(38,657)	(37,462)	(345,152)
Deferred gains (losses) on hedges	33,184	(5,821)	296,286
Translation adjustment	(13,926)	(22,184)	(124,339)
Share of other comprehensive income of associates accounted for using equity method	(43)	(244)	(384)
Total other comprehensive income	(19,442)	(65,711)	(173,589)
Comprehensive income	¥ 84,836	¥ 57,267	\$ 757,465
	Millions of yen		Thousands of U.S. dollars (Note 1)
Comprehensive income attributable to:			
Comprehensive income attributable to owners of the parent	¥84,747	¥51,434	\$756,670
Comprehensive income attributable to non-controlling interests	89	5,833	795

See accompanying notes.

Consolidated Statements of Changes in Net Assets

DAIWA SECURITIES GROUP INC.

Years ended March 31, 2017 and 2016

		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 April 1, 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		
Cash dividends paid				(42,326)									
Profit attributable to owners of parent				104,067									
Purchase of treasury shares					(13,086)								
Disposal of treasury shares			(186)		1,610								
Retirement of treasury shares	(50,000)		(990)	(27,738)	28,728								
Change of scope of consolidation				296									
Other			(1)			5							
Net changes of items other than owners' equity							(38,561)	33,428	(14,187)	(230)	(402)		
Balance at March 31, 2017	1,699,379	¥247,397	¥230,712	¥718,239	¥(12,719)	¥7	¥ 59,923	¥ 435	¥ 6,896	¥8,729	¥ 83,813		

	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 April 1, 2016	\$2,208,902	\$2,070,438	\$6,106,607	\$(267,598)	\$18	\$ 879,321	\$(294,580)	\$ 188,241	\$79,991	\$751,920	
Cash dividends paid			(377,911)								
Profit attributable to owners of parent			929,170								
Purchase of treasury shares				(116,839)							
Disposal of treasury shares		(1,661)		14,374							
Retirement of treasury shares		(8,839)	(247,661)	256,500							
Change of scope of consolidation			2,643								
Other		(9)			45						
Net changes of items other than owners' equity						(344,294)	298,464	(126,670)	(2,053)	(3,590)	
Balance at March 31, 2017	\$2,208,902	\$2,059,929	\$6,412,848	\$(113,563)	\$63	\$ 535,027	\$ 3,884	\$ 61,571	\$77,938	\$748,330	

See accompanying notes.

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Cash flows from operating activities:			
Profit	¥ 104,278	¥ 122,978	\$ 931,054
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	29,545	30,941	263,795
Allowance for doubtful accounts, net	(48)	(202)	(429)
Statutory reserves, net	(29)	44	(259)
Losses (gains) related to investment securities	(15,162)	(1,982)	(135,375)
Losses (gains) related to fixed assets	430	1,729	3,839
Losses (gains) on sales of shares of subsidiaries and associates	652	(1,117)	5,821
Losses (gains) on change in equity	(769)	(3,093)	(6,866)
Deferred income taxes	(5,251)	(10,804)	(46,884)
Provision for loss on litigation	11,230	—	100,268
Changes in operating assets and liabilities:			
Receivables and payables related to margin transactions	6,967	36,931	62,205
Other receivables and other payables	(44,551)	(77,838)	(397,777)
Collateralized short-term financing agreements	65,627	(147,486)	585,955
Trading assets and liabilities	103,443	150,713	923,598
Private equity and other investments	2,388	18,330	21,321
Deposits for banking business	57,103	182,950	509,848
Other, net	(271,310)	(80,348)	(2,422,409)
Total adjustments	(59,735)	98,768	(533,349)
Net cash flows provided by (used in) operating activities	44,543	221,746	397,705
Cash flows from investing activities:			
Increase in time deposits	(100,112)	(124,161)	(893,857)
Decrease in time deposits	108,290	119,009	966,875
Purchase of securities	(871,555)	(813,080)	(7,781,741)
Proceeds from sales and redemption of securities	1,195,448	1,326,499	10,673,643
Payments for purchases of property and equipment	(8,707)	(46,761)	(77,741)
Proceeds from sales of property and equipment	130	150	1,161
Payments for purchases of intangible fixed assets	(31,323)	(30,114)	(279,670)
Payments for purchases of investment securities	(19,155)	(33,644)	(171,027)
Proceeds from sales and redemption of investment securities	32,512	20,568	290,286
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(3,180)	—
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	2,792	—	24,929
Payments of loans receivable	(525)	(1,682)	(4,688)
Collection of loans receivable	527	1,688	4,705
Other, net	(609)	355	(5,437)
Net cash flows provided by (used in) investing activities	307,713	415,647	2,747,438

		Millions of yen	Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Cash flows from financing activities:			
Decrease in short-term borrowings and commercial paper	60,763	(499,956)	542,527
Increase in long-term debt	770,425	891,226	6,878,795
Decrease in long-term debt	(633,832)	(575,943)	(5,659,214)
Payments of cash dividends	(42,326)	(56,665)	(377,911)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(1,464)	—
Proceeds from share issuance to non-controlling shareholders	—	24,909	—
Other, net	(11,798)	(11,834)	(105,340)
Net cash flows provided by (used in) financing activities	143,232	(229,727)	1,278,857
Effect of exchange rate changes on cash and cash equivalents	(1,836)	(7,496)	(16,393)
Net increase in cash and cash equivalents	493,652	400,170	4,407,607
Cash and cash equivalents at beginning of year	3,273,640	2,920,510	29,228,929
Increase in cash and cash equivalents from newly consolidated subsidiary	1,144	—	10,214
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(2,291)	(47,040)	(20,455)
Cash and cash equivalents at end of year	¥3,766,145	¥3,273,640	\$33,626,295

See accompanying notes.

Notes to Consolidated Financial Statements

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2017 and 2016

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 Next Bank, Ltd.

Daiwa Securities operates a retail and a wholesale businesses in Japan. The retail business operates through a network of 146 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 in good alliance with foreign fellow subsidiaries. DAM is an asset management company of Daiwa, and offers extensive range of asset trust products.

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 worldwide.

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 non-Japanese readers) from the statutory 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 original statutory consolidated financial statements prepared in Japanese language, 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 presented solely for the convenience of the readers, using the exchange rate at March 31, 2017, which is ¥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 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 the 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. When more than 50% of the voting right of the investee entity is held for the purpose of principal investment or venture capital investment businesses where the objective of Daiwa in having control of the investee entity is merely to seek capital

gain opportunities, and therefore Daiwa does not intend to operate its business with the investee as a part of the group.

Daiwa accounts for its investments 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. When the amount is not material, it is fully amortized at the date of recognition.

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 objective evidence 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 mark-to-market. Interest received or paid on such exempt interest rate swap agreements for hedging purposes are accrued without being mark-to-market under special treatment. Also, certain forward foreign exchange contracts are exempted from mark-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 mark-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 fiscal year-end exchange rates. Income and expenses are translated at the average exchange rates of the applicable fiscal 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.

Additional information—Effective from April 1, 2016, the Company has applied “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No.26, March 28, 2016).

3. Margin transactions

Margin transactions at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Assets:			
Customers' margin loans	¥174,525	¥183,654	\$1,558,259
Cash deposits as collateral for securities borrowed	28,006	19,723	250,054
	¥202,531	¥203,377	\$1,808,313
Liabilities:			
Payable to securities finance companies	¥ 3,087	¥ 3,790	\$ 27,563
Proceeds of securities sold for customers' accounts	59,290	50,597	529,374
	¥ 62,377	¥ 54,387	\$ 556,937

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, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Assets:			
Securities purchased under agreements to resell	¥ 300,348	¥ 65,861	\$ 2,681,679
Securities borrowed	5,005,170	5,184,275	44,689,017
	¥5,305,518	¥5,250,136	\$47,370,696
Liabilities:			
Securities sold under agreements to repurchase	¥ 109,130	¥ 7,999	\$ 974,375
Securities loaned	5,909,683	5,893,796	52,765,027
	¥6,018,813	¥5,901,795	\$53,739,402

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

strives to maintain 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 appropriately manages the variety of risks incurred by holding financial assets and liabilities with an intent to maintain 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, 2017 (fiscal year-end) was ¥2.3 billion (\$20.5 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 capture 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, 2017, fair value of the listed equities in operational investment securities and investment securities would fluctuate by ¥13.7 billion (\$122.3 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, 2017, 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 ¥2.1 billion (\$18.8 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 adopt the historical simulation method (confidence interval: 99%, observation period: 750 business days). In the case of financial instruments held for trading purpose, we convert the number calculated

by 1 day holding period to 10 days holding period and in the case of financial instruments other than trading purpose, we convert the number calculated by 20 days holding period to 125 days holding period. The numbers as of March 31, 2017, are ¥0.2 billion (\$1.8 million) and ¥8.8 billion (\$78.6 million), respectively.

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 2016, we estimate that our risk measurement model appropriately capture the market risk. However, the VaR statistically estimates the risk based on historical market fluctuation and may be sometimes unable to completely capture the risk in an environment in which the market unexpectedly changes beyond the estimation.

In order to complement the limit of management by VaR, the Company conducts stress tests by applying various scenarios.

(iii) Management of liquidity

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, 2017 and 2016, 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					
	2017			2016		
	Amounts on consolidated balance sheets	Fair value	Difference	Amounts on consolidated balance sheets	Fair value	Difference
Assets						
(1) Cash and cash equivalents	¥ 3,766,145	¥ 3,766,145	¥ —	¥ 3,273,640	¥ 3,273,640	¥ —
(2) Cash segregated as deposits for regulatory purposes	336,338	336,338	—	323,762	323,762	—
(3) Time deposits	62,530	62,530	—	66,144	66,144	—
(4) Loans receivable from customers	655,710			432,785		
Allowance for doubtful accounts	(360)			(374)		
	655,350	656,148	798	432,411	432,213	(198)
(5) Receivables related to margin transactions	202,531	202,531	—	203,377	203,377	—
(6) Collateralized short-term financing agreements	5,305,518	5,305,518	—	5,250,136	5,250,136	—
(7) Trading assets	6,546,229	6,546,229	—	7,501,243	7,501,243	—
(8) Securities, private equity and other investments and investment securities						
(a) Securities intended to be held for trading purposes	11,928	11,928	—	—	—	—
(b) Held-to-maturity debt securities	56,231	56,193	(38)	10	10	0
(c) Subsidiaries companies' stocks and related companies' stocks	120,581			111,239		
Allowance for possible investment loss	(6,911)			(6,911)		
	113,670	140,942	27,272	104,328	157,197	52,869
(d) Available-for-sale securities	1,869,677	1,869,677	—	2,324,214	2,324,214	—
Total assets	¥18,926,147	¥18,954,179	¥28,032	¥19,479,265	¥19,531,936	¥ 52,671
Liabilities						
(9) Short-term borrowings	¥ 811,451	¥ 811,451	¥ —	¥ 613,093	¥ 613,093	¥ —
(10) Commercial paper	—	—	—	137,720	137,720	—
(11) Long-term debt	2,787,968	2,790,382	(2,414)	2,651,224	2,660,092	(8,868)
(12) Deposits for banking business	2,985,734	2,985,730	4	2,928,631	2,929,889	(1,258)
(13) Payables to customers and counterparties	677,254	677,254	—	828,200	828,200	—
(14) Payables related to margin transactions	62,377	62,377	—	54,387	54,387	—
(15) Payables—other	51,325	51,325	—	29,720	29,720	—
(16) Collateralized short-term financing agreements	6,018,813	6,018,813	—	5,901,795	5,901,795	—
(17) Trading liabilities	4,658,595	4,658,595	—	5,300,862	5,300,862	—
(18) Trade account payables, net	216,837	216,837	—	427,257	427,257	—
Total liabilities	¥18,270,354	¥18,272,764	¥ (2,410)	¥18,872,889	¥18,883,015	¥(10,126)
Derivatives used for non-trading						
Derivatives to which hedge accounting is not applied	¥ 3,597	¥ 3,597	¥ —	¥ 2,638	¥ 2,638	¥ —
Derivatives to which hedge accounting is applied	17,976	18,960	984	(25,458)	(19,993)	5,465
Total derivatives related to non-trading	¥ 21,573	¥ 22,557	¥ 984	¥ (22,820)	¥ (17,355)	¥ 5,465

* 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			
2017			
	Amounts on consolidated balance sheets	Fair value	Difference
Assets			
(1) Cash and cash equivalents	\$ 33,626,295	\$ 33,626,295	\$ —
(2) Cash segregated as deposits for regulatory purposes	3,003,018	3,003,018	—
(3) Time deposits	558,304	558,304	—
(4) Loans receivable from customers	5,854,554		
Allowance for doubtful accounts	(3,215)		
	5,851,339	5,858,464	7,125
(5) Receivables related to margin transactions	1,808,313	1,808,313	—
(6) Collateralized short-term financing agreements	47,370,696	47,370,696	—
(7) Trading assets	58,448,473	58,448,473	—
(8) Securities, private equity and other investments and investment securities			
(a) Securities intended to be held for trading purposes	106,500	106,500	—
(b) Held-to-maturity debt securities	502,062	501,723	(339)
(c) Subsidiaries companies' stocks and related companies' stocks	1,076,616		
Allowance for possible investment loss	(61,706)		
	1,014,910	1,258,410	243,500
(d) Available-for-sale securities	16,693,545	16,693,545	—
Total assets	\$168,983,455	\$169,233,741	\$250,286
Liabilities			
(9) Short-term borrowings	\$ 7,245,098	\$ 7,245,098	\$ —
(10) Commercial paper	—	—	—
(11) Long-term debt	24,892,571	24,914,125	(21,554)
(12) Deposits for banking business	26,658,339	26,658,304	35
(13) Payables to customers and counterparties	6,046,911	6,046,911	—
(14) Payables related to margin transactions	556,937	556,937	—
(15) Payables—other	458,259	458,259	—
(16) Collateralized short-term financing agreements	53,739,402	53,739,402	—
(17) Trading liabilities	41,594,598	41,594,598	—
(18) Trade account payables, net	1,936,045	1,936,045	—
Total liabilities	\$163,128,160	\$163,149,679	\$ (21,519)
Derivatives related to non-trading			
Derivatives to which hedge accounting is not applied	\$ 32,116	\$ 32,116	\$ —
Derivatives to which hedge accounting is applied	160,500	169,286	8,786
Total derivatives related to non-trading	\$ 192,616	\$ 201,402	\$ 8,786

* 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), (3) Cash and cash equivalents and 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. Other investment products are stated as their book value because fair values are similar to book value and they are settled in the short term.

(4) Loans receivable from customers

Loans receivable from customers mainly consist of lending under banking business and loans secured by customers' safe-keeping 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 mark-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 mark-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 and 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.

(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 mark-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, 2017 and 2016 is as below and is not included in the "Assets (8)(c) Subsidiaries companies' stocks and related companies' stocks and (d) Available-for-sale securities" of fair value information of financial instruments.

	2017	Millions of yen 2016	Thousands of U.S. dollars 2017
Subsidiaries' stocks and related companies' stocks			
Unlisted equities	¥36,432	¥37,575	\$325,286
Other securities			
Unlisted equities	33,412	28,995	298,321
Investments in limited partnership and other similar partnerships	48,819	32,486	435,884
Others	8,842	8,238	78,946

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, 2017

	Millions of yen			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and cash equivalents	¥3,766,145	¥ —	¥ —	¥ —
Cash segregated as deposits for regulatory purposes	336,338	—	—	—
Time deposits	62,530	—	—	—
Loans receivable from customers	113,153	70,859	464,334	7,364
Receivables related to margin transactions	202,531	—	—	—
Collateralized short-term financing agreements	5,305,518	—	—	—
Securities, private equity and other investments and investment securities				
Held-to-maturity securities	—	10	—	56,221
Government bonds, municipal bonds, etc.	—	10	—	—
Corporate bonds	—	—	—	56,221
Other securities with a maturity date	147,016	842,952	446,338	207,939
Bonds	147,016	842,952	446,338	207,939
Government bonds, municipal bonds, etc.	—	524,699	—	140,066
Corporate bonds	22,440	54,458	—	67,873
Other bonds	124,576	263,795	446,338	—
Total	¥9,933,231	¥913,821	¥910,672	¥271,524

* 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	\$33,626,295	\$ —	\$ —	\$ —
Cash segregated as deposits for regulatory purposes	3,003,018	—	—	—
Time deposits	558,304	—	—	—
Loans receivable from customers	1,010,295	632,670	4,145,839	65,750
Receivables related to margin transactions	1,808,313	—	—	—
Collateralized short-term financing agreements	47,370,696	—	—	—
Securities, private equity and other investments and investment securities				
Held-to-maturity securities	—	89	—	501,973
Government bonds, municipal bonds, etc.	—	89	—	—
Corporate bonds	—	—	—	501,973
Other securities with a maturity date	1,312,642	7,526,357	3,985,161	1,856,598
Bonds	1,312,642	7,256,357	3,985,161	1,856,598
Government bonds, municipal bonds, etc.	—	4,684,813	—	1,250,589
Corporate bonds	200,357	486,232	—	606,009
Other bonds	1,112,285	2,355,312	3,985,161	—
Total	\$88,689,563	\$8,159,116	\$8,131,000	\$2,424,321

* 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, 2017

	Millions of yen			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Payable to securities finance companies	¥ 3,087	¥ —	¥ —	¥ —
Deposits for banking business	2,949,133	36,601	—	—
Long-term debts	386,773	1,425,609	675,823	299,763
Total	¥3,338,993	¥1,462,210	¥675,823	¥299,763

* 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	\$ 27,563	\$ —	\$ —	\$ —
Deposits for banking business	26,331,545	326,794	—	—
Long-term debts	3,453,330	12,728,652	6,034,134	2,676,455
Total	\$29,812,438	\$13,055,446	\$6,034,134	\$2,676,455

* 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, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Trading assets:			
Trading securities:			
Equities	¥ 275,938	¥ 315,982	\$ 2,463,732
Government, corporate and other bonds	2,649,544	2,921,648	23,656,644
Investment trusts	177,549	151,968	1,585,259
Commercial paper, certificates of deposits and others	750,229	627,670	6,698,473
Derivatives:			
Option transactions	455,876	547,205	4,070,321
Futures and forward transactions	82,997	104,656	741,045
Swap agreements	2,131,830	2,812,682	19,034,196
Other derivatives	27,983	25,963	249,848
Risk reserves	(5,717)	(6,531)	(51,045)
	¥6,546,229	¥7,501,243	\$58,448,473
Trading liabilities:			
Trading securities:			
Equities	¥ 247,223	¥ 127,485	\$ 2,207,348
Government, corporate and other bonds	2,002,770	2,169,943	17,881,875
Investment trusts	800	132	7,143
Commercial paper, certificates of deposits and others	10,928	17,891	97,571
Derivatives:			
Option transactions	370,000	437,803	3,303,572
Futures and forward transactions	71,047	108,766	634,348
Swap agreements	1,925,183	2,410,480	17,189,134
Other derivatives	30,644	28,362	273,607
	¥4,658,595	¥5,300,862	\$41,594,598

* 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.

Cost and fair value of securities intended to be held for trading purposes by non-securities companies as of March 31, 2017 consisted of the following:

	Millions of yen		
	Cost	Fair value	Difference
March 31, 2017:			
	¥12,049	¥11,928	¥(121)

	Thousands of U.S. dollars		
	Cost	Fair value	Difference
March 31, 2017:			
	\$107,580	\$106,500	\$(1,080)

Amortized cost of held-to-maturity debt securities as of March 31, 2017 and 2016 consisted of the following:

	Millions of yen		
	Cost	Fair value	Difference
March 31, 2017:			
Government, municipal and other bonds	¥ 10	¥ 10	¥ 0
Corporate bonds	56,221	56,183	(38)
Other	—	—	—
	¥56,231	¥56,193	¥(38)

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

	Thousands of U.S. dollars		
	Cost	Fair value	Difference
March 31, 2017:			
Government, municipal and other bonds	\$ 89	\$ 89	\$ 0
Corporate bonds	501,973	501,634	(339)
Other	—	—	—
	\$502,062	\$501,723	\$(339)

Cost and fair value of marketable available-for-sale securities as of March 31, 2017 and 2016 consisted of the following:

	Millions of yen		
	Cost	Fair value	Difference
March 31, 2017:			
Equities	¥ 79,047	¥ 148,398	¥69,351
Government, corporate and other bonds	1,630,806	1,644,245	13,439
Other	77,946	77,034	(912)
	¥1,787,799	¥1,869,677	¥81,878

	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

	Thousands of U.S. dollars		
	Cost	Fair value	Difference
March 31, 2017:			
Equities	\$ 705,777	\$ 1,324,982	\$619,205
Government, corporate and other bonds	14,560,768	14,680,759	119,991
Other	695,946	687,804	(8,142)
	\$15,962,491	\$16,693,545	\$731,054

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, 2017 and 2016 are as follows:

	Millions of yen		
	Contract amount	Fair value	Unrealized gains (losses)
March 31, 2017:			
Foreign exchange forward	¥610,356	¥1,628	¥1,628
Stock index future	10,866	141	141
Interest swap	147,000	(1)	(1)
Currency swap	112,146	1,829	1,829

	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

	Thousands of U.S. dollars		
	Contract amount	Fair value	Unrealized gains (losses)
March 31, 2017:			
Foreign exchange forward	\$5,449,607	\$14,536	\$14,536
Stock index future	97,018	1,259	1,259
Interest swap	1,312,500	(9)	(9)
Currency swap	1,001,304	16,330	16,330

B. Derivatives to which hedge accounting is applied

Main hedged items, contract amount and fair value of these derivatives at March 31, 2017 and 2016 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	¥1,276,179	¥17,062	
	Special treatment	Debt and government bond	—	—	
Currency swap	Allocation method	Debt	31,413	(1,894)	
	Fundamental method	Foreign currency loans and securities	197,692	915	
Interest and currency swap	Integration of special treatment and allocation method	Corporate bond	13,463	2,877	
March 31, 2016					
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, 2017				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	\$11,394,455	\$152,339
	Special treatment	Debt and government bond	—	—
Currency swap	Allocation method	Debt	280,473	(16,911)
	Fundamental method	Foreign currency loans and securities	1,765,107	8,170
Interest and currency swap	Integration of special treatment and allocation method	Corporate bond	120,205	25,688

9. Pledged assets

Secured obligations at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Short-term borrowings	¥100,400	¥321,780	\$ 896,429
Long-term debt	365,700	300,100	3,265,179
Payables related to margin transactions	3,053	3,790	27,258
	¥469,153	¥625,670	\$4,188,866

All above obligations at March 31, 2017 and 2016 were secured by the following assets:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Time deposits	¥ 200	¥ 200	\$ 1,786
Trading assets	488,099	480,978	4,358,027
Securities	387,904	315,204	3,463,429
Investment securities	16,403	9,558	146,454
	¥892,606	¥805,940	\$7,969,696

In addition to the above, securities borrowed amounting to ¥154,338 million (\$1,378,018 thousand) and ¥165,351 million were pledged as guarantees at March 31, 2017 and 2016, respectively.

Total fair value of the securities pledged as collateral at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Securities loaned	¥7,230,775	¥7,027,625	\$64,560,491
Other	628,905	475,788	5,615,223
	¥7,859,680	¥7,503,413	\$70,175,714

Total fair value of the securities received as collateral at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Securities borrowed	¥6,513,335	¥6,499,237	\$58,154,777
Other	589,547	364,121	5,263,812
	¥7,102,882	¥6,863,358	\$63,418,589

10. Lease transactions

The information concerning operating leases at March 31, 2017 and 2016 are as follows:

Lessee:	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Operating leases:			
Future lease payments in respect of operating leases	¥94,344	¥33,897	\$842,357
Due within one year	11,757	12,004	104,973

Lessor:	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Operating leases:			
Future lease receipts in respect of operating leases	¥1,118	¥2,391	\$9,982
Due within one year	918	812	8,196

11. Payables to customers and counterparties

Payables to customers and counterparties at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Cash received for customers' accounts	¥213,715	¥191,192	\$1,908,170
Cash deposits received from counterparties	418,040	512,427	3,732,500
Other	45,499	124,581	406,241
	¥677,254	¥828,200	\$6,046,911

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, 2017 and 2016 was 0.11% and 0.08%, respectively.

Long-term debt at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Bond payable in yen: 0.59% due CY2016	¥ —	¥ 30,000	\$ —
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	20,000	178,571
Bond payable in yen: 0.40% due CY2020	45,000	45,000	401,786
Bond payable in yen: 0.91% due CY2025	25,000	25,000	223,214
Bond payable in yen: 0.67% due CY2022	30,000	30,000	267,857
Bond payable in yen: 0.40% due CY2023	13,000	13,000	116,071
Bond payable in yen: 0.56% due CY2026	11,000	11,000	98,214
Bond payable in yen: 0.40% due CY2023	50,000	—	446,429
Bond payable in yen: 0.40% due CY2026	30,000	—	267,857
Bond payable in yen: 0.35% due CY2023	22,000	—	196,429

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Bond payable in yen: 0.41% due CY2016	¥ —	¥ 30,000	\$ —
Bond payable in yen: 0.18% due CY2017	—	8,000	—
Bond payable in yen: 0.31% due CY2017	40,000	40,000	357,143
Bond payable in yen: 0.26% due CY2018	40,000	40,000	357,143
Bond payable in yen: 0.31% due CY2017	40,000	40,000	357,143
Bond payable in yen: 0.25% due CY2018	20,000	20,000	178,571
Bond payable in yen: 0.26% due CY2022	20,000	20,000	178,571
Bond payable in yen: 0.29% due CY2026	30,000	—	267,857
Bond payable in yen: 0.21% due CY2022	30,000	—	267,857
Bond payable in yen: 0.29% due CY2027	20,000	—	178,571
Bond payable in yen: 0.23% due CY2024	15,000	—	133,929
Bond payable in U.S. dollars: 1.61% due CY2018	16,829	16,902	150,260
Bond payable in U.S. dollars: 1.61% due CY2019	16,829	16,902	150,260
Bond payable in U.S. dollars: 1.69% due CY2020	28,047	28,170	250,420
Bond payable in yen: 1.26% due CY2017	19,800	19,800	176,785
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: 0.15% due CY2034	5,000	5,000	44,643
Bond payable in yen: (0.01)% due CY2035	—	3,200	—
Euro medium-term notes issued by the Company and a domestic consolidated subsidiary, maturing through CY2047	661,751	726,907	5,908,490
Subordinated bond payable in yen: maturing through CY2021	7,125	7,225	63,616
Long-term borrowings principally from banks in yen, maturing through CY2047	1,286,768	1,211,915	11,489,000
Lease obligation	3,619	2,003	32,313
	¥2,787,968	¥2,651,224	\$24,892,571

The amount for euro medium-term notes issued by the Company and a domestic consolidated subsidiary as of March 31, 2017 includes US\$713,429 thousand and AU\$3,000 thousand.

Interest rates of euro medium-term notes range from 0.22% to 6.65% at March 31, 2017 and from (0.18)% to 6.65% at March 31, 2016. The weighted average interest rate on total outstanding yen subordinated borrowings and

borrowings principally from banks at March 31, 2017 and 2016 was 0.32% and 0.34%, respectively. The weighted average interest rate on total outstanding lease obligations at March 31, 2017 was 1.06%.

Daiwa had an unused commitment line amounting to ¥11,219 million (\$100,170 thousand) under agreements with several banks at March 31, 2017.

13. Retirement benefits

Retirement benefits for employees

(1) Defined benefit plans

Retirement benefits in the consolidated balance sheets as of March 31, 2017 and 2016 are ¥39,792 million (\$355,286 thousand) and ¥38,418 million, respectively. Benefit expenses stated in the consolidated statements of income for the years ended March 31, 2017 and 2016 were ¥3,870 million (\$34,554 thousand) and ¥4,117 million, respectively.

Movement in retirement benefit obligations consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
At beginning of period	¥38,418	¥36,238	\$343,018
Service cost	3,870	4,117	34,554
Benefits paid	(2,141)	(2,058)	(19,116)
Other	(355)	121	(3,170)
At end of period	¥39,792	¥38,418	\$355,286

(2) Defined contribution plan

Benefit expenses to "Defined contribution" for the years ended March 31, 2017 and 2016 were ¥4,267 million (\$38,098 thousand) and ¥4,540 million, respectively.

Retirement benefits for directors

Directors' retirement benefits in consolidated subsidiaries of ¥642 million (\$5,732 thousand) and ¥726 million are included in "Retirement benefits" in the accompanying consolidated balance sheets as of March 31, 2017 and 2016, respectively. Benefit expenses stated in the consolidated statements of income for the years ended March 31, 2017 and 2016 were ¥231 million (\$2,063 thousand) and ¥219 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 30.9% and 33.1% for the years ended March 31, 2017 and 2016, 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, 2017 and 2016 are as follows:

	2017	2016
Statutory tax rate	30.9%	33.1%
Valuation allowance	(1.5)	(1.9)
Permanent difference (expense)	1.2	1.2
Permanent difference (income)	(1.1)	(1.9)
Lower tax rate applicable to income of overseas consolidated subsidiaries	0.4	0.9
Adjustment of unrealized inter-company profit	(0.2)	(0.2)
Amortization of goodwill	0.2	0.1
Decrease of differed tax assets due to change of statutory tax rate	0.0	0.4
Share of profit and loss of entities accounted for using equity method	(1.9)	(1.3)
Tax credits	(0.1)	(1.9)
Resolution to subsidiary's liquidation	(4.4)	—
Other	1.5	(0.9)
Effective tax rate	25.0%	27.6%

Details of deferred tax assets and liabilities at March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets:			
Net operating losses carry-forward	¥ 46,395	¥ 53,167	\$ 414,241
Retirement benefits	12,273	11,788	109,580
Impairment losses on fixed assets	8,605	9,433	76,830
Loss on valuation of shares of subsidiaries and associates	7,563	—	67,527
Compensation and bonuses	6,737	6,578	60,152
Write-down of investment securities	6,380	7,985	56,964
Loss on private equity and other investments	5,184	4,934	46,286
Loss on trading	4,863	5,206	43,420
Elimination of unrealized gain	4,581	2,816	40,902
Depreciation	4,088	4,330	36,500
Deferred gains or losses on hedges	—	14,399	—
Other	15,975	17,220	142,634
Gross deferred tax assets	122,644	137,856	1,095,036
Less: Valuation allowance	(93,139)	(98,616)	(831,598)
Total deferred tax assets	29,505	39,240	263,438
Deferred tax liabilities	28,710	45,603	256,340
Net deferred tax assets	¥ 795	¥ (6,363)	\$ 7,098

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 for 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 November 18, 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 are changed as of March 31, 2017.

The impact from these changes in statutory income tax rate is insignificant.

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 ¥136 million (\$1,214 thousand) and ¥1,927 million at March 31, 2017 and 2016, 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, 2017 amounted to ¥319,523 million (\$2,852,884 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 ¥13 (\$0.12) per share amounting to ¥21,804 million (\$194,679 thousand) and ¥13 (\$0.12) per share amounting to ¥22,018 million (\$196,589 thousand) were approved by the Board of Directors on May 16, 2017 and October 28, 2016, 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, June 25, 2015 and June 28, 2016 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, 2017 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	239,000	¥ 1	(\$ 0.01)	from July 1, 2005 to June 30, 2025
June 24, 2006	154,000	¥ 1	(\$ 0.01)	from July 1, 2006 to June 30, 2026
June 23, 2007	186,000	¥ 1	(\$ 0.01)	from July 1, 2007 to June 30, 2027
	2,312,000	¥1,176	(\$10.50)	from July 1, 2012 to June 22, 2017
June 21, 2008	235,000	¥ 1	(\$ 0.01)	from July 1, 2008 to June 30, 2028
	2,602,000	¥ 881	(\$ 7.87)	from July 1, 2013 to June 20, 2018
June 20, 2009	517,000	¥ 1	(\$ 0.01)	from July 1, 2009 to June 30, 2029
	1,903,000	¥ 496	(\$ 4.43)	from July 1, 2014 to June 19, 2019
June 26, 2010	926,000	¥ 1	(\$ 0.01)	from July 1, 2010 to June 30, 2030
	3,485,000	¥ 380	(\$ 3.39)	from July 1, 2015 to June 25, 2020
June 25, 2011	1,111,000	¥ 1	(\$ 0.01)	from July 1, 2011 to June 30, 2031
	3,395,000	¥ 326	(\$ 2.91)	from July 1, 2016 to June 24, 2021
June 27, 2012	789,000	¥ 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	388,000	¥ 1	(\$ 0.01)	from February 10, 2014 to June 30, 2033
	—	¥1,062	(\$ 9.48)	from July 1, 2018 to June 25, 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
June 28, 2016	574,000	¥ 1	(\$ 0.01)	from February 8, 2017 to June 30, 2036
	—	¥ 767	(\$ 6.85)	from July 1, 2021 to June 27, 2026

19. 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 405.2% (unaudited) for March 31, 2017. Daiwa

also announced that Daiwa has calculated the consolidated capital adequacy ratio as of March 31, 2017 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, 2017 was 22.6% (unaudited).

20. 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 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, 2017:							
Net operating revenues:							
Sales to customers	¥162,227	¥182,187	¥ 69,771	¥16,341	¥430,526	¥20,258	¥450,784
Intersegment sales and transfers	25,825	689	(23,333)	(604)	2,577	16,829	19,406
Total	¥188,052	¥182,876	¥ 46,438	¥15,737	¥433,103	¥37,087	¥470,190

	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

	Thousands of U.S. dollars						
	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Total
Year ended March 31, 2017:							
Net operating revenues:							
Sales to customers	\$1,448,455	\$1,626,670	\$ 622,955	\$145,902	\$3,843,982	\$180,875	\$4,024,857
Intersegment sales and transfers	230,581	6,151	(208,330)	(5,393)	23,009	150,259	173,268
Total	\$1,679,036	\$1,632,821	\$ 414,625	\$140,509	\$3,866,991	\$331,134	\$4,198,125

* "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
	2017	2016	2017
Net operating revenues			
Reportable segment total	¥433,103	¥466,197	\$3,866,992
Net operating revenues from "Others"	37,087	47,916	331,134
Elimination between segments	(19,406)	(25,753)	(173,268)
Commission fee deducted from net operating revenues	22,485	24,445	200,759
Other adjustments	(519)	2,010	(4,634)
Net operating revenue of financial statements	¥472,750	¥514,815	\$4,220,983

(Impairment losses on fixed assets by reportable segment)

	Millions of yen							
	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Corporate/ Elimination	Total
Year ended March 31, 2017:								
Loss on impairment	¥—	¥430	¥—	¥—	¥430	¥—	¥—	¥430
Year ended March 31, 2016:								
Loss on impairment	¥17	¥—	¥—	¥—	¥17	¥1,994	¥(282)	¥1,729

21. Transactions with related parties

		Transaction details, amounts and balances		Millions of yen
Name of related company	Paid-in Capital Millions of yen			2017
Tokyo Tanshi Co., Ltd.	¥10,300	Continual transactions of collateralized short-term financing agreements	Collateralized short-term financing agreements (liabilities)	¥590,439
			Collateralized short-term financing agreements (assets)	163,881
		Interest and dividend expense		51
		Interest income	Receivables—Other	21
		Interest and dividend income	Accrued and other liabilities—Other	
		Interest expense		

		Thousands of U.S. dollars	
		2017	
Continual transactions of collateralized short-term financing agreements		Collateralized short-term financing agreements (liabilities)	\$5,271,777
Interest and dividend expense	\$ 5,098	Collateralized short-term financing agreements (assets)	1,463,223
Interest income	12,750	Receivables—Other	455
Interest and dividend income	2,786	Accrued and other liabilities—Other	188
Interest expense	8,982		

22. Special purpose entities subject to disclosure

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, 2017 and 2016 are ¥648,695 million (\$5,791,920 thousand) and ¥842.173 million, respectively.

23. Net gain on trading

Net gain on trading for the years ended March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Equities and others	¥ 21,471	¥ 23,431	\$ 191,705
Bonds, forex and others	106,650	107,893	952,233
	¥128,121	¥131,324	\$1,143,938

24. Selling, general and administrative expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2017 and 2016 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Employees' compensation and benefits	¥175,831	¥183,293	\$1,569,920
Commissions and brokerage	34,171	38,641	305,098
Communications	20,685	21,924	184,688
Occupancy and rental	35,267	37,360	314,884
Data processing and office supplies	27,047	26,772	241,491
Taxes other than income taxes	10,530	8,888	94,018
Depreciation	23,406	23,834	208,982
Other	26,751	23,805	238,848
	¥353,688	¥364,517	\$3,157,929

25. Other income (expenses)

Details of "Other, net" in the accompanying consolidated statements of income for the years ended March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Gains on sales of investment securities	¥13,137	¥ 3,285	\$117,295
Gains on sales of shares of subsidiaries and associates	—	1,117	—
Gain on change in equity	769	3,093	6,866
Gain on bad debts recovered	—	232	—
Gain on reversal of subscription rights to shares	1,229	—	10,973
Gain on reversal of business restructuring cost	701	—	6,259
Gain on liquidation of subsidiaries	1,310	—	11,696
Reversal of allowance for doubtful accounts	—	634	—
Other income	17,989	17,259	160,616
Loss on sales of fixed assets	—	(343)	—
Impairment loss	(430)	(1,729)	(3,839)
Loss on valuation of investment securities	(51)	(463)	(455)
Loss on liquidation of subsidiaries	(769)	—	(6,866)
Business restructuring cost	(207)	(1,689)	(1,848)
Expenses related to redemption of Money Management Fund and other	(306)	—	(2,732)
Loss on sales of shares of subsidiaries and associates	(652)	—	(5,821)
Provision for loss on litigation	(11,230)	—	(100,268)
Other expenses	(1,577)	(1,737)	(14,081)
	¥19,913	¥19,659	\$177,795

Impairment loss

(Fiscal year ended March 31, 2017)

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	Europe	¥430	\$3,839
Total			¥430	\$3,839

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 ¥430 million (\$3,839 thousand). All of the amounts occurred due to goodwill.

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

(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 assets to be disposed is measured by net realizable value and is evaluated by the appraisal value.

Provision for loss on litigation

(Fiscal year ended March 31, 2017)

Provision for loss on litigation includes expenses and others related to the lawsuit filed in July 2014 by Singularis Holdings Limited against our UK subsidiary, Daiwa Capital Markets Europe Limited.

26. Subsequent events

None

Independent Auditor's Report



To 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, 2017 and 2016, 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, 2017 and 2016, 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, 2017 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, 2017
Tokyo, Japan

Report Regarding Consolidated Capital Adequacy Ratio and Consolidated Leverage Ratio Situation of Soundness in Management as of March 31, 2017

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, 2017.

Composition of capital disclosure

Basel III template number	Items		Millions of yen	
			March 2017	Exclusion under transitional arrangements
	Common Equity Tier 1 capital: Instruments and reserves	(1)		
1a+2-1c-26	Shareholders' equity		¥1,161,825	
1a	Common stock and capital surplus		478,109	
2	Retained earnings		718,238	
1c	Treasury stock (△)		12,719	
26	Planned distributions (△)		21,804	
	Others		—	
1b	Stock subscription rights		8,729	
3	Accumulated other comprehensive income (and other reserves)		53,803	¥13,450
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)	1,224,357	
	Common Equity Tier 1 capital: regulatory adjustments	(2)		
8+9	Intangible assets other than mortgage-servicing rights (net of related tax liability)		72,477	18,119
8	Goodwill (net of related tax liability)		4,882	1,220
9	Other intangibles other than mortgage-servicing rights(net of related tax liability)		67,595	16,898
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)		307	76
11	Cash-flow hedge reserve		(143)	(35)
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)		240	60
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)		13,775	3,443
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		6,507	
28	Total regulatory adjustments to Common equity Tier 1	(b)	93,163	
	Common Equity Tier 1 capital			
29	Common Equity Tier 1 capital (CET1) ((a) - (b))	(c)	¥1,131,194	

Basel III template number	Items		Millions of yen	
			March 2017	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	1,466	
		Foreign currency translation adjustment	1,379	
36		Additional Tier 1 capital before regulatory adjustments	(d) 1,466	
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)	2,987	746
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	1,220	
		Goodwill (net of related tax liability)	1,220	
42		Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	3,765	
43		Total regulatory adjustments to Additional Tier 1 capital	(e) 7,973	
Additional Tier 1 capital				
44		Additional Tier 1 capital ((d) - (e))	(f) —	
Tier 1 capital				
45		Tier 1 capital ((c) + (f))	(g) 1,131,194	
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	7,354	
		Unrealized holding gain or loss on securities and cash flow hedge reserve	7,354	
51		Tier 2 capital before regulatory adjustments	(h) ¥ 7,354	

Basel III template number	Items	Millions of yen			
		March 2017		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)		11,120		2,780
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)	11,120		
Tier 2 capital					
58	Tier 2 capital ((h) - (i))	(j)	—		
Total capital					
59	Total capital ((g) + (j))	(k)	1,131,194		
Risk weighted assets					
	Amount of risk weighted assets under transitional Basel III rules	(5)	23,946		
	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)		6,970		
	Intangible assets (other than Goodwill)		16,898		
	Deferred tax assets excluding assets arising from temporary differences (net of related tax liability)		76		
60	Total risk weighted assets	(l)	4,996,323		
Consolidated capital adequacy ratio					
61	Common Equity Tier 1 (as a percentage of risk weighted assets) ((c) / (l))		22.6%		
62	Tier 1 (as a percentage of risk weighted assets) ((g) / (l))		22.6%		
63	Total capital (as a percentage of risk weighted assets) ((k) / (l))		22.6%		
Amounts below the thresholds for deduction (before risk weighting)					
		(6)			
72	Non-significant investments in the capital of other financials		114,670		
73	Significant investments in the common stock of financials		35,849		
74	Mortgage servicing rights (net of related tax liability)		—		
75	Deferred tax assets arising from temporary differences (net of related tax liability)		12,435		
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: 52 companies

March 2017

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 estate
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 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 points of view.

<Economic Capital>

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

business plan/budget, and so on.

The Group 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, and sets the 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 consists 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 a 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, and asset management/investment, and due to this, exposure associated with various financial instruments as well as transactions occasionally concentrate toward a particular counterparty groups. Because an unforeseen severe loss may be incurred as a result of credit deterioration of the particular counterparty group, the Group assigns credit limits on cumulative exposure amount and monitors regularly.

<Allowance for Doubtful Accounts>

In order to prepare for the loss from bad debts on loans and others, an allowance for doubtful accounts is 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 names of the External Credit Assessment Institutions (hereunder ECAIs) used when determining the risk weight

The following ECAIs are used to determine the risk weight.

- Rating & Investment Information, Inc.
- Japan Credit Rating Agency, Ltd.
- Moody’s Investors Service, Inc.
- S&P Global Ratings

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

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

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

Risk capital is allocated based upon the credit VaR, and reviewed semiannually. Upon the time when own credit rating is 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 generally 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 assets, 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 a securitization transaction is undertaken by a subsidiary of a Group company (excluding consolidated subsidiaries) and an affiliated Group company (including securitization transaction undertaken 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) ECAs used when determining the risk weight

The following ECAs 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.
- S&P Global Ratings
- Fitch Ratings Ltd.

J) Overview if the Group uses the Internal Assessment Approach

Not applicable.

K) Overview if significant change in quantitative information is observed

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 the group-wide market risk condition, and reports to managements daily.

B) Methods used for calculation of market risk

i). Internal models approach

General market risk for Daiwa Securities Co. Ltd., Daiwa Next Bank Ltd. (for trading), 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, while 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.

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 the historical simulation method that uses historical market fluctuations as a scenario. In addition, in order to test the accuracy of VaR figures, the Group conducts back-testing so as to reconcile VaR against actual profit and loss figures. Likewise, a stress test is being conducted in order to grasp any 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

A historical simulation model that uses a historical market scenario is used. Assumptions of the historical simulation model are stated as follows:

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, the importance of operational risk management is becoming more important year by year. The Group's major subsidiary companies engage in RCSA (Risk Control Self-Assessment) in compliance with operational risk management rules, 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 the 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 holds 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 management including measurement of risk by the profile.

For the consolidated subsidiaries, the scopes of risk management are assets and liabilities. For the affiliated companies, the scopes of 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 the moving average method). Non-marketable available-for-sale securities are carried at cost by the 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 the front office, are set, and act as a system of checks and balances. In addition, the ALM committee is periodically held and holds discussions 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 the interest rate of 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, the market risk amount is measured in a change of economic value using the 99th percentile of observed interest rate changes and using a year holding period and 5 years of observations. It is used for quantitative analysis to manage risk of change in interest rates. For calculating the amount of changes, the balances of the financial assets and liabilities are classified in each period. The changes of interest rates in each period are applied. For those currency positions which consist of less than 5% of gross assets or liabilities, upward and downward rate shocks of 200 basis points (2%) are uniformly applied in a parallel move, and changes are calculated.

11. The amount of each account in the 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	¥ 3,828,674	¥ 3,828,674
	Cash segregated as deposits	336,338	336,338
	Notes and accounts receivable-trade	16,649	16,649
18, 39, 54, 72, 73	Short-term investment securities	1,742,127	1,742,127
16, 18, 39, 54, 72, 73	Trading products	6,546,229	6,546,229
18, 39, 54, 72, 73	Operational investment securities	125,040	125,040
	Allowance for investment loss	(11,052)	(11,052)
	Operating loans	655,709	655,709
	Work in process	1,285	1,285
	Margin transaction assets	202,530	202,530
	Loans secured by securities	5,305,518	5,305,518
	Advances paid	26,345	26,345
	Short-term loans receivable	606	606
	Accrued income	35,380	35,380
10, 75	Deferred tax assets	8,023	8,023
	Other current assets	440,034	440,034
	Allowance for doubtful accounts	(502)	(502)
	Total current assets	19,258,940	19,258,940
	Noncurrent assets		
	Property, plant and equipment	124,980	124,980
	Intangible assets	90,596	90,596
8	Goodwill	6,103	6,103
9	Others	84,492	84,492
	Investments and other assets	352,779	352,779
18, 39, 54, 72, 73	Investment securities	318,751	318,751
10, 75	Deferred tax assets	4,796	4,796
	Others	29,231	29,231
	Total noncurrent assets	568,356	568,356
	Total assets	¥19,827,296	¥19,827,296

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	¥ 8,166	¥ 8,166
	Trading products	4,658,595	4,658,595
	Trading date accrual	216,836	216,836
	Margin transaction liabilities	62,377	62,377
	Loans payable secured by securities	6,018,813	6,018,813
	Deposits from banking business	2,985,733	2,985,733
	Deposits received	256,873	256,873
	Guarantee deposits received	418,039	418,039
	Short-term loans payable	918,954	918,954
	Commercial paper	—	—
	Current portion of bonds	278,237	278,237
	Income taxes payable	15,084	15,084
	Deferred tax liabilities	1,790	1,790
	Provision for bonuses	30,872	30,872
	Other current liabilities	137,494	137,494
	Noncurrent liabilities		
	Bonds payable	1,219,344	1,219,344
	Long-term loans payable	1,179,264	1,179,264
	Deferred tax liabilities	10,234	10,234
	Net defined benefit liabilities	39,791	39,791
	Provision for loss on litigation	15,903	15,903
	Other noncurrent liabilities	7,527	7,527
	Reserves under the special laws	3,929	3,929
	Total liabilities	¥18,483,863	¥18,483,863
	Net assets		
	Shareholders' equity		
1a	Common stock	247,397	247,397
1a	Capital surplus	230,712	230,712
2	Retained earnings	718,238	718,238
1c	Treasury stock	(12,719)	(12,719)
1c	Advances on subscription of treasury stock	7	7
	Total shareholders' equity	1,183,636	1,183,636
	Accumulated other comprehensive income		
	Valuation difference on available-for-sale securities	59,922	59,922
11	Deferred gains or losses on hedges	435	435
	Foreign currency translation adjustment	6,896	6,896
3	Total accumulated other comprehensive income	67,254	67,254
1b	Subscription rights to shares	8,729	8,729
34-35, 48-49	Minority interests	83,813	83,813
	Total net assets	¥ 1,343,433	¥ 1,343,433

Quantitative Disclosure (Consolidated)

1. The name as well as the total amount that is lower than the 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 2017
On-balance transaction	¥99,389
1. Cash	—
2. Japanese government and central bank	—
3. Non-Japanese sovereign and central bank	44
4. Bank for International Settlements (BIS)	—
5. Japanese local public authorities	—
6. Non-Japanese public sector entities (excluding sovereign)	67
7. Multilateral Development Banks (MDBs)	—
8. Japan Finance Organization for Municipalities (JFM)	1,038
9. Japanese government-sponsored entities	1,920
10. Three major local public corporations of Japan	—
11. Financial institutions and securities firms	10,661
12. Corporates	18,599
13. SMEs and individuals (risk weight 75% applied)	—
14. Residential mortgage loans	—
15. Projects including acquisition of real estate properties	165
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	24,671
21. Others	14,672
22. Securitizations (as an originator)	—
23. Securitizations (not as an originator)	8,867
24. Fund	18,662

	Millions of yen March 2017
Off-balance transactions	¥ 49,795
1. Unconditionally or automatically cancellable commitments	—
2. Commitments with an original maturity up to one year	63
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	190
7. Commitments-related the IRB Approach	—
8. Direct credit substitutes and acceptances	151
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	19,803
12. Derivative transactions	28,897
13. Long settlement transactions	1
14. Unsettled transactions	515
15. Securitization exposure qualifies as an 'eligible liquidity facility' or an 'eligible servicer cash advance facility'	—
16. Others (Securitization off-balance transactions)	172
CVA risk capital charge	54,178
Exposures to Central Counterparties (CCPs)	3,011
Total capital requirements for credit risk	¥206,374

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

Capital requirements for market risk

	Millions of yen March 2017
Standardized approach	¥ 66,963
Interest rate risk	45,279
Equity risk	14,731
Foreign exchange risk	6,841
Commodities risk	—
Option transactions	—
Internal models approach	43,303
Total capital requirements for market risk	¥110,267

Capital requirements for operational risk

	Millions of yen March 2017
Basic indicator approach	¥83,063
Standardized approach	—
Advanced measurement approach	—
Total capital requirements for operational risk	¥83,063

Total capital requirements

	Millions of yen March 2017
Credit risk	¥206,374
Market risk	110,267
Operational risk	83,063
Total capital requirements	¥399,704

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

Exposures by geographical area, industry, and residual contractual maturity

March 2017	Credit risk exposures						Millions of yen
							Past due exposures for three months or more
		Loans	Repo	Derivative	Securities	Others*	
Japan	¥17,918,452	¥101,488	¥ 5,661,878	¥5,264,874	¥2,096,383	¥4,793,826	¥177
Overseas	9,241,519	29,289	8,841,502	91,594	14,864	264,268	38
Total (by area)	27,159,971	130,778	14,503,381	5,356,469	2,111,247	5,058,095	215
Sovereign	6,713,246	4,568	1,799,540	60,021	1,542,640	3,306,476	—
Financial institutions	7,565,993	2,808	3,946,968	2,933,512	33,811	648,893	—
Corporate	4,992,905	25,403	4,331,420	374,586	125,951	135,542	151
Individuals	290,381	94,565	—	222	—	195,593	64
CCPs	6,572,403	—	4,425,451	1,988,126	—	158,825	—
Others	1,025,042	3,432	—	—	408,844	612,764	—
Total (by industry)	27,159,971	130,778	14,503,381	5,356,469	2,111,247	5,058,095	¥215
≤1 year	13,209,828	87,325	12,580,814	303,874	96,516	141,298	—
>1 year≤3 years	334,698	2,729	—	203,857	128,110	—	—
>3 year≤5 years	1,297,717	2	—	710,348	587,366	—	—
>5 year≤7 years	3,526,047	—	—	3,483,091	42,956	—	—
>7 years	1,313,163	95	—	645,453	667,614	—	—
Indeterminate	7,478,516	40,624	1,922,567	9,844	588,683	4,916,796	—
Total (by maturity)	¥27,159,971	¥130,778	¥14,503,381	¥5,356,469	¥2,111,247	¥5,058,095	—

* 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 2017	Changes
General allowance		¥ —	¥ —
Specific allowance	Japan	13,378	124
	Overseas	168	94
Allowance to specific foreign obligations		—	—

Type of allowance	Industry	Millions of yen	
		March 2017	Changes
General allowance		¥ —	¥ —
Specific allowance	Sovereign	—	—
	Financial Institutions	—	—
	Corporate	430	(75)
	Individuals	130	128
	Others	12,985	165
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 2017		
	Exposure amounts	Application of external rating	Others
0%	¥4,857,155	¥ 611,539	¥4,245,616
2%	650,691	—	650,691
10%	184,238	—	184,238
20%	2,261,055	1,939,610	321,444
35%	—	—	—
50%	83,613	83,612	—
75%	—	—	—
100%	943,093	17,769	925,324
150%	464	70	394
250%	35,845	—	35,845
1250%	1,927	—	1,927
Other	169,911	—	169,911
Total	¥9,187,996	¥2,652,603	¥6,535,393

4. Credit Risk Mitigation (CRM) Techniques

Exposure for which CRM Techniques are applied

Type	Millions of yen
	March 2017
Cash	¥ 7,834,301
Debts	6,125,537
Equities	563,183
Mutual funds	—
Eligible Financial Collateral Total	¥14,523,022

5. Counterparty risk for derivative transactions and long settlement transactions

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

March 2017	Millions of yen		
	Gross replacement cost	Gross add-on	Credit equivalent amounts
Foreign exchanges	¥ 549,356	¥ 694,656	¥1,244,012
Interest rates	1,758,105	1,388,164	3,146,269
Equities	311,746	286,321	598,068
Other commodities	—	—	—
Credit derivatives	26,967	341,165	368,132
Total (A)	2,646,175	2,710,306	5,356,482
Benefit through close-out netting agreements (B)			3,518,884
Credit equivalent amounts after netting (C=A-B)			1,837,597
Credit Risk Mitigation benefits (D)			282,057
Cash			225,405
Debts			46,306
Equities			10,345
Mutual funds			—
Credit equivalent amounts after netting and CRM benefits (C-D)			¥1,555,539

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

Millions of yen		
March 2017		
Notional amounts		
Credit derivatives type	Protection bought	Protection sold
Credit default swaps	¥1,928,377	¥1,964,204

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 2017				
Underlying assets	Exposure amounts	Risk weight 1250%		
		Resecuritization		Resecuritization
Loans and receivables	¥564,952	¥—	¥—	¥—
Real estate	—	—	—	—
Equities	—	—	—	—
Others	—	—	—	—
Total	¥564,952	¥—	¥—	¥—

ii). Exposures balance and capital requirements by risk weight

Millions of yen				
March 2017				
Risk weight	Exposure amount	Capital requirements		
		Resecuritization		Resecuritization
≤20%	¥564,952	¥—	¥9,039	¥—
>20%≤50%	—	—	—	—
>50%≤100%	—	—	—	—
>100%≤350%	—	—	—	—
>350%<1250%	—	—	—	—
1250%	—	—	—	—
Total	¥564,952	¥—	¥9,039	¥—

iii). The presence of resecuritized 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

i). Total underlying assets

Millions of yen				
March 2017				
Underlying assets	Underlying assets amount	Assets held for the purpose of securitization		
		Traditional	Synthetic	
Loans and receivables	¥ —	¥ —	¥—	¥—
Real estate	—	—	—	—
Equities	—	—	—	—
Others	12,911	12,911	—	—
Total	¥12,911	¥12,911	¥—	¥—

ii). Overview of securitization exposure, profit and loss recognized, and breakdown of major underlying assets by category

Underlying assets	Millions of yen	
	Exposure amounts	March 2017 Profit and loss
Loans and receivables	¥ —	¥ —
Real estat	—	—
Equities	—	—
Others	12,911	0
Total	¥12,911	¥ 0

iii). Breakdown of major underlying assets by category

Underlying assets	Millions of yen			
	Exposure amounts	Risk Weight 100%		March 2017
		Resecuritization	Resecuritization	
Loans and receivables	¥ —	¥—	¥ —	¥—
Real estate	—	—	—	—
Equities	—	—	—	—
Others	911	—	857	—
Total	¥911	¥—	¥857	¥—

iv). Balance and capital requirements by category of risk weight

Risk weight	Millions of yen			
	Exposure amounts	Capital requirements		March 2017
		Resecuritization	Resecuritization	
≤3.2%	¥ 53	¥—	¥ 0	¥—
>3.2%≤8%	—	—	—	—
>8%≤18%	—	—	—	—
>18%≤52%	—	—	—	—
>52%<100%	—	—	—	—
100%	857	—	857	—
Total	¥911	¥—	¥857	¥—

v). Total securitization exposure subject to the comprehensive risk calculation

Not applicable.

vi). Amount of capital increased due to securitization transaction, and breakdown of major underlying assets by category

Underlying assets	Millions of yen
	March 2017 Increased Capital
Loans and receivables	¥—
Real estate	—
Equities	—
Others	0
Total	¥ 0

vii). Securitization exposure with early redemption clause

Not applicable.

D) Securitization exposures for calculating market risk asset as an investor**i). Underlying assets**

Millions of yen				
March 2017				
Underlying assets	Exposure amounts	Risk weight 100%		
		Resecuritization		Resecuritization
Loans and receivables	¥13,017	¥—	¥—	¥—
Real estate	—	—	—	—
Equities	—	—	—	—
Others	—	—	—	—
Total	¥13,017	¥—	¥—	¥—

ii). Exposure balance and capital requirements by risk weight

Millions of yen				
March 2017				
Risk weight	Exposure amount	Capital requirements		
		Resecuritization		Resecuritization
≤3.2%	¥13,017	¥—	¥208	¥—
>3.2%≤8%	—	—	—	—
>8%≤18%	—	—	—	—
>18%≤52%	—	—	—	—
>52%<100%	—	—	—	—
100%	—	—	—	—
Total	¥13,017	¥—	¥208	¥—

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 2017	VaR	Stress VaR
Amount as of March 2017	¥ 4,867	¥ 7,744
Maximum	15,065	18,178
Average	5,382	11,002
Minimum	2,583	4,909

March 2017	
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 2017		
	Consolidated balance sheets amount	Market value
Listed equity exposure	¥152,405	¥152,405
Others	102,290	

* 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 2017		
Gains on sales	Losses on sales	Write-off
¥22,523	¥529	¥58

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

	Millions of yen
	March 2017
Unrealized gains/losses	¥69,497

* 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 2017
Unrealized gains/losses	¥74,450

* 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 measures used by management) for upward and downward rate shocks according to management's method for measuring interest rate risk under non-trading accounts

[March 2017]

Interest rate risk under non-trading accounts

- i). Financial assets and liabilities except for those held by the Group companies that transact banking business under the assumption of a change in interest rate by 10 basis points (i.e. 0.1%), we anticipate that the market value of "Bonds payable" and "Long-term loans payable" to change by approximately 3.6 billion yen.

- ii). Financial assets and liabilities held by the Group companies that transact banking business under the assumption of a change in the interest rate while all the other risks are fixed: we anticipate the market value to be reduced by 1.5 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 2017	March 2016
On-balance sheet exposures			(1)		
1		On-balance sheet items before adjustments		¥11,334,368	¥11,191,385
1a	1	Total Assets in the consolidated balance sheet		19,827,296	20,420,818
1b	2	Total Assets held by group companies which are not included in the scope of the consolidated leverage ratio		—	—
1c	7	Total Assets held by group companies which are included in the scope of the consolidated leverage ratio (except for the assets included in the total assets in the consolidated balance sheet)		—	—
1d	3	Assets other than the adjustments that are excluded from the total assets in the consolidated balance sheet		8,492,928	9,229,433
2	7	Common Equity Tier 1 capital: regulatory adjustments		101,137	64,848
3		Total on-balance sheet exposures (excluding derivatives and SFTs)	(A)	11,233,231	11,126,537
Derivative exposures			(2)		
4		Replacement cost associated with all derivatives transactions		500,144	656,938
5		Add-on amounts for PFE associated with all derivatives transactions		1,303,547	1,144,044
				254,647	279,118
6		Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework		—	—
7		Deductions of receivables assets for cash variation margin provided in derivatives transactions		125,683	149,476
8		Exempted CCP leg of client-cleared trade exposures			
9		Adjusted effective notional amount of written credit derivatives		1,964,204	2,200,308
10		Adjusted effective notional offsets and add-on deductions for written credit derivatives		1,693,399	1,753,296
11	4	Total derivative exposures (sum of lines 4 to 10)	(B)	2,203,460	2,377,636
Securities financing transaction exposures			(3)		
12		Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions		6,792,105	6,531,364
13		Netted amounts of cash payables and cash receivables of gross SFT assets		1,335,036	1,569,600
14		CCR exposure for SFT assets		153,878	140,262
15		Agent transaction exposures			
16	5	Total securities financing transaction exposures (sum of lines 12 to 15)	(C)	5,610,947	5,102,026
Other off-balance sheet exposures			(4)		
17		Off-balance sheet exposure at gross notional amount		53,673	56,650
18		Adjustments for conversion to credit equivalent amounts		10,673	8,499
19	6	Off-balance sheet items	(D)	43,000	48,151
Capital and total exposures			(5)		
20		Tier 1 capital	(E)	1,131,194	1,117,436
21	8	Total exposures (A)+(B)+(C)+(D)	(F)	19,090,638	18,654,350
22		Basel III consolidated leverage ratio(E)/(F)		5.92%	5.99%

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

There are no significant differences in the consolidated leverage ratio over previous year.

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	1,161,825 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.
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	Daiwa Securities Group Inc.
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in July 2006
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)	
	Consolidated Capital Adequacy Ratio	209 million Yen
9	Par value of instrument	—
10	Accounting classification	
	Consolidated balance sheets	Stock subscription right
11	Original date of issuance	July 1, 2006
12	Perpetual or dated	Dated
13	Original maturity date	June 30, 2026
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 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	244 million Yen	811 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	228 million Yen	637 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	299 million Yen	291 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	347 million Yen	291 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	397 million Yen	304 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	448 million Yen	1,155 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	370 million Yen	839 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	501 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	134 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 16, 2016	February 16, 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	—	—

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 2017	Stock subscription right series 13
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	406 million Yen	34 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, 2017	February 8, 2017
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 30, 2036	June 27, 2026
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 2016		Third Quarter in Fiscal Year 2016	
	Unweighted Value	Weighted Value	Unweighted Value	Weighted Value
High Quality Liquid Assets (1)				
1 Total high quality liquid assets		2,365,828		2,317,653
Cash Outflows (2)				
2 Retail deposits and deposits from small business customers	¥1,622,463	¥ 162,246	¥1,600,131	¥ 160,013
3 Stable deposits	—	—	—	—
4 Less stable deposits	1,622,463	162,246	1,600,131	160,013
5 Unsecured wholesale funding	2,165,766	1,265,395	2,020,292	1,151,350
6 Operational deposits	—	—	—	—
7 Unsecured wholesale funding other than operational deposits and unsecured debt	2,143,673	1,243,302	1,982,432	1,113,490
8 Unsecured debt	22,092	22,092	37,860	37,860
9 Secured funding	7,147,459	382,625	6,763,254	369,781
10 Outflows related to derivative exposures, loss of funding on debt products, committed credit and liquidity facilities	266,467	266,467	298,109	298,109
11 Outflows related to derivative exposures	255,943	255,943	287,327	287,327
12 Outflows related to loss of funding on debt products	—	—	—	—
13 Outflows related to credit and liquidity facilities	10,524	10,524	10,782	10,782
14 Other contractual funding obligations	5,121,482	1,261,432	5,493,492	1,120,950
15 Other contingent funding obligations	159,840	159,005	157,487	157,032
16 Total cash outflows		3,497,172		3,257,238
Cash Inflows (3)				
17 Secured lending	¥5,516,121	¥ 140,248	¥5,395,501	¥ 143,993
18 Inflows from fully performing exposures	419,631	416,459	421,603	420,408
19 Other cash inflows	5,290,561	1,312,732	6,070,538	1,205,688
20 Total cash inflows		1,869,441		1,770,089
Consolidated Liquidity Coverage Ratio (4)				
21 Total high quality liquid assets		¥2,365,828		¥2,317,653
22 Total net cash outflows		1,627,730		1,487,148
23 Consolidated liquidity coverage ratio		145.3%		155.8%
24 Number of data used for calculation of average value		61		3

Qualitative disclosure of consolidated Liquidity Coverage Ratio

1. Changes in consolidated Liquidity Coverage Ratio over previous quarter

Daiwa Securities Group Inc.'s (the group) total High Quality Liquid Asset (HQLA) was 2,365,828 million Yen. From the previous quarter, amount has increased by 48,175 million Yen.

Cash outflow related to unsecured wholesale funding was 1,265,395 million Yen. From the previous quarter, amount has increased by 114,045 million Yen. Cash outflow related to other contractual funding obligations was 1,261,432 million Yen. From the previous quarter, amount has increased by 140,482 million Yen. Cash inflow related to other cash

inflows was 1,312,732 million Yen. From the previous quarter, amount has increased by 107,044 million Yen, and total net cash out flow was 1,627,730 million Yen. From the previous quarter, amount has increased by 140,582 million Yen.

As a result of above mentioned conditions, Daiwa Securities Group Inc.'s consolidated Liquidity Coverage Ratio was 145.3%, the ratio has decreased by 10.5 points. Since the first quarter in fiscal year 2015, changes in the ratio are relatively stable.

2. Evaluation of the group'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 whether 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 composition of HQLA over previous quarter.

4. Other issues related to the consolidated Liquidity Coverage Ratio

The group discloses daily instead of monthly average of consolidated Liquidity Coverage Ratio. Regarding the treatment of consolidated group companies which are relatively small and their impact to the ratio is limited, the group

applies conservative outflow amounts calculated in the simplified approach based upon the most up to date financial statements at the calculation date.

Disclosure of consolidated liquidity risk management

1. Overview of liquidity risk management policy and procedure

The group's funding activities are engaged in principle of maintaining sufficient level of liquidity in stable and efficient manner to ensure continuous business operations.

The treasury department is designated as the division manages the group's funding, proactively secures stable funding amount from ordinary time in order to prevent business operations to be disrupted under severe changes in market circumstances.

The risk management department is designated as the division manages the group's liquidity risk, monitors status

of liquidity risk through utilization of short to long term liquidity management indicators, and reports to the managements daily. The indicators are set forth at the board meeting as a risk appetite indicator, and its compliance is reviewed periodically.

The group strives to grasp status of liquidity risk timely, and constructs appropriate liquidity risk management structure in order to make appropriate response upon the time liquidity risk become evident. For this reason, the group developed a contingency funding plan.

2. Liquidity risk management indicators and other issues related to consolidated liquidity management

I. Risk appetite indicators

The group sets forth the Liquidity Gap for the short term and the Long Term Funding Ratio for the long term liquidity risk appetite indicators and manages/ monitors such indicators.

The Liquidity Gap

The group sets forth the Liquidity Gap indicator in order to comply maintaining regulatory requirements on consolidated Liquidity Coverage Ratio. The Liquidity Gap is the indicator that enables the group to confirm the adequacy of liquidity assets that can be monetized thus business operations can be continued at least more than 90 days under stressful circumstances. Through setting up long term horizon more than regulatory requirements, the group strives to establish stable liquidity risk management structure. Lastly, the group monitors status of liquidity in one year horizon across all currencies, and 30 days horizon across aggregated non-Japanese foreign currencies.

The Long Term Funding Ratio

The group sets forth, manages and monitors the Long Term Funding Ratio in order to test the sufficiency of long term funding, and ensures business operations can be continued even though stressful circumstances to be continued in the long term more than one year.

II. Contingency funding plan

The group recognizes that the occurrence of liquidity risk will have a direct impact to the business failure of financial institutions. Therefore, the group sets forth the contingency funding plan in order to make appropriate response during the time of liquidity crisis. The plan, specifies policy on reporting line, and assures preservation of funding line by scenarios taking account of the level of the stress where liquidity crisis occurs due to internal factors such as the deterioration of the group's credit, and due to external factors such as the turmoil in financial markets. In addition, the group sets forth Early Warning Indicators and monitors liquidity related status. Through this, the group maintains framework that secures liquidity in a flexible manner.

Balance Sheets

DAIWA SECURITIES Co. Ltd.
As of March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
ASSETS			
Cash and cash deposits:			
Cash and cash equivalents (Note 5)	¥ 1,160,586	¥ 1,133,757	\$10,362,375
Cash segregated as deposits for regulatory purposes (Note 5)	315,583	300,083	2,817,705
Time deposits (Note 5)	—	1,000	—
	1,476,169	1,434,840	13,180,080
Receivables:			
Loans receivable from customers (Note 5)	86,837	103,866	775,330
Loans receivable from other than customers (Notes 5 and 18)	154,121	109,839	1,376,080
Receivables related to margin transactions (Notes 3 and 5)	197,800	195,208	1,766,071
Short-term guarantee deposits (Note 5)	329,864	348,384	2,945,214
Other (Note 18)	51,483	43,292	459,672
Less: Allowance for doubtful accounts	(432)	(436)	(3,857)
	819,673	800,153	7,318,510
Collateralized short-term financing agreements (Notes 4, 5 and 18)	3,172,998	2,791,316	28,330,339
Trading assets (Notes 5, 6, 8 and 18)	4,655,239	5,380,213	41,564,634
Trading account receivables, net (Note 5)	40,133	—	358,330
Other assets:			
Property and equipment, at cost	19,194	19,862	171,375
Less: Accumulated depreciation	(15,696)	(15,841)	(140,143)
	3,498	4,021	31,232
Intangible fixed assets	57,738	51,845	515,518
Lease deposits	15,148	15,050	135,250
Investment securities (Notes 5 and 7)	24,402	25,448	217,875
Deferred tax assets (Note 13)	9,629	9,732	85,973
Other (Note 18)	14,115	14,478	126,027
Less: Allowance for doubtful accounts	(2,916)	(2,952)	(26,036)
	121,614	117,622	1,085,839
	¥10,285,826	¥10,524,144	\$91,837,732

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
LIABILITIES AND NET ASSETS			
Debt:			
Short-term borrowings (Notes 5, 8 and 18)	¥ 1,094,876	¥ 971,268	\$ 9,775,679
Commercial paper (Note 5)	—	137,720	—
Long-term debt (Notes 5, 11 and 18)	1,374,011	1,291,799	12,267,955
	2,468,887	2,400,787	22,043,634
Payables:			
Payables to customers and counterparties (Notes 5 and 10)	581,978	679,350	5,196,232
Payables related to margin transactions (Notes 3 and 5)	61,467	52,020	548,813
	643,445	731,370	5,745,045
Collateralized short-term financing agreements			
(Notes 4, 5 and 18)	2,673,925	2,253,222	23,874,330
Trading liabilities (Notes 5, 6 and 18)			
	3,529,438	4,110,374	31,512,839
Trading account payables, net (Note 5)			
	—	120,599	—
Accrued and other liabilities:			
Income taxes payable	11,251	29,121	100,455
Deferred tax liabilities (Note 13)	2,329	2,495	20,795
Accrued bonuses	14,903	14,341	133,063
Retirement benefits (Note 12)	29,127	27,714	260,063
Other (Note 18)	69,412	49,040	619,750
	127,022	122,711	1,134,126
Statutory reserves (Note 14)			
	3,915	3,916	34,955
Total liabilities	9,446,632	9,742,979	84,344,929
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	382,279	323,818	3,413,205
	832,199	773,738	7,430,348
Accumulated other comprehensive income:			
Net unrealized gain on investment securities, net of tax effect	6,995	7,427	62,455
Total net assets	839,194	781,165	7,492,803
	¥10,285,826	¥10,524,144	\$91,837,732

See accompanying notes.

Statements of Income

DAIWA SECURITIES Co. Ltd.
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Operating revenues:			
Commissions (Note 18)	¥181,236	¥187,290	\$1,618,179
Net gain on trading (Note 20)	116,274	139,054	1,038,161
Interest and dividend income (Note 18)	37,402	42,814	333,946
	334,912	369,158	2,990,286
Interest expense (Note 18)	20,809	20,936	185,795
Net operating revenues (Note 17)	314,103	348,222	2,804,491
Selling, general and administrative expenses (Notes 12 and 21)	231,688	233,680	2,068,643
Operating income	82,415	114,542	735,848
Other income (expenses):			
Provision for statutory reserves, net (Note 14)	1	(81)	9
Other, net (Note 22)	2,978	2,673	26,589
	2,979	2,592	26,598
Income before income taxes	85,394	117,134	762,446
Income taxes (Note 13):			
Current	26,804	35,488	239,321
Deferred	129	786	1,152
	26,933	36,274	240,473
Net income	¥ 58,461	¥ 80,860	\$ 521,973

	Yen		U.S. dollars (Note 1)
Per share amounts:			
Net income	¥72,156.28	¥99,801.97	\$644
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, 2017 and 2016

	Number of shares of common stock	Owners' equity			Millions of yen
		Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income
					Net unrealized gain on investment securities, net of tax effect
Balance at April 1, 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
Net income				58,461	
Net changes of items other than owners' equity					(432)
Balance at March 31, 2017	810,200	¥100,000	¥349,920	¥382,279	¥6,995

	Number of shares of common stock	Owners' equity			Thousands of U.S. dollars (Note 1)
		Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income
					Net unrealized gain on investment securities, net of tax effect
Balance at April 1, 2016		\$892,857	\$3,124,286	\$2,891,232	\$66,312
Net income				521,973	
Net changes of items other than owners' equity					(3,857)
Balance at March 31, 2017		\$892,857	\$3,124,286	\$3,413,205	\$62,455

See accompanying notes.

Statements of Cash Flows

DAIWA SECURITIES Co., Ltd.
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Cash flows from operating activities:			
Net income	¥ 58,461	¥ 80,860	\$ 521,973
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	15,666	14,560	139,875
Amortization of goodwill	—	10	—
Allowance for doubtful accounts, net	(41)	242	(366)
Provision for retirement benefits, net	1,398	1,959	12,482
Losses (gains) related to investment securities	—	(770)	—
Deferred income taxes	129	786	1,152
Changes in operating assets and liabilities:			
Receivables and payables related to margin transactions	6,856	38,404	61,214
Short-term guarantee deposits	18,520	(92,002)	165,357
Other receivables and other payables	(126,839)	188,652	(1,132,491)
Collateralized short-term financing agreements	39,021	(45,923)	348,402
Trading assets and liabilities	(16,693)	445,716	(149,045)
Other, net	(19,446)	14,932	(173,625)
Total adjustments	(81,429)	566,566	(727,045)
Net cash flows provided by (used in) operating activities	(22,968)	647,426	(205,072)
Cash flows from investing activities:			
Increase in time deposits	—	(1,000)	—
Decrease in time deposits	1,000	—	8,929
Payments for purchases of property and equipment	(210)	(893)	(1,875)
Payments for purchases of intangible fixed assets	(23,050)	(21,153)	(205,804)
Payments for purchases of investment securities	(614)	(914)	(5,482)
Proceeds from sales and redemption of investment securities	3,105	1,985	27,723
Payments for guarantee deposits	(212)	(430)	(1,893)
Proceeds from collection of guarantee deposits	114	341	1,018
Other, net	182	1,119	1,625
Net cash flows provided by (used in) investing activities	(19,685)	(20,945)	(175,759)
Cash flows from financing activities:			
Decrease in short-term borrowings and commercial paper	(14,112)	(398,892)	(126,000)
Increase in long-term debt	399,343	447,202	3,565,563
Decrease in long-term debt	(315,749)	(379,028)	(2,819,188)
Net cash flows provided by (used in) financing activities	69,482	(330,718)	620,375
Net increase in cash and cash equivalents	26,829	295,763	239,544
Cash and cash equivalents at beginning of year	1,133,757	837,251	10,122,831
Increase in cash and cash equivalents resulting from merger	—	743	—
Cash and cash equivalents at end of year	¥1,160,586	¥1,133,757	\$10,362,375
Supplemental information on cash flows:			
Cash provided (paid) during the year for income taxes	¥ (46,248)	¥ (15,622)	\$ (412,929)

See accompanying notes.

Notes to Financial Statements

DAIWA SECURITIES Co. Ltd.
Years ended March 31, 2017 and 2016

1. Basis of presentation

The accompanying financial statements for Daiwa Securities Co. Ltd. ("the Company") have been restructured and translated into English (with some additional explanations described solely for the convenience of the non-Japanese readers) from the statutory financial statements prepared by the Company in accordance with generally accepted accounting principles in Japan ("Japanese GAAP"). Some supplementary information included in the original statutory financial statements prepared in Japanese language, but not considered necessary for fair

presentation, is not presented in the accompanying financial statements.

The translations of the yen amounts into U.S. dollars are presented solely for the convenience of the readers, using the exchange rate at March 31, 2017, which is ¥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

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, 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 objective evidence 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 fiscal 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.

Additional information—Effective from April 1, 2016, the Company has applied "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No.26, March 28, 2016).

3. Margin transactions

Margin transactions at March 31, 2017 and 2016 consisted of the following:

	2017	Millions of yen 2016	Thousands of U.S. dollars 2017
Assets:			
Customers' margin loans	¥169,835	¥175,552	\$1,516,384
Cash deposits as collateral for securities borrowed	27,965	19,656	249,687
	¥197,800	¥195,208	\$1,766,071
Liabilities:			
Payable to securities finance companies	¥ 2,254	¥ 1,557	\$ 20,125
Proceeds of securities sold for customers' accounts	59,213	50,463	528,688
	¥ 61,467	¥ 52,020	\$ 548,813

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, 2017 and 2016 consisted of the following:

	2017	Millions of yen 2016	Thousands of U.S. dollars 2017
Assets:			
Securities purchased under agreements to resell	¥ 324,205	¥ 155,982	\$ 2,894,688
Securities borrowed	2,848,793	2,635,334	25,435,651
	¥3,172,998	¥2,791,316	\$28,330,339
Liabilities:			
Securities sold under agreements to repurchase	¥1,216,169	¥1,324,821	\$10,858,652
Securities loaned	1,457,756	928,401	13,015,678
	¥2,673,925	¥2,253,222	\$23,874,330

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 strives to maintain an appropriate balance between assets and liabilities by diversifying financial measures and maturity dates, and realizing effective and stable finance when it decides to raise 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 appropriately manages 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 for 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, 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 have been 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, 2017 (fiscal year-end) was ¥2.3 billion (\$20.5 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, 2017, fair value of the listed equities in "Investment securities" would fluctuate by ¥1.1 billion (\$9.8 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, 2017, 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 ¥0.9 billion (\$8.0 million), respectively.

(iii) Management of liquidity

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, 2017 and 2016, 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					
	2017			2016		
	Amounts on balance sheets	Fair value	Difference	Amounts on balance sheets	Fair value	Difference
Assets						
(1) Cash and cash equivalents	¥ 1,160,586	¥ 1,160,586	¥ —	¥ 1,133,757	¥ 1,133,757	¥ —
(2) Cash segregated as deposits for regulatory purposes	315,583	315,583	—	300,083	300,083	—
(3) Time deposits	—	—	—	1,000	1,000	—
(4) Trading assets	4,655,239	4,655,239	—	5,380,213	5,380,213	—
(5) Receivables related to margin transactions	197,800	197,800	—	195,208	195,208	—
(6) Trading account receivables, net	40,133	40,133	—	—	—	—
(7) Collateralized short-term financing agreements	3,172,998	3,172,998	—	2,791,316	2,791,316	—
(8) Short-term guarantee deposits	329,864	329,864	—	348,384	348,384	—
(9) Loans receivable from customers	86,837	86,837	—	103,866	103,866	—
(10) Loans receivable from other than customers	154,121	154,121	—	109,839	109,839	—
(11) Investment securities						
Other securities	9,912	9,912	—	10,203	10,203	—
Total Assets	¥10,123,073	¥10,123,073	¥ —	¥10,373,869	¥10,373,869	¥ —
Liabilities						
(12) Trading liabilities	¥ 3,529,438	¥ 3,529,438	¥ —	¥ 4,110,374	¥ 4,110,374	¥ —
(13) Payables related to margin transactions	61,467	61,467	—	52,020	52,020	—
(14) Trading account payables, net	—	—	—	120,599	120,599	—
(15) Collateralized short-term financing agreements	2,673,925	2,673,925	—	2,253,222	2,253,222	—
(16) Payables to customers and counterparties	581,978	581,978	—	679,350	679,350	—
(17) Short-term borrowings	1,094,876	1,094,876	—	971,268	971,268	—
(18) Commercial paper	—	—	—	137,720	137,720	—
(19) Long-term debt	1,374,011	1,375,788	(1,777)	1,291,799	1,297,091	(5,292)
Total Liabilities	¥ 9,315,695	¥ 9,317,472	¥(1,777)	¥ 9,616,352	¥ 9,621,644	¥(5,292)

	Thousands of U.S. dollars		
	2017		
	Amounts on balance sheets	Fair value	Difference
Assets			
(1) Cash and cash equivalents	\$10,362,375	\$10,362,375	\$ —
(2) Cash segregated as deposits for regulatory purposes	2,817,705	2,817,705	—
(3) Time deposits	—	—	—
(4) Trading assets	41,564,634	41,564,634	—
(5) Receivables related to margin transactions	1,766,071	1,766,071	—
(6) Trading account receivables, net	358,330	358,330	—
(7) Collateralized short-term financing agreements	28,330,339	28,330,339	—
(8) Short-term guarantee deposits	2,945,214	2,945,214	—
(9) Loans receivable from customers	775,330	775,330	—
(10) Loans receivable from other than customers	1,376,080	1,376,080	—
(11) Investment securities			
Other securities	88,500	88,500	—
Total assets	\$90,384,578	\$90,384,578	\$ —

Thousands of U.S. dollars

	2017		
	Amounts on balance sheets	Fair value	Difference
Liabilities			
(12) Trading liabilities	\$31,512,839	\$31,512,839	\$ —
(13) Payables related to margin transactions	548,813	548,813	—
(14) Trading account payables, net	—	—	—
(15) Collateralized short-term financing agreements	23,874,330	23,874,330	—
(16) Payables to customers and counterparties	5,196,232	5,196,232	—
(17) Short-term borrowings	9,775,679	9,775,679	—
(18) Commercial paper	—	—	—
(19) Long-term debt	12,267,955	12,283,821	(15,866)
Total liabilities	\$83,175,848	\$83,191,714	\$(15,866)

(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. Other investment products are stated as their book value because fair values are similar to book value and they are settled in the short term.

(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 mark-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 mark-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 mark-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

Certificates of deposits	Calculated price utilizing the latest traded prices including similar instruments (OTC and broker screen, etc.), and yield spreads (reflected credit spreads and supply-demand) from the corresponding index interest rates (yield curve of major short term interest rates) of the each calculated period
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(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, 2017 and 2016 is as below and is not included in the "Assets (11) Investment securities—Other securities" of fair value information of financial instruments.

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Subsidiaries' stocks and related companies' stocks			
Unlisted equities	¥1,135	¥1,135	\$10,134
Other securities			
Unlisted equities	3,996	3,706	35,679
Investments in limited partnership and other similar partnerships	7,074	7,915	63,161
Others	2,285	2,489	20,401

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, 2017

	Millions of yen			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and cash equivalents	¥1,160,586	¥—	¥—	¥—
Cash segregated as deposits for regulatory purposes	315,583	—	—	—
Time deposits	—	—	—	—
Receivables related to margin transactions	197,800	—	—	—
Collateralized short-term financing agreements	3,172,998	—	—	—
Short-term guarantee deposits	329,864	—	—	—
Investment securities:				
Other securities with a maturity date	—	—	—	—
Other securities	—	—	—	—
Total	¥5,176,831	¥—	¥—	¥—

* 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	\$10,362,375	\$—	\$—	\$—
Cash segregated as deposits for regulatory purposes	2,817,705	—	—	—
Time deposits	—	—	—	—
Receivables related to margin transactions	1,766,071	—	—	—
Collateralized short-term financing agreements	28,330,339	—	—	—
Short-term guarantee deposits	2,945,214	—	—	—
Investment securities:				
Other securities with a maturity date	—	—	—	—
Other securities	—	—	—	—
Total	\$46,221,704	\$—	\$—	\$—

* 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, 2017

	Millions of yen			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Commercial paper	¥ —	¥ —	¥ —	¥ —
Long-term debt	194,365	576,033	295,323	308,290
Total	¥194,365	¥576,033	¥295,323	¥308,290

	Thousands of U.S. dollars			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Commercial paper	\$ —	\$ —	\$ —	\$ —
Long-term debt	1,735,401	5,143,152	2,636,813	2,752,589
Total	\$1,735,401	\$5,143,152	\$2,636,813	\$2,752,589

6. Trading assets and trading liabilities

Trading assets and trading liabilities at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Trading assets:			
Trading securities:			
Equities	¥ 272,109	¥ 312,970	\$ 2,429,545
Government, corporate and other bonds	1,492,097	1,409,741	13,322,296
Investment trusts	177,549	151,968	1,585,259
Commercial paper, certificates of deposits and others	22,324	16,949	199,321
Derivatives:			
Option transactions	455,163	546,844	4,063,955
Futures and forward transactions	77,949	96,655	695,973
Swap agreements	2,135,782	2,825,716	19,069,482
Other derivatives	27,983	25,901	249,848
Risk reserves	(5,717)	(6,531)	(51,045)
	¥4,655,239	¥5,380,213	\$41,564,634
Trading liabilities:			
Trading securities:			
Equities	¥ 191,181	¥ 85,914	\$ 1,706,973
Government, corporate and other bonds	943,673	1,039,300	8,425,652
Investment trusts	800	132	7,143
Derivatives:			
Option transactions	370,066	437,748	3,304,161
Futures and forward transactions	62,492	98,633	557,964
Swap agreements	1,930,832	2,420,549	17,239,571
Other derivatives	30,394	28,098	271,375
	¥3,529,438	¥4,110,374	\$31,512,839

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, 2017 and 2016 consisted of the following:

	Millions of yen		
	Cost	Fair value	Difference
March 31, 2017:			
Equities	¥1,468	¥9,912	¥8,444
Bonds	—	—	—
	¥1,468	¥9,912	¥8,444
March 31, 2016:			
Equities	¥1,468	¥10,203	¥8,735
Bonds	—	—	—
	¥1,468	¥10,203	¥8,735
	Thousands of U.S. dollars		
	Cost	Fair value	Difference
March 31, 2017:			
Equities	\$13,107	\$88,500	\$75,393
Bonds	—	—	—
	\$13,107	\$88,500	\$75,393

Cost/amortized cost of held-to-maturity securities and non-marketable securities as of March 31, 2017 and 2016 consisted of the following:

	2017	Millions of yen 2016	Thousands of U.S. dollars 2017
Other securities:			
Unlisted equities	5,131	4,841	45,813
Investments in limited partnership and other similar partnerships	7,074	7,915	63,161
Other	2,285	2,489	20,401
	¥14,490	¥15,245	\$129,375

8. Pledged assets

Secured obligations at March 31, 2017 and 2016 consisted of the following:

	2017	Millions of yen 2016	Thousands of U.S. dollars 2017
Short-term borrowings	¥100,000	¥321,268	\$892,857
	¥100,000	¥321,268	\$892,857

The above obligations at March 31, 2017 and 2016 were secured by the following assets:

	2017	Millions of yen 2016	Thousands of U.S. dollars 2017
Trading assets	¥486,573	¥480,686	\$4,344,402
	¥486,573	¥480,686	\$4,344,402

In addition to the above, securities borrowed amounting to ¥37,906 million (\$338,446 thousand) and ¥63,795 million were pledged as guarantees at March 31, 2017 and 2016, respectively.

Total fair value of the securities pledged as collateral at March 31, 2017 and 2016 consisted of the following:

	2017	Millions of yen 2016	Thousands of U.S. dollars 2017
Securities loaned	¥1,453,921	¥ 924,973	\$12,981,438
Securities sold under agreements to repurchase	1,216,974	1,327,563	10,865,839
Other	433,100	429,774	3,866,964
	¥3,103,995	¥2,682,310	\$27,714,241

Total fair value of the securities received as collateral at March 31, 2017 and 2016 consisted of the following:

	2017	Millions of yen 2016	Thousands of U.S. dollars 2017
Securities borrowed	¥2,940,613	¥2,760,561	\$26,255,473
Securities purchased under agreements to resell	319,674	153,260	2,854,232
Other	310,854	353,872	2,775,483
	¥3,571,141	¥3,267,693	\$31,885,188

9. Lease transactions

The information concerning operating leases at March 31, 2017 and 2016 are as follows:

Lessee:	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Operating leases:			
Future lease payments in respect of operating leases	¥5,627	¥10,397	\$50,241
Due within one year	5,594	7,593	49,946

10. Payables to customers and counterparties

Payables to customers and counterparties at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Cash received for customers' accounts	¥189,547	¥165,671	\$1,692,384
Cash deposits received from counterparties	392,431	513,166	3,503,848
Other	—	513	—
	¥581,978	¥679,350	\$5,196,232

11. Long-term debt

Long-term debt as of March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
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: 0.15% due CY2034	5,000	5,000	44,643
Bond payable in yen: (0.01)% due CY2035	—	3,200	—
Medium-term notes maturing through CY2047	650,086	647,185	5,804,339
Subordinated medium-term notes maturing through CY2021	7,125	7,225	63,616
Subordinated borrowings in yen maturing through CY2025	50,000	50,000	446,429
Long-term borrowings in yen maturing through CY2047	607,800	525,189	5,426,784
	¥1,374,011	¥1,291,799	\$12,267,955

The amount for medium-term notes as of March 31, 2017 includes US\$593,429 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, 2017 and 2016 are ¥29,053 million (\$259,402 thousand) and

¥27,654 million, respectively. Benefit expenses stated in the statements of income for the years ended March 31, 2017 and 2016 were ¥2,450 million (\$21,875 thousand) and ¥2,787 million, respectively.

Movement in retirement benefit obligations consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
At beginning of period	¥27,654	¥25,695	\$246,911
Service cost	2,450	2,787	21,875
Benefits paid	(1,331)	(1,477)	(11,884)
Other	280	649	2,500
At end of period	¥29,053	¥27,654	\$259,402

(2) Defined Contribution plan

Benefit expenses to "Defined contribution" for the years ended March 31, 2017 and 2016 were ¥2,154 million (\$19,232 thousand) and ¥2,089 million, respectively.

Retirement benefits for directors

Directors' and corporate auditors' retirement benefits of ¥74 million (\$661 thousand) and ¥60 million are included in "Retirement benefits" in the accompanying balance sheets as of March 31, 2017 and 2016. Benefit expenses stated in the statements of income for the years ended March 31, 2017 and 2016 were ¥14 million (\$125 thousand) and ¥14 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, 2017 and 2016 are as follows:

	2017	2016
Statutory tax rate:	30.9%	33.1%
Valuation allowance	0.3	(0.3)
Other	0.3	(1.8)
Effective tax rate	31.5%	31.0%

Details of deferred tax assets and liabilities as of March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets:			
Retirement benefits	¥ 8,921	¥ 8,472	\$ 79,652
Loss on trading	4,605	5,205	41,116
Compensation and bonuses	4,474	4,242	39,946
Statutory reserves	1,199	1,199	10,705
Enterprise tax and office taxes	807	2,193	7,205
Write-down of investment securities	406	435	3,625
Depreciation	282	295	2,518
Impairment losses	—	65	—
Other	5,896	5,019	52,644
Gross deferred tax assets	26,590	27,125	237,411
Less: Valuation allowance	(15,851)	(15,567)	(141,527)
Total deferred tax assets	10,739	11,558	95,884
Deferred tax liabilities	3,439	4,321	30,706
Net deferred tax assets	¥ 7,300	¥ 7,237	\$ 65,178

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

On November 18, 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 are changed as of March 31, 2017.

The impact from these changes in statutory income tax rate is insignificant.

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 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 ¥96 million (\$857 thousand) and ¥121 million at March 31, 2017 and 2016, respectively. The outstanding balances of

the guarantees obligated by the Company arising as guarantors of derivative transactions of fellow subsidiaries were ¥335 million (\$2,991 thousand) and ¥508 million at March 31, 2017 and 2016, 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.

Cash dividends of ¥124,000 (\$1,107) per share amounting to ¥100,465 million (\$897,009 thousand) were approved by the shareholders' meeting on June 22, 2017.

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
Year ended March 31, 2017:				
Net operating revenues:				
Sales to customers	¥182,580	¥125,705	¥308,285	¥363
Intersegment sales and transfers	—	—	—	—
Total	¥182,580	¥125,705	¥308,285	¥363

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

	Thousands of U.S. dollars			
	Retail sales	Domestic wholesale	Reportable segment total	Others
Year ended March 31, 2017:				
Net operating revenues:				
Sales to customers	\$1,630,179	\$1,122,366	\$2,752,545	\$3,241
Intersegment sales and transfers	—	—	—	—
Total	\$1,630,179	\$1,122,366	\$2,752,545	\$3,241

* "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
	2017	2016	2017
Net operating revenues			
Reportable segment total	¥308,285	¥340,309	\$2,752,545
Net operating revenues from "Others"	363	2,098	3,241
Commission fee deducted from net operating revenues	5,907	8,060	52,741
Other adjustments	(452)	(2,245)	(4,036)
Net operating revenue of financial statements	¥314,103	¥348,222	\$2,804,491

(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, 2017 and 2016, 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
				2017
Daiwa Securities Group Inc.	¥247,397 million	Proceeds from Borrowings	Short-term borrowings	¥374,876
		Interest expense (Note 1)	Long-term debt	277,672
			Accrued and other liabilities—Other	369
Daiwa Capital Markets Europe Limited	£732 million	Continual transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	¥ 2,200
		Interest income (Note 3)	Collateralized short-term financing agreements (Liabilities)	610,256
		Interest expense (Note 3)		
		Continual transactions of loans	Loans receivable from other than customers	¥ 98,278
		Interest income (Note 3)	Receivables—Other	228
		Continual transactions of purchase and sale of securities (Notes 2, 3)		
		Continual transactions of derivatives (Notes 2, 3)	Trading assets	¥ 30,703
			Trading liabilities	39,078
		Continual transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	¥ 23,393
		Interest income (Note 3)	Collateralized short-term financing agreements (Liabilities)	619,598
Daiwa Capital Markets America Inc.	\$100 million	Interest expense (Note 3)		
		Continual transactions 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	¥ 3,299
		Commissions (Note 4)		¥23,239
Daiwa Next Bank, Ltd.	¥50,000 million	Continual transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	¥146,288
		Interest income (Note 3)		
		Interest expense (Note 3)		
		Continual transactions of purchase and sale of securities (Notes 2, 3)		
		Continual transactions of derivatives (Notes 2, 3)	Trading assets	¥ 2,144
			Trading liabilities	2,829

* "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 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
				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 transactions of purchase and sale of securities (Notes 2, 3)		
		Continual transactions of derivatives (Notes 2, 3)	Trading assets	¥ 41,757
Daiwa Capital Markets America Inc.	\$100 million		Trading liabilities	47,138
		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)		
Daiwa Capital Markets Hong Kong Limited	HK\$100 million and \$677 million	Continual transactions 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)		¥27,062
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 transactions 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
				Thousands of U.S. dollars
				2017
Daiwa Securities Group Inc.	¥247,397 million	Proceeds from Borrowings	Short-term borrowings	\$3,347,107
		Interest expense (Note 1) \$ 24,196	Long-term debt	2,479,214
			Accrued and other liabilities - Other	3,295
Daiwa Capital Markets Europe Limited	£732 million	Continual transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	\$ 19,643
		Interest income (Note 3) \$ 286	Collateralized short-term financing agreements (Liabilities)	5,448,714
		Interest expense (Note 3) 8,438		
		Continual transactions of loans	Loans receivable from other than customers	\$ 877,482
		Interest income (Note 3) \$ 10,500	Receivables - Other	2,036
		Continual transactions of purchase and sale of securities (Notes 2, 3) —		
		Continual transactions of derivatives (Notes 2, 3)	Trading assets	\$ 274,134
			Trading liabilities	348,911
Daiwa Capital Markets America Inc.	\$100 million	Continual transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	\$ 208,866
		Interest income (Note 3) \$ (554)	Collateralized short-term financing agreements (Liabilities)	5,532,125
		Interest expense (Note 3) 48,384		
		Continual transactions 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	\$ 29,455
		Commissions (Note 4) \$207,491		
Daiwa Next Bank, Ltd.	¥50,000 million	Continual transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	\$1,306,143
		Interest income (Note 3) \$ 11,723		
		Interest expense (Note 3) —		
		Continual transactions of purchase and sale of securities (Notes 2, 3) —		
		Continual transactions of derivatives (Notes 2, 3)	Trading assets	\$ 19,143
			Trading liabilities	25,259

* "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 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.

19. Special purpose entities subject to disclosure

The Company utilized six special purpose entities for the year ended March 31, 2017 (six for the year ended March 31, 2016) 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, 2017 and 2016 are ¥648,695 million (\$5,791,920 thousand) and ¥842,173 million, respectively.

20. Net gain on trading

Net gain on trading for the years ended March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Equities and others	¥ 21,716	¥ 22,761	\$ 193,893
Bonds, forex and others	94,558	116,293	844,268
	¥116,274	¥139,054	\$1,038,161

21. Selling, general and administrative expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2017 and 2016 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Employees' compensation and benefits	¥ 99,720	¥102,121	\$ 890,357
Commissions and brokerage	16,943	21,366	151,277
Communications	11,810	12,008	105,446
Occupancy and rental	24,049	24,144	214,723
Data processing and office supplies	44,134	43,828	394,054
Taxes other than income taxes	4,672	3,537	41,714
Depreciation	15,666	14,560	139,875
Other	14,694	12,116	131,197
	¥231,688	¥233,680	\$2,068,643

Notes to Financial Statements

22. Other income (expenses)

Details of "Other, net" in the accompanying statements of income for the years ended March 31, 2017 and 2016 are as follows:

		Millions of yen	Thousands of U.S. dollars
	2017	2016	2017
Gains on sales of investment securities	¥ —	¥ 770	\$ —
Gain on bad debts recovered	—	232	—
Reversal of provision for loss on litigation	158	—	1,411
Provision for loss on litigation	—	(338)	—
Other	2,820	2,009	25,178
	¥2,978	¥2,673	\$26,589

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, 2017 and 2016, 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, 2017 and 2016, 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, 2017 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, 2017
Tokyo, Japan

Other Information

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[181](#) Domestic Group Companies

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Daiwa Securities Group Inc. Corporate Data

Head Office

GranTokyo North Tower
9-1, Marunouchi 1-chome, Chiyoda-ku,
Tokyo 100-6751, Japan
Tel: (81) 3-5555-1111

Website

<http://www.daiwa-grp.jp/english/>

Commencement of Operations

May 1, 1902

Date of Founding

December 27, 1943

Common Stock

Issued and Outstanding
1,699,378,772 shares
(as of March 31, 2017)

Number of Shareholders

124,911 (as of March 31, 2017)

Independent Public Accountant

KPMG AZSA LLC

Stock Exchange Listings

Tokyo, Nagoya

Transfer Agent and Registrar

Sumitomo Mitsui Trust Bank, Limited
Stock Transfer Agency Department
1-4-1, Marunouchi, Chiyoda-ku,
Tokyo 100-8233, Japan

For further information, please contact:

Daiwa Securities Group Inc.

Investor Relations Office

Tel: (81) 3-5555-1300

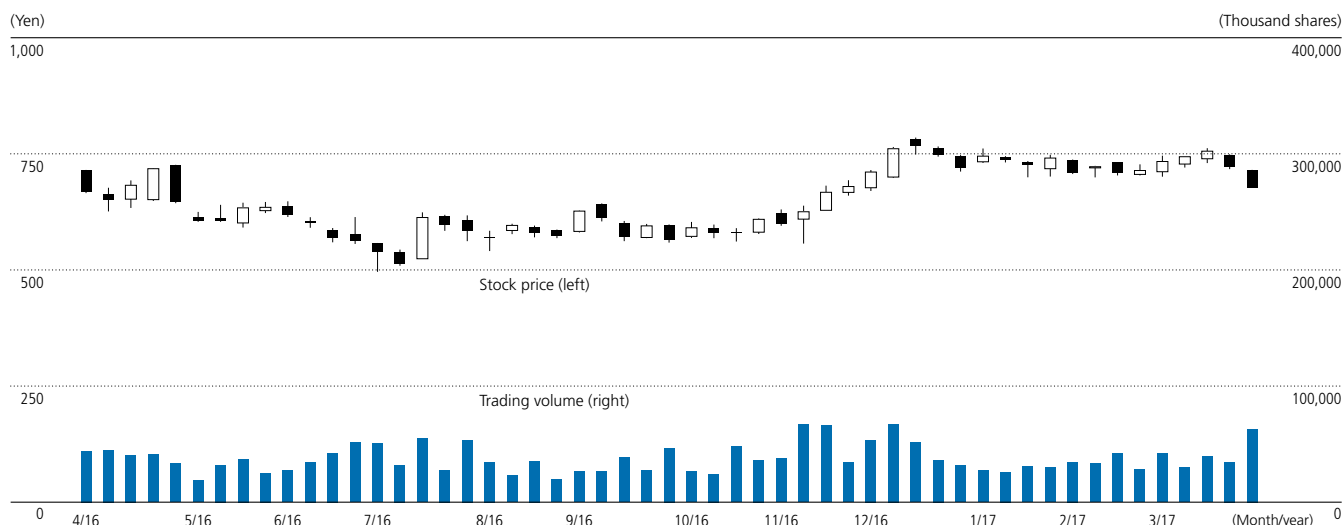
Fax: (81) 3-5555-0661

Email: ir-section@daiwa.co.jp

URL: <http://www.daiwa-grp.jp/english/ir/>

Stock Information

1. Stock Price and Trading Volume on the Tokyo Stock Exchange (April 1, 2016–March 31, 2017)



2. Major Shareholders (As of March 31, 2017)

Name	Number of shares held (Thousands)	% of total outstanding shares
STATE STREET BANK AND TRUST COMPANY 505223	95,819	5.71
Japan Trustee Services Bank, Ltd. Trust Account	76,344	4.55
The Master Trust Bank of Japan, Ltd. Trust Account	66,873	3.98
Barclays Securities	34,000	2.02
Japan Trustee Services Bank, Ltd. Trust Account 5	33,928	2.02
Taiyo Life Insurance Company	31,140	1.85
STATE STREET BANK WEST CLIENT - TREATY 505234	25,213	1.50
Japan Trustee Services Bank, Ltd. Trust Account 2	24,966	1.48
Japan Trustee Services Bank, Ltd. Trust Account 1	24,920	1.48
Japan Trustee Services Bank, Ltd. Sumitomo Mitsui Trust & Banking Retirement Benefit Account	24,888	1.48

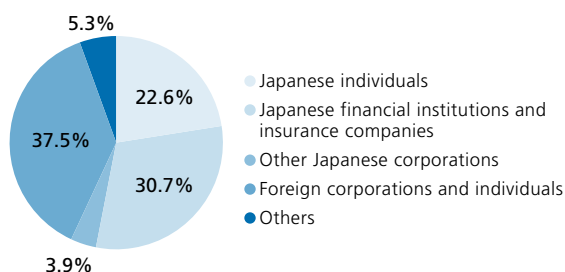
Notes: Treasury stock of 22,136,669 shares is excluded for calculating the percentage of the above list of major shareholders.

3. Stock Price on the Tokyo Stock Exchange

(April 1, 2016–March 31, 2017)

Open	High	Low	Close	Average daily trading volume
¥687.7	¥785.0	¥496.0	¥677.9	8,065 thousand shares

4. Breakdown of Shareholders (As of March 31, 2017)



Officers

(As of July 1, 2017)

Daiwa Securities Group Inc.

Directors

(Members of the Board)

Chairman of the Board	Outside Directors
Takashi Hibino	Nobuko Matsubara
	Keiichi Tadaki
Directors	Tadashi Onodera
Seiji Nakata	Michiaki Ogasawara
Shinya Nishio	Hiroataka Takeuchi
Kazuo Takahashi	Ikuo Nishikawa
Toshihiro Matsui	
Keiko Tashiro	
Mikita Komatsu	
Morimasa Matsuda	

Corporate Executive Officers

President and CEO	Executive Managing Directors
Seiji Nakata	Hiroyuki Inose (CRO)
	Masaru Shirataki
Deputy Presidents	Atsushi Mochizuki
Shinya Nishio (COO)	Akihiko Ogino
Kazuo Takahashi	
Nobuyuki Iwamoto	Senior Managing Director
Yoriyuki Kusaki	Takashi Hibino
Senior Executive Managing Directors	
Toshihiro Matsui	
Keiko Tashiro	
Mikita Komatsu (CFO)	
Masahisa Nakagawa (CIO)	

Executive Officers

Senior Executive Managing Directors	Senior Managing Directors
Yoshimasa Nagase	Junichi Arihara
Koichi Matsushita	Tomoyuki Murase
	Shiko Yanagisawa
Executive Managing Directors	Tomonori Tsuji
Hironori Oka	Eiji Sato
Takayuki Sawano	
Hideki Araki	

Daiwa Securities Co. Ltd.

Directors

(Members of the Board)

Chairman of the Board	Senior Executive Managing Directors
Takashi Hibino	Junichi Aizawa
	Koichi Maruo
President	Yuichi Akai
Seiji Nakata	Keiko Tashiro
Deputy Presidents	Shinji Kawakami
Shinya Nishio	Mikita Komatsu
Kazuo Takahashi	Masahisa Nakagawa
	Tadao Sakashima
Representative Senior Executive Managing Director	Executive Managing Directors
Yoshimasa Nagase	Hiroyuki Inose
	Keisuke Natsume
Senior Executive Managing Directors	Masahiro Kobayashi
Koichi Matsushita	Hiromi Uemura
Toshihiro Matsui	

Audit & Supervisory Board Members

Shuzo Takami
Sumiyuki Akaiwa*
Morimasa Matsuda
Hiroshi Obayashi*
* Outside Audit & Supervisory Board Member

Executive Officers

Executive Managing Directors	Senior Managing Directors	Senior Managing Directors
Yoshinori Matsumoto	Akira Tachibana	Hiroko Sakurai
Sei Furuichi	Yoshifumi Otsuka	Hiroki Ikeda
Masaru Shirataki	Shinsuke Niizuma	Tomoki Igura
Masataka Tsujimoto	Tomoo Fujioka	Kei Sano
Hiroyuki Nomura	Kana Shirakawa	Futoshi Sekine
Hiroshi Hara	Hiroataka Shirokawa	Tomonori Tsuji
Yasushi Iwasaki	Mitsuru Fujita	Eiji Sato
Yoshihisa Kaneko	Tomoyuki Murase	Toru Yamamoto
Atsushi Mochizuki	Sungho Kang	Junichi Serizawa
Naoto Shimomura	Toshiya Tadokoro	
Akihiko Ogino		

Domestic Group Companies

(As of July 1, 2017)

Daiwa Securities Co. Ltd.

GranTokyo North Tower
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6752, Japan
Tel: +(81) 3-5555-2111

Daiwa Asset Management Co. Ltd.

GranTokyo North Tower
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6753, Japan
Tel: +(81) 3-5555-3111

Daiwa Institute of Research Holdings Ltd.

15-6, Fuyuki, Koto-ku, Tokyo 135-8460, Japan
Tel: +(81) 3-5620-5501

Daiwa Institute of Research Ltd.

15-6, Fuyuki, Koto-ku, Tokyo 135-8460, Japan
Tel: +(81) 3-5620-5100

Daiwa Institute of Research Business Innovation Ltd.

1-14-5 Eitai, Koto-ku, Tokyo 135-0034, Japan
Tel: +(81) 3-5931-8600

DIR Information Systems Co., Ltd.

1-14-6 Eitai, Koto-ku, Tokyo 135-0034, Japan
Tel: +(81) 3-6365-2580

Daiwa SB Investments Ltd.

2-1, Kasumigaseki 3-chome, Chiyoda-ku, Tokyo 100-0013, Japan
Tel: +(81) 3-6205-0200

Daiwa Securities Business Center Co. Ltd.

3-2, Toyo 2-chome, Koto-ku, Tokyo 135-0016, Japan
Tel: +(81) 3-5633-6100

Daiwa Property Co., Ltd.

2-1, Kyobashi 1-chome, Chuo-ku, Tokyo 104-0031, Japan
Tel: +(81) 3-5555-4700

Daiwa Next Bank, Ltd.

GranTokyo North Tower
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6756, Japan
Tel: +(81) 3-5555-6500

Daiwa Corporate Investment Co., Ltd.

GranTokyo North Tower
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6756, Japan
Tel: +(81) 3-5555-6300

Daiwa PI Partners Co. Ltd.

GranTokyo North Tower
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Daiwa Securities SMBC Principal Investments Co. Ltd.

GranTokyo North Tower
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Daiwa Fund Consulting Co. Ltd.

GranTokyo North Tower
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Tel: +(81) 3-5555-6550

Daiwa Real Estate Asset Management Co. Ltd.

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Daiwa Investor Relations Co. Ltd.

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Tel: +(81) 3-5555-4111

Daiwa Securities Media Networks Co. Ltd.

GranTokyo North Tower
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6751, Japan
Tel: +(81) 3-5555-1175

Daiwa Office Services Co., Ltd.

2-1, Kyobashi 1-chome, Chuo-ku, Tokyo 104-0031, Japan
Tel: +(81) 3-5555-6200

Retela Crea Securities Co., Ltd.

2-1, Kyobashi 1-chome, Chuo-ku, Tokyo 104-0031, Japan
Tel: +(81) 3-6385-0611

Mi-Casa Asset Management Inc.

16-12, Shinbashi 6-chome, Minato-ku, Tokyo 105-0004, Japan
Tel: +(81) 3-5425-5600

Overseas Group Companies

(As of July 1, 2017)

Daiwa Securities Group Inc.

Daiwa Capital Markets America Inc.

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Tel: +(1) 212-612-7000

San Francisco Branch
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Daiwa Capital Markets Europe Limited

London Head Office
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31st Floor, East Tower, Bahrain World Trade Center,
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Tel: +(33) 1-56 26 22 00

Moscow Representative Office
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Daiwa Corporate Advisory Limited (UK)

5 King William Street, London EC4N 7DA, United Kingdom
Tel: +(44) 20-7856-0999

Daiwa Corporate Advisory GmbH (Germany)

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Federal Republic of Germany
Tel: +(49) 69-9720-040

Daiwa Corporate Advisory SAS (France)

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Tel: +(33) 1-4212-4900

Daiwa Securities Co. Ltd.

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Chaoyang District, Beijing, China
Tel: +(86) 10-6500-6688

Bangkok Representative Office

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Pathumwan, Bangkok 10330, Thailand
Tel: +(66) 2-252-5650

Daiwa Capital Markets Hong Kong Limited

One Pacific Place, 88 Queensway, Hong Kong
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Daiwa Capital Markets Singapore Limited

6 Shenton Way #26-08, OUE Downtown Two,
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