Financial Section

Other Information

11-Year Financial Summary*1

	FY2007	FY2008	FY2009	FY2010
Operating Performance				
Operating revenues	825,422	413,936	537,915	403,042
Commissions	294,424	208,880	252,863	218,630
Net gain on trading	103,361	40,921	110,955	92,476
Net gain (loss) on private equity and other investments	19,160	(79,477)	75,584	(17,259)
Interest and dividend income	358,422	192,663	54,729	71,915
Service fees and other revenues	50,052	50,948	43,783	37,278
Interest expense	339,783	176,034	47,659	58,061
Cost of service fees and other revenues	38,147	38,357	32,150	26,415
Net operating revenues	447,491	199,544	458,105	318,564
Selling, general and administrative expenses (SG&A)	363,858	343,270	362,844	363,919
Operating income (loss)	83,632	(143,725)	95,261	(45,355)
Ordinary income (loss)	90,143	(141,150)	102,917	(32,602)
Profit (loss) attributable to owners of parent	46,411	(85,039)	43,429	(37,331)
Segment Information*2				
Net operating revenues				
Retail	224,010	158,027	192,086	178,970
Wholesale	161,954	(19,989)	249,441	92,130
Asset Management	83,079	68,157	63,795	36,324
Investment	—	—	—	(15,277)
Others/adjustments	—	—	—	26,416
Total	447,491	199,544	458,105	318,564
Ordinary income (loss)				
Retail	71,026	18,396	40,454	41,866
Wholesale	1,431	(167,468)	68,754	(66,906)
Asset Management	17,494	11,613	9,929	15,948
Investment	(5,321)	(5,895)	(6,952)	(21,476)
Others/adjustments	13,379	9,140	7,901	(2,034)
Total	90,143	(141,150)	102,917	(32,602)
Ordinary Income (Loss) from Overseas Operations				
Europe	(4,190)	(4,898)	1,984	(8,954)
Asia & Oceania	3,661	(1,553)	60	(11,133)
Americas	1,948	4,806	1,707	(1,447)
Total	1,419	(1,645)	3,752	(21,536)
Financial Conditions (Fiscal year-end)				
Total assets	17,307,119	14,182,579	17,155,345	16,842,411
Net assets	1,082,923	952,329	1,017,528	921,398
Regulatory Indicators				
Consolidated Capital Adequacy Ratio				
Consolidated Common Equity Tier 1 Capital Ratio	—	—	—	—
Consolidated Tier 1 Capital Ratio	—	—	—	—
Consolidated Total Capital Ratio*3	—	—	—	27.2%
Consolidated Leverage Ratio	—	—	—	—
Consolidated Liquidity Coverage Ratio	—	—	—	—
Cash Flows				
Cash flows from operating activities	(782,533)	1,519,387	(3,259,900)	1,676,882
Cash flows from investing activities	(189,042)	9,437	(237,499)	(79,466)
Cash flows from financing activities	991,086	(1,459,438)	3,837,205	(1,301,657)
Cash and cash equivalents at end of year	359,851	415,600	753,982	1,043,463
Per Share Data (Yen)				
Net income (loss) per share (EPS)*4	33.69	(63.16)	26.41	(21.90)
Net assets per share (BPS)	607.64	534.99	530.27	496.76
Dividend per share (DPS)	22.00	8.00	13.00	6.00
Closing share price	864.0	428.0	492.0	382.0
Other Indicators				
Dividend payout ratio	65.3%	—	49.2%	—
Market capitalization (Period-end closing price, number of shares issued basis)	1,213,630	601,197	860,684	668,263
ROE	5.3%	—	5.3%	—

*1 11-Year Financial Summary has not been audited by an independent auditor.

*2 Retail Division from FY2007 to FY2009: Daiwa Securities Co., Ltd.; Wholesale Division: Daiwa Securities Capital Markets Co., Ltd. (including the Investment Division) (consolidated); Asset Management Division: Daiwa Asset Management Co., Ltd.; Investment Division: Daiwa Corporate Investment Co., Ltd. (DCI); Others/adjustments: Three Daiwa Institute of Research companies (Daiwa Institute of Research Holdings Ltd., Daiwa Institute of Research Ltd., and Daiwa Institute of Research Business Innovation Ltd.); Details of major Group companies including in each Division from FY2010 are provided on page 47.

Millions of yen (Except as otherwise specified)

FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
422,374	525,411	642,829	659,396	653,711	616,497	**712,601**
220,845	229,522	301,937	291,115	288,418	273,335	**313,625**
79,416	123,537	156,499	157,220	131,324	128,120	**109,005**
1,955	16,531	17,454	7,415	18,502	14,846	**26,912**
79,761	93,276	107,974	125,934	149,451	143,241	**190,444**
40,395	62,544	58,963	77,710	66,014	56,953	**72,613**
59,689	70,130	60,333	80,070	89,530	98,725	**148,348**
26,668	37,972	40,545	47,105	49,366	45,022	**58,901**
336,016	417,308	541,951	532,220	514,815	472,750	**505,350**
359,729	333,496	357,358	361,380	364,517	353,687	**370,292**
(23,713)	83,812	184,593	170,839	150,297	119,062	**135,058**
(12,200)	95,176	197,045	184,578	165,148	135,623	**155,676**
(39,434)	72,909	169,457	148,490	116,848	104,067	**110,579**
172,033	184,415	253,093	232,033	217,922	188,051	**214,247**
78,488	133,109	175,338	180,568	178,014	182,875	**171,192**
37,424	43,591	48,714	55,140	50,528	46,438	**49,390**
1,090	17,495	19,989	8,351	19,730	15,736	**27,401**
46,980	38,696	44,815	56,126	48,618	39,647	**43,118**
336,016	417,308	541,951	532,220	514,815	472,750	**505,350**
38,839	49,251	102,120	77,756	61,080	29,375	**51,331**
(68,717)	12,034	47,428	52,888	48,878	65,437	**45,373**
14,615	19,089	25,328	32,142	29,990	26,572	**29,119**
(1,976)	14,161	17,171	6,506	17,397	13,041	**24,499**
5,039	639	4,996	15,284	7,801	1,196	**5,353**
(12,200)	95,176	197,045	184,578	165,148	135,623	**155,676**
(5,039)	(2,873)	(2,307)	(2,187)	(3,240)	2,759	**4,227**
(17,720)	(7,610)	(3,763)	(2,768)	(4,130)	1,480	**4,433**
(3,058)	(87)	916	1,050	2,686	9,254	**2,742**
(25,818)	(10,571)	(5,154)	(3,904)	(4,684)	13,493	**11,403**
18,924,038	19,049,099	19,480,863	23,001,585	20,420,818	19,827,296	**21,141,743**
951,702	1,082,567	1,253,462	1,434,680	1,313,005	1,343,433	**1,370,520**
—	19.0%	20.6%	19.7%	21.0%	22.64%	**22.28%**
—	19.0%	20.9%	20.4%	21.1%	22.64%	**22.28%**
27.4%	20.0%	21.8%	21.0%	21.2%	22.64%	**22.28%**
—	—	—	5.31%	5.99%	5.92%	**5.61%**
—	—	—	—	156.2%	145.3%	**146.6%**
2,032,677	1,795,021	1,123,594	725,966	221,746	44,543	**(1,319,248)**
(973,494)	(798,491)	(448,493)	(13,265)	415,647	307,713	**777,872**
(1,063,022)	(909,461)	25,584	343,385	(229,727)	143,231	**432,813**
1,038,981	1,136,053	1,846,617	2,920,509	3,273,640	3,766,145	**3,653,464**
(23.41)	43.00	99.63	87.07	68.25	61.53	**66.88**
463.04	536.72	633.53	725.27	720.86	745.80	**786.56**
6.00	15.00	34.00	30.00	29.00	26.00	**28.00**
327.0	656.0	898.0	946.0	692.3	677.9	**678.7**
—	34.9%	34.1%	34.5%	42.5%	42.3%	**41.9%**
572,047	1,147,592	1,570,942	1,654,912	1,211,095	1,152,009	**1,153,368**
—	8.6%	17.0%	12.8%	9.5%	8.4%	**8.8%**

*3 Consolidated Capital Adequacy Ratio hereunder is calculated under the principal of Financial Service Agency Public Notice 130 of the Financial Instruments and the Exchange Act (Article 57-17-1).
Numerical data for FY2010 and FY2011 is calculated based on the Basel II standards. Numerical data from FY2012 is calculated based on Basel III standards in line with revision to the aforementioned Financial Services Agency Public Notice.

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

Non-Financial Information Highlights
(Personnel/Social Contribution Related)

Selected Range of Numerical Data

G : Group-wide (excluding equity-method affiliates)
D : Daiwa Securities (non-consolidated)
10 : Daiwa Securities Group Inc., Daiwa Securities Co., Ltd., Daiwa Asset Management Co., Ltd., Daiwa Institute of Research Holdings Ltd., Daiwa Institute of Research Ltd., Daiwa Institute of Research Business Innovation Ltd., Daiwa SB Investments Ltd., Daiwa Securities Business Center Co., Ltd., Daiwa Property Co., Ltd., Daiwa Corporate Investment Co., Ltd. (DCI)
8 : Daiwa Securities Group Inc., Daiwa Securities Co., Ltd., Daiwa Asset Management Co., Ltd., Daiwa Institute of Research Ltd., Daiwa Institute of Research Business Innovation Ltd., Daiwa SB Investments Ltd., Daiwa Securities Business Center Co., Ltd., Daiwa Corporate Investment Co., Ltd. (DCI)
2 : Daiwa Securities Group Inc., Daiwa Securities Co., Ltd.

Personnel Related

		FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Consolidated Number of Staff*1	G	13,233	13,150	13,324	13,577	13,725	**14,691**
Male		7,452	7,458	7,526	7,600	7,552	**8,077**
Female		4,117	4,124	4,270	4,505	4,660	**4,938**
Overseas		1,664	1,568	1,528	1,472	1,513	**1,676**
Financial advisors	G	193	167	142	124	111	**100**
Consolidated number of employees	G	13,426	13,317	13,466	13,701	13,836	**14,791**
Number of temporary employees	G	479	666	847	940	945	**946**
Number of New Graduates Recruited	8	523	610	681	662	678	**578**
Male		296	345	345	332	345	**289**
Female		227	265	336	330	333	**289**
Average Age	D	40.5*2	38.1	38.0	37.9	38.0	**38.0**
Male		—	39.4	39.4	39.5	39.6	**39.6**
Female		—	36.0	35.9	35.6	35.7	**35.7**
Average Number of Years of Service	D	14.3*2	13.6	13.6	13.5	13.6	**13.7**
Male		—	15.0	15.0	15.1	15.2	**15.3**
Female		—	11.6	11.5	11.3	11.4	**11.4**
Employee Turnover Statistics (%)	D	—	—	3	3	3	**3**
Number of employee union members	8	6,490	6,406	6,573	6,822	6,943	**7,134**
Ratio of employees who are employee union members (%)	8	—	63.1	63.1	64.2	64.0	**64.4**

*1 Since fiscal 2014, the number of employees stationed overseas has been included in the "Overseas" category.
*2 This data pertains to Daiwa Securities Group Inc. (including those who simultaneously work for Daiwa Securities).

Education Related

		FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Number of people who have completed	10						
Daiwa Management Academy selective management training program (cumulative total)		291	314	335	358	380	**403**
Daiwa Leadership Program selective management training program (cumulative total)		631	671	734	797	862	**929**
Number of people who have completed skill training (cumulative total)	8	2,862	3,464	4,591	6,073	7,507	**9,362**
Number of Persons Earning Credentials	10						
Affiliated Financial Planner (AFP)		5,183	5,191	5,279	5,333	5,626	**6,811**
Certified Financial Planner (CFP®)*		497	555	590	616	643	**698**
Chartered Member of the Securities Analysts Association of Japan (CMA)		1,446	1,461	1,504	1,525	1,542	**1,613**
Chartered Financial Analyst (USA credential)		42	44	50	57	59	**59**
TOEIC (730-990)		1,383	1,470	1,556	1,660	1,752	**1,830**
Overseas MBA program, etc.		154	164	160	168	173	**177**

* This data covers Daiwa Securities.

Diversity Related

		FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Percentage of employees who are female	G	35.6	35.6	36.1	37.2	38.1	**37.9**
Percentage of managers who are female	G	4.8	5.4	6.3	7.5	8.8	**9.4**
Number of women newly appointed to managerial positions	D	—	27	42	45	62	**40**
Percentage of managers who are female	D	—	17.3	26.9	27.1	32.3	**24.4**
Number of employees re-hired under the Daiwa Master System	D	61*	59	56	68	69	**72**
Percentage of employees who are persons with disabilities	D	2.31	2.24	2.10	2.05	2.02	**2.10**

* This data covers two Group companies.

Work-Life Balance Related

		FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Annual regular working hours	2	1,837.5	1,837.5	1,845.0	1,837.5	1,837.5	**1,837.5**
Average monthly overtime hours	2	25.7	27.2	28.2	24.0	23.5	**23.2**
Paid vacation usage rate (%) (including special summer vacation)	2	52	50	56	63	66	**68**
Number of employees taking childcare leave	G						
Female		436	486	576	640	671	**695**
Male		17	19	134	250	327	**437**
Percentage of employees taking childcare leave	D						
Female		—	100.0	99.3	100.0	100.0	**100.0**
Male		—	1.6	41.9	73.1	96.8	**100.0**
Short working hour system usage (persons)	D	—	147	180	249	324	**373**
Daycare subsidy usage (persons)	D	—	288	437	505	625	**702**
Number of employees taking nursing care leave	G						
Female		8	10	6	4	0	**2**
Male		0	0	1	2	2	**3**

Social Contribution Related

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Corporate Citizenship Initiatives and Expenditures (thousands of yen)	504,204	463,321	606,279	583,758	497,457	**719,523**
Education and research in economics and finance	63,525	49,694	189,624	137,193	42,351	**130,122**
Assistance to communities inside and outside of Japan through foundations and NPOs	165,851	179,937	153,779	147,748	128,594	**149,441**
Support for culture and the arts	272,500	231,900	257,400	296,110	323,110	**437,458**
Corporate citizenship initiatives	2,328	1,790	5,476	2,706	3,400	**2,501**

For more detailed CSR-related data, including management reports, social reports and environmental reports, and the status of independent assurance, please see our annual CSR Report.

http://www.daiwa-grp.jp/english/csr/report/archives/index.html

Twelve-Quarter Financial Summary

Daiwa Securities Group Inc. and Consolidated Subsidiaries

	FY2015 1Q	FY2015 2Q	FY2015 3Q	FY2015 4Q
MARKET DATA				
Nikkei 225 (end of each quarter, yen)	20,235.73	17,388.15	19,033.71	16,758.67
TSE average daily trading value (billions of yen)	3,060	3,182	2,820	3,025
Net purchases (sales) by investors on two major securities exchanges* (billions of yen)				
Institutions	(569)	3,347	993	3,005
Individuals	(2,752)	1,124	(1,964)	1,423
Foreigners	2,819	(4,083)	1,173	(5,012)
Securities companies	(191)	79	(74)	96
Ten-year Japanese government bond yield (end of each quarter, %)	0.455	0.350	0.270	(0.050)
Foreign exchange rates: Yen per U.S. dollar (end of each quarter)	122.41	120.24	120.38	112.35

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

OPERATING PERFORMANCE	1Q	2Q	3Q	4Q (Millions of yen)
Operating revenues	191,389	158,126	153,616	150,579
Commissions	80,041	76,460	69,215	62,701
Brokerage commission	21,035	18,417	15,922	14,950
Underwriting commission	9,031	9,560	6,031	3,930
Distribution commission	11,226	9,439	8,237	5,839
Other commission	38,748	39,043	39,023	37,980
Net gain on trading	49,043	23,681	29,910	28,688
Profit on equity trading	10,606	1,929	6,645	4,249
Profit on bond and foreign exchange trading	38,437	21,751	23,265	24,439
Net gain on private equity and other investments	3,704	1,490	12,327	979
Interest and dividend income	37,830	35,335	33,587	42,697
Service fees and other revenues	20,768	21,158	8,575	15,511
Interest expenses	23,978	24,288	19,551	21,710
Cost of service fees and other revenues	12,746	10,258	9,264	17,095
Net operating revenues	154,663	123,579	124,799	111,772
Selling, general and administrative expenses	95,574	91,281	89,331	88,329
Commissions and other expenses	18,871	18,304	17,805	17,357
Employees' compensation and benefits	49,358	45,616	44,626	43,691
Occupancy and rental	9,287	9,686	9,235	9,151
Data processing and office supplies	6,501	6,578	7,002	6,689
Depreciation and amortization	5,953	5,921	6,038	5,920
Taxes other than income taxes	2,895	2,148	2,078	1,765
Others	2,707	3,024	2,545	3,753
Operating income	59,088	32,297	35,468	23,442
Non-operating income	4,706	3,499	2,636	5,314
Non-operating expenses	681	340	154	128
Ordinary income	63,113	35,456	37,950	28,628
Extraordinary gains	3,143	633	3,787	1,897
Extraordinary losses	330	290	86	3,991
Income before income taxes	65,926	35,799	41,651	26,535
Profit attributable to owners of parent	44,836	24,347	26,354	21,311

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

			FY2016				FY2017
1Q	2Q	3Q	4Q	**1Q**	**2Q**	**3Q**	**4Q**
15,575.92	16,449.84	19,114.37	18,909.26	**20,033.43**	**20,356.28**	**22,764.94**	**21,454.30**
2,656	2,566	2,870	2,710	**2,888**	**2,776**	**3,357**	**3,516**
1,752	925	(921)	(908)	**(179)**	**442**	**231**	**1,786**
(405)	(676)	(3,503)	(19)	**(1,985)**	**(1,225)**	**(2,563)**	**1,687**
271	(1,445)	2,498	(1,238)	**1,714**	**(1,166)**	**1,443**	**(2,617)**
(23)	(7)	(164)	(30)	**(146)**	**(64)**	**(190)**	**57**
(0.230)	(0.085)	0.040	0.065	**0.080**	**0.060**	**0.045**	**0.045**
102.81	101.14	116.81	111.81	**112.01**	**112.45**	**112.53**	**106.20**

			Millions of yen				Millions of yen
151,859	145,117	153,198	166,322	**159,652**	**176,611**	**190,875**	**185,461**
61,693	64,373	70,752	76,515	**69,746**	**78,730**	**85,531**	**79,616**
13,888	13,197	17,189	16,672	**16,214**	**16,688**	**21,753**	**19,142**
5,366	8,274	8,161	7,926	**5,740**	**13,010**	**9,890**	**6,537**
6,320	7,037	10,020	10,909	**11,143**	**10,803**	**13,247**	**10,613**
36,119	35,863	35,379	41,007	**36,648**	**38,228**	**40,640**	**43,323**
33,379	32,385	34,025	28,330	**24,068**	**23,079**	**30,446**	**31,411**
2,063	5,315	7,672	6,419	**7,775**	**6,040**	**11,400**	**13,769**
31,315	27,070	26,352	21,910	**16,293**	**17,038**	**19,046**	**17,641**
4,802	5,614	2,423	2,006	**1,746**	**13,862**	**6,217**	**5,085**
35,726	33,088	34,808	39,618	**43,835**	**48,096**	**47,898**	**50,612**
16,257	9,656	11,188	19,850	**20,255**	**12,841**	**20,782**	**18,733**
26,633	20,701	20,777	30,612	**39,566**	**34,480**	**30,441**	**43,859**
11,177	9,319	10,434	14,090	**11,542**	**11,207**	**25,437**	**10,714**
114,049	115,096	121,985	121,618	**108,543**	**130,923**	**134,997**	**130,886**
86,029	85,772	90,376	91,508	**87,121**	**90,924**	**94,725**	**97,520**
16,385	16,979	17,505	18,884	**16,638**	**18,658**	**18,488**	**18,663**
43,240	43,356	44,838	44,395	**43,215**	**44,645**	**48,387**	**49,616**
8,744	8,538	8,833	9,150	**8,818**	**8,847**	**9,080**	**9,163**
6,233	6,006	7,843	6,963	**6,450**	**6,494**	**6,728**	**6,879**
5,897	5,705	5,848	5,955	**6,117**	**6,009**	**6,119**	**6,090**
2,559	2,467	2,555	2,948	**2,754**	**2,736**	**2,635**	**2,606**
2,968	2,720	2,952	3,210	**3,126**	**3,533**	**3,284**	**4,501**
28,019	29,323	31,609	30,110	**21,422**	**39,998**	**40,271**	**33,365**
4,613	4,305	3,961	4,907	**4,454**	**3,864**	**3,039**	**10,567**
95	371	135	622	**723**	**33**	**94**	**455**
32,537	33,256	35,434	34,394	**25,153**	**43,829**	**43,216**	**43,477**
1,228	1,607	2,524	12,016	**2,522**	**2,187**	**481**	**5,018**
207	1,082	(47)	12,753	**158**	**55**	**9,684**	**2,122**
33,559	33,781	38,007	33,657	**27,516**	**45,961**	**34,012**	**46,373**
24,571	30,443	26,693	22,358	**19,395**	**31,905**	**22,697**	**36,581**

Financial Section

Management's Discussion and Analysis

Macroeconomic Conditions in FY2017

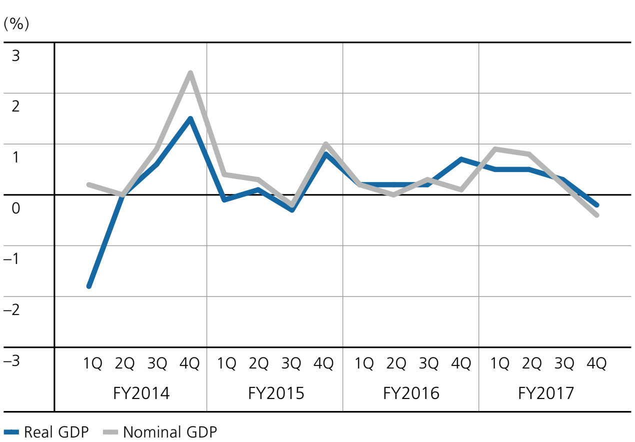
Overseas Markets

In FY2017, the global economy experienced moderate growth. According to the International Monetary Fund (IMF), the global economy in 2017 surpassed the level recorded in the previous year and exhibited a high rate of growth for the first time in five years. While unable to dispel concerns attributable to both internal and external political turmoil, the U.S. is looking to stimulate its domestic economy through expansionary fiscal policies, which include the tax system reform package enacted at the end of 2017. Turning to countries throughout the eurozone, economic conditions have also shown signs of improvement. This largely reflects the gradual contraction of accommodative monetary policies as deflationary concerns have waned. In addition to leading industrialized countries, emerging economies are also enjoying a recovery. Trends in China remain stable with indications that Brazil and Russia are transitioning toward positive growth.

In the January-March 2018 quarter, the rate of quarter-on-quarter real GDP growth on an annualized basis was held under 2.5% because consumer spending growth in the U.S. was suppressed. On the other hand, the rate for the three quarters from April-June 2017 came in at the high level of around 3%. The slowdown in the January-March 2018 quarter was due to low consumer spending growth for the first time in roughly five years. However, in addition to the underlying strengths of stable employment and income conditions, there are signs of an increase in the disposable incomes of households attributable to the taxation system reforms enacted in December 2017, which are having a positive impact on corporate sector earnings and sentiment and in turn leading to prolonged steady capital investment growth. Taking into consideration heightened interest in labor-saving investments owing mainly to the tight labor market, capital investment activities are receiving an additional boost. However, there are concerns that President Trump's vigorous implementation of protectionist trade policies from February 2018 will have a dampening effect on corporate sector production activity and investment plans. This reflects the potential for an increase in import prices as well as a decrease in export volumes from the U.S. should friction intensify with other nations including China. From a financial perspective, the Federal Reserve Board (FRB) raised interest rates on three occasions during 2017 on the back of firm economic growth. Policy interest rates were also raised in March 2018. At the same time, the FRB began reducing the scale of its assets held from October 2017. Meanwhile, the U.S. stock market remains bullish as a result of the strong economy and expectations following the enactment of taxation system reforms. The New York Dow Jones Industrial Average, for example, hit a record high in January 2018. After that, however, long-term interest rates rose owing to concerns surrounding inflation. In the ensuing period, we have seen instances where stock prices have fallen dramatically due to growing anxiety regarding trade friction.

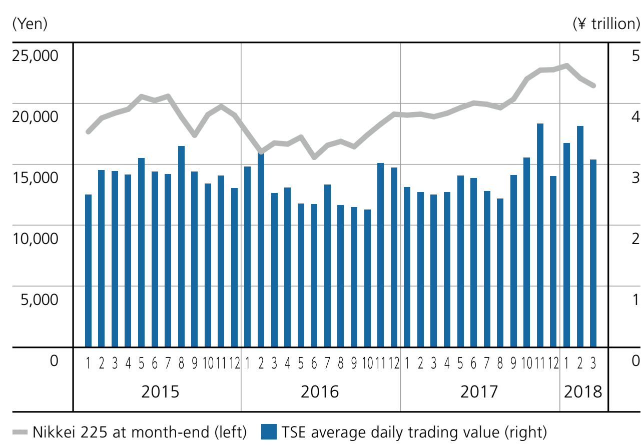
In Europe, the economy continued to experience modest yet stable growth. Real GDP growth across the eurozone in 2017 came in at a high 2.4% for the first time in a decade. In the January-March 2018 quarter, real GDP increased 1.5 percentage points on a quarter-on-quarter annualized basis and 2.5 percentage points compared with the previous year. While this was a substantial slowdown from the average 2.9 percentage point quarter-on-quarter

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 annualized increase for the past three quarters, it still represents a brisk trend and surpasses the potential growth rate of around 1%. Taking into consideration improvements in employment conditions and a favorable household income environment, consumer spending in the eurozone is firm and showing balanced growth in tune mainly with domestic demand. On another note, countries that are highly dependent on exports including Germany are showing signs of a decline in economic growth owing largely to continued appreciation of the euro. Meanwhile, from a financial perspective, the European Central Bank (ECB) is looking to correct its course of non-standard monetary easing policy measures as concerns regarding deflation dissipate. In light of ongoing efforts to reduce the scale of quantitative easing since April 2017, the amount of monthly asset acquisition halved to 30 billion euro from January 2018. However, there are indications that the ECB will adopt a cautious approach toward correcting non-standard monetary easing policy measures due to the substantial gap between the ECB's target of slightly less than 2% and the rate of inflation in the eurozone entering 2018.

Turning to the economies of emerging nations, the pace of growth has continued to accelerate reaching a high level for the first time in four years in 2017 after bottoming out in 2015. The rate of real GDP growth in China climbed 6.8 percentage points compared with the previous year in the January-March 2018 quarter. While a slight downturn compared with the 6.9 percentage point increase in 2017, this still represents firm growth. On a quarter-on-quarter basis, the rate of real GDP growth has slowed for two consecutive quarters after peaking in the July-September 2017 quarter. As the principal driver of this growth, consumer spending has for the most part offset the slump in gross capital formation growth. Entering the January-March 2018 quarter, there were signs of a slight downturn in spending-related activities. In overall terms, however, trends remain firm. As far as fixed asset investment is concerned, there are signs of an overall modest pick-up. Despite excess production capacity in the manufacturing sector and a drop in the pace of infrastructure investment, real estate development investment is expanding substantially. While trade friction between China and the U.S. is a risk factor in the future, the impact is expected to remain limited so long as conditions do not escalate into a period of mutual retaliatory sanctions. Looking at other emerging countries and the overall rate of economic growth in 2017, there are indications of a recovery that has surpassed initial estimates. The upswing in resource prices including crude oil is providing a tailwind for resource-rich economies. In contrast, the outflow of capital attributable to rising interest rates in such industrialized countries as the U.S. and such measures as the lifting of policy interest rates to protect currencies while combating high inflation due to currency depreciation are creating economic difficulties in certain cases.

Japan

Since the second half of 2016, the Japanese economy has continued to enjoy a modest recovery fueled mainly by domestic demand. Conversely, real GDP growth in the January-March 2018 quarter contracted 0.6 of a percentage point on a quarter-on-quarter annualized basis. This represented negative growth for the first time in nine quarters and a substantial downturn from the average annualized growth rate of just under 2% for the past four quarters. Looking at specific underlying factors, consumer spending and housing investment has been weak over this period. At the same time, capital expenditures, which had expanded steadily, and export growth stalled. While external demand provided a positive contribution, this was surpassed by the deceleration in import activity affected by weak domestic demand, which has led to a negative impact. As a result, the Japanese economy experienced negative growth in overall terms. Despite this recent modest negative growth in domestic demand items coupled with signs of stagnant economic expansion, growth for the full 2017 period reached a high level for the first time in four years accelerating to 1.6%. Compared with growth in FY2016 and the dependence on external demand, domestic demand contributed 1.2 percentage points and external demand 0.4 of a percentage point in FY2017. This suggests that growth in FY2017 was of a more balanced nature.

Consumer spending, which accounts for a significant portion of GDP, contracted during the January-March 2018 quarter. This represented a decline for the first time in two quarters. There are clear signs that overall weakness in consumer durables focusing mainly on automobiles, and such factors as the sharp increase in perishable prices due to inclement weather, higher crude oil prices, rising costs reflecting the shortage of labor, and the rate of inflation, which continues to hover at a high level are directly impacting consumers' lives. In contrast, and looking at the full fiscal year, Japan's unemployment rate fell to around 2.5%. Coupled with the corporate sector's ongoing strong motivation to hire employees, the moderate increase in wages, and other factors, employment and income conditions continue to recover while consumer sentiment remains at a high level.

As far as housing investment is concerned, low home loan interest rates attributable to the monetary easing policies of the Bank of Japan continue to provide a certain level of underlying support for a firm market. Against this, the increase in housing prices mainly in major metropolitan areas owing largely to the upswing in construction material and labor costs is placing downward pressure on demand. At the same time, there is a growing sense of deceleration in rental housing construction, which has been driven by such extraordinary factors as inheritance tax measures. As a result, we have seen negative growth compared with the previous period for three consecutive quarters from the July-September 2017 quarter.

Meanwhile, corporate-sector capital investment climbed for an eighth consecutive year rising 3.2% compared with the previous fiscal year in FY2017. Buoyed by the high level of corporate-sector earnings as well as the tight supply and demand for labor, rationalization and labor-saving investment in response to the serious shortage of labor, the renewal of facilities and equipment designed to maintain competitiveness, and other expenditure in such fields as R&D increased. Nevertheless, the corporate sector maintained its cautious approach toward expenditure as a whole. Capital investment fell substantially below cash flows while coming in at a certain level above depreciation. Despite exhibiting positive growth in the January-March 2018 quarter, the rate of capital investment growth is slowing. This is largely due to deceleration in export expansion resulting in a lull in production activity.

Turning to external demand, exports continued along an upward trajectory, buoyed by firm growth by overseas economies. The pace of export growth increased year on year climbing 6.2% in FY2017. By region, exports to Asia recovered. While exports to the U.S. and the EU were essentially unchanged, overall activity remained brisk. Despite the robust export of automobiles and manufacturing equipment in such fields as semiconductors, trends in overseas economies continue to warrant monitoring. This is especially true since entering 2018. With the U.S. government's intent to promote protectionist trade policies, there is a real risk that global trade will contract. In addition, the potential exists for the economies of emerging nations to undergo a change owing mainly to the outflow of capital attributable to rising interest rates in leading industrialized countries including the U.S. This is expected to have a negative impact on exports from Japan. Meanwhile, imports have shown a positive turnaround on the back of a recovery in domestic demand in FY2017 increasing for the first time in two years.

From a financial perspective, the Bank of Japan continues to implement robust monetary easing measures. As a part of its Quantitative and Qualitative Monetary Easing measures, the Bank of Japan introduced a policy of yield curve control. In effect, steps have now been taken to control both short- and long-term interest rates. While Japanese government bond yields witnessed an upswing due to the increase in market rates in the U.S., the long-term rate (10-year Japanese government bond yields) remained stable between the narrow range of 0.0% and 0.1% throughout all of FY2017. Entering 2017 in the foreign currency exchange market, the yen appreciated from July to the beginning of September due in part to the growing risk aversion associated with burgeoning geopolitical risks. Despite these conditions, the value of the yen fluctuated repeatedly within a narrow range of ¥109 to ¥114. At the start of 2018, increases in long-term interest rates in the U.S. triggered a global drop in stock prices. Moreover, the pace of yen appreciation accelerated reflecting efforts to avoid the risks attributable to growing concerns of trade friction between the U.S. and China as a result of the former's protectionist policies. Taking each of these factors into consideration, the value of the yen appreciated to the ¥104 level for the first time in 16 months. Against the backdrop of the steady expansion of European economies and expectations that the ECB would normalize financial policies, the value of the yen depreciated against the euro over the end of the year. However, the yen appreciated against the euro in February 2018 reflecting growing efforts to avoid risk in similar fashion to the U.S. dollar.

As of the end of March 2018, the Nikkei 225 closed at ¥21,454.30, up by ¥2,545.04 compared with the end of March 2017. The yield on 10-year Japanese government bonds stood at 0.043%, a decrease of 0.024 of a percentage point compared with the end of the previous fiscal year. The exchange rate was U.S.$1.00 = ¥106.19, a ¥5.61-per-dollar increase compared with the end of March 2017.

Analysis of Consolidated Income Statements

Total Operating Revenues and Net Operating Revenues

Total consolidated operating revenues in FY2017 increased by 15.6% compared with the previous fiscal year, to ¥712.6 billion. Net consolidated operating revenues climbed by 6.9% year on year, to ¥505.3 billion.

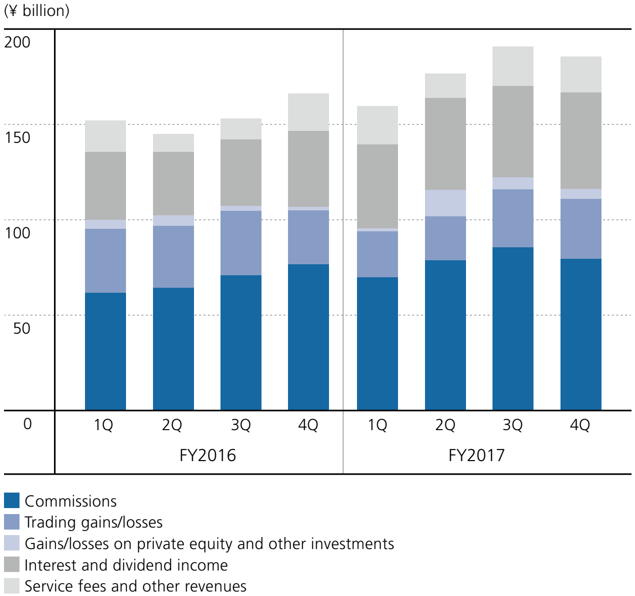
Commissions received were up 14.7% compared with the previous fiscal year, to ¥313.6 billion. Brokerage commission also improved by 21.1%, to ¥73.7 billion owing mainly to the upswing in stock trading. Meanwhile, underwriting activity benefitted from a variety of factors including large-scale PO and IPO transactions. As a result, underwriting commission grew 18.3% compared with the previous fiscal year, to ¥35.1 billion.

Breakdown of Net Operating Revenues

Millions of yen

	FY2016	FY2017	YoY
Operating revenues	¥616,497	¥712,601	15.6%
Commissions	273,335	313,625	14.7%
Brokerage commission	60,947	73,797	21.1%
Underwriting commission	29,729	35,180	18.3%
Distribution commission	34,287	45,807	33.6%
Other commission	148,370	158,840	7.1%
Net gain on trading	128,120	109,005	–14.9%
Net gain on private equity and other investments	14,846	26,912	81.3%
Interest and dividend income	143,241	190,444	33.0%
Service fees and other revenues	56,953	72,613	27.5%
Interest expenses	98,725	148,348	50.3%
Cost of service fees and other revenues	45,022	58,901	30.8%
Net operating revenues	¥472,750	¥505,350	6.9%

Breakdown of Consolidated Income



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

Net Gains/Losses on Trading

Net gain on trading declined by 14.9% compared with the previous fiscal year, to ¥109.0 billion owing mainly to the continued downturn in customers' trading flows in financial markets.

Net trading gains and financial income, calculated on a managerial accounting basis, increased by 60% year on year, to ¥56.0 billion. Fixed income, currency and commodities (FICC) revenues decreased by 35.7% compared with the previous fiscal year, to ¥81.0 billion.

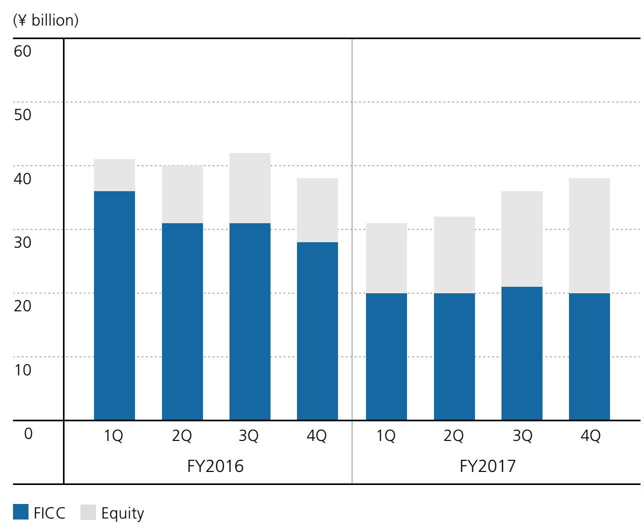
Revenues (Trading Gain/Loss) from Equity and FICC (Net Gain (Loss) on Trading + Net Financial Income, on Managerial Accounting Basis)

Billions of yen

	FY2016	FY2017	YoY
Equity	¥ 35.0	¥ 56.0	60.0%
FICC	126.0	81.0	–35.7%
Total	¥161.0	¥137.0	–14.9%

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)



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

SG&A expenses climbed by 4.7% compared with the previous fiscal year, to ¥370.2 billion. Trading-related expenses grew by 3.9% year on year, to ¥72.4 billion. This was mainly due to the increase in advertising expenses for sales promotions. Personnel expenses rose by 5.7% year on year, to ¥185.8 billion owing to such factors as the upswing in bonuses linked to performance as well as the posting of salaries in connection with the consolidation of two M&A advisory firms in the U.S. Depreciation climbed by 4.0% compared with the previous fiscal year, to ¥24.3 billion due largely to the increase in system-related expenses.

Accounting for each of the aforementioned factors, ordinary income increased by 14.8% year on year, to ¥155.6 billion.

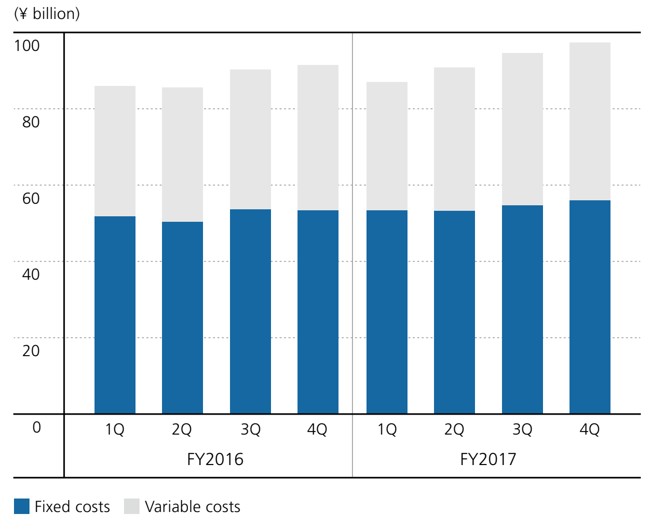
After posting such items as gains in sales of investment securities, extraordinary gains came to ¥10.2 billion, down from ¥17.3 billion in the previous fiscal year. Extraordinary losses totaled ¥12.0 billion, down from ¥13.9 billion in FY2016. These losses included a provision for loss on litigation. After deducting corporate income taxes and profit attributable to non-controlling interests, profit attributable to owners of parent increased by 6.3% compared with the previous fiscal year, to ¥110.5 billion.

Breakdown of SG&A and Income

Millions of yen

	FY2016	FY2017	YoY
SG&A	¥353,687	¥370,292	4.7%
Trading-related expenses	69,754	72,448	3.9%
Personnel expenses	175,830	185,865	5.7%
Real estate expenses	35,267	35,910	1.8%
Office cost	27,047	26,552	−1.8%
Depreciation	23,406	24,336	4.0%
Taxes and dues	10,530	10,732	1.9%
Allowance for doubtful accounts	0	0	—
Other	11,852	14,446	21.9%
Operating income	119,062	135,058	13.4%
Non-operating income/expenses	16,561	20,619	24.5%
Ordinary income	135,623	155,676	14.8%
Extraordinary gains/losses	3,381	(1,813)	—
Income before income taxes	139,004	153,864	10.7%
Income taxes	34,726	38,541	11.0%
Profit attributable to owners of parent	¥104,067	¥110,579	6.3%

Cost Structure



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

Segment Information

Retail Division

During FY2017, a greater amount of time and effort was placed on putting forward proposals that accurately grasped customers' needs and market trends. This largely reflected the transition to a sales system that places increased weight on customers' viewpoints and the elimination of sales targets by individual product from April 2017. As a result, the amount of foreign equity trading value, focusing mainly on U.S. equities where the market environment was especially robust, increased substantially. Moreover, the balance of customers' foreign equity assets under custody hit a record high.

Turning to equity investment trust sales, positive steps were taken to secure a major improvement in the amount of sales and distribution owing largely to the handling of theme-type investment trusts that are closely aligned to market needs. Taking into account the aforementioned, investment trust sales commissions increased substantially compared with the previous fiscal year.

Buoyed by efforts to expand and upgrade wrap account services, the balance of wrap account contract assets under management hit a record high as of the end of FY2017.

Collectively the robust market environment and contributions from the aforementioned initiatives had a favorable impact in FY2017. As a result, net operating revenues in the Retail Division increased by 13.9% compared with the previous fiscal year, to ¥214.2 billion. Ordinary income surged by 74.7% year on year, to ¥51.3 billion. In FY2017, net operating revenues and ordinary income in the Retail Division accounted for 42.4% and 33.0% of the Group's consolidated net operating revenues and consolidated ordinary income, respectively.

Wholesale Division

As far as the Global Markets business was concerned, equity revenues declined owing to the slowdown in clients' order flow. This largely reflected the increase in geopolitical risks at the start of FY2017. While equity revenues improved owing to a recovery over the second half, trends in FICC (fixed income, currency and commodities) revenues hovered at a low level due to prolonged low financial market volatility. Accounting for each of these factors, net operating revenues in Global Markets decreased by 13.4% compared with the previous fiscal year, to ¥123.6 billion in FY2017. Ordinary income fell 36.0% year on year, to ¥34.2 billion.

In the Global Investment Banking business, underwriting commission increased by 18.3% compared with the previous fiscal year, to ¥35.1 billion in FY2017. This was mainly due to Daiwa Securities role as JGC (joint global coordinator) and lead manager for large-scale equity IPO and PO deals. As a result, net operating revenues climbed by 18.7% year on year, to ¥47.4 billion. In the M&A advisory business, Daiwa Securities acquired Signal Hill Holdings LLC and Sagent Holdings, Inc., and then merged the two companies to form DCS Advisory Holdings Inc. With this initiative, positive steps have been taken to promote increased coordination with overseas bases thereby capitalizing on cross-border deals with Japan, which are projected to grow in the future, and to strengthen the structure and systems necessary to manage deals between Europe and the U.S., a large-scale market. Meanwhile, SG&A expenses increased due mainly to the upswing in salaries and wages as a result of the merger as well as amortization of intangible assets including the goodwill associated with the acquisition. Based on these factors, ordinary income in the Global Investment Banking business in FY2017 declined by 11.1% compared with the previous fiscal year, to ¥10.1 billion.

In FY2017, the Wholesale Division reported net operating revenues of ¥171.1 billion, down 6.4% compared with the previous fiscal year. Ordinary income also decreased by 30.7% year on year, to ¥45.3 billion. On this basis, net operating revenues and ordinary income in the Wholesale Division accounted for 33.9% and 29.1% of the Group's consolidated net operating revenues and consolidated ordinary income, respectively.

Asset Management Division

In FY2017, Daiwa Asset Management Co., Ltd. endeavored to strengthen its asset management capabilities, with several funds performing strongly enough to qualify for the R&I Fund Award. Coupled with successful efforts to expand the balances of the Daiwa Global IoT Related Equity Fund and other funds, the total balance of stock investment trust assets under management came to ¥15.5 trillion, an increase of 7.8% compared with the previous fiscal year. In addition to establishing the Global EV Revolution Fund as a product that addresses customers' needs, Daiwa SB Investments Ltd. also focused on expanding its global business through such initiatives as the creation of funds investing in Japanese equities for the EU market and other places overseas. As a result, the total balances of stock investment trust and investment advisory services under management climbed by 6.1% compared with the previous fiscal year, to ¥4.9 trillion. In the real estate asset management field, real estate and infrastructure assets managed by Daiwa Real Estate Asset Management Co., Ltd. have expanded. Meanwhile, assets under management at Daiwa Office Investment Corporation declined owing to the replacement of properties held. Based on the aforementioned, real estate asset management business assets under management amounted to ¥802.0 billion, a decrease of 2.1% compared with the previous fiscal year. Taking into account these factors, net operating revenues grew by 6.4% year on year, to ¥49.3 billion in FY2017 while ordinary income improved 9.6% compared with the previous fiscal year, to ¥29.1 billion. In FY2017, net operating revenues and ordinary income in the Asset Management Division accounted for 9.8% and 18.7% of the Group's consolidated net operating revenues and consolidated ordinary income, respectively.

Investment Division

In FY2017, Daiwa Corporate Investment Co., Ltd. actively invested in growing companies inside and outside Japan while at the same time matching the needs of leading firms with portfolio companies. For its part, Daiwa PI Partners Co., Ltd. vigorously invested in such priority fields as energy and key regions including Myanmar. Through these endeavors, earnings were secured from the sale of existing equity investments.

As a result, net operating revenues in the Investment Division jumped by 74.1% compared with the previous fiscal year, to ¥27.4 billion. Ordinary income surged by 87.9% year on year, to ¥24.4 billion. In FY2017, net operating revenues and ordinary income in the Investment Division accounted for 5.4% and 15.7% of the Group's consolidated net operating revenues and consolidated ordinary income, respectively.

Others

Daiwa Institute of Research Ltd. (DIR) undertook its largest scale system development including the infrastructure renewal of an exchange transaction ordering system, while strengthening relationships with clients by putting forward high-value-added solution proposals in a bid to contribute to the Group's business.

Daiwa Institute of Research Business Innovation Ltd. secured orders for the introduction of securities subsidiary company systems from regional financial institutions and is providing systems support for the establishment of a securities subsidiary of the FinTech company in collaboration with the Group.

Daiwa Next Bank, Ltd. reported an increase in loan interest. This was largely due to build-up of asset securitization loans that underpin foreign currency-denominated loans. Since November 2017, Daiwa Next Bank has offered Eraberu Yokin, a service that delivers advantages beyond time deposit interest rates to customers in conjunction with companies and organizations.

Accounting for each of these factors, net operating revenues in others/adjustments totaled ¥43.1 billion compared with ¥39.6 billion in the previous fiscal year. Ordinary income amounted to ¥5.3 billion, up from ¥1.1 billion in the previous fiscal year. Meanwhile, gains from sales that arose as a result of the replacement of properties held by Daiwa Office Investment Corporation were included in ordinary income as an adjustment item.

Segment Information

Millions of yen

	Net Operating Revenues				Ordinary Income			
	FY2016	FY2017	YoY	Composition ratio	FY2016	FY2017	YoY	Composition ratio
Retail	¥188,051	¥214,247	13.9%	42.4%	¥ 29,375	¥ 51,331	74.7%	33.0%
Wholesale	182,875	171,192	–6.4%	33.9%	65,437	45,373	–30.7%	29.1%
Asset Management	46,438	49,390	6.4%	9.8%	26,572	29,119	9.6%	18.7%
Investment	15,736	27,401	74.1%	5.4%	13,041	24,499	87.9%	15.7%
Others/adjustments	39,647	43,118	—	8.5%	1,196	5,353	—	3.4%
Consolidated total	¥472,750	¥505,350	6.9%	100.0%	¥135,623	¥155,676	14.8%	100.0%

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

Overseas Operations

In its major overseas operations, efforts were made to strengthen global M&A advisory services focusing especially on North America. Daiwa Securities Group fully acquired Sagent Holdings, Inc., with which it maintained an existing business and capital alliance, as well as Signal Hill Holdings LLC. The Group then merged these two companies to form DCS Advisory Holdings Inc.

As far as results in the Group's overseas operations are concerned, ordinary income came in at ¥11.4 billion in FY2017 for a second consecutive fiscal year of positive earnings.

By region, the Group's M&A business was robust in Europe. The underwriting of overseas convertible bonds also contributed to earnings helping to drive up ordinary income in the region to ¥4.2 billion.

In Asia and Oceania, trends in the wealth management business remained strong. In addition, equity-method affiliate, SSI (formerly Saigon Securities Inc.), contributed to profits, resulting in a substantial increase in ordinary income in the region to ¥4.4 billion.

While trading in U.S. equities was brisk, ordinary income in the Americas declined compared with the previous fiscal year, to ¥2.7 billion. This downturn was largely due to a slowdown in FICC revenues, which contributed significantly to profits in FY2016, and the impact of such factors as intangible fixed asset amortization including the goodwill posted in connection with DCS Advisory Holdings Inc.

Ordinary Income from Overseas Operations, Broken Down by Region

Millions of yen

	FY2016	FY2017
Europe	¥ 2,759	¥ 4,227
Asia & Oceania	1,480	4,433
Americas	9,254	2,742
Total	¥13,493	¥11,403

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

Progress in Achieving Target Management Indicators

Daiwa Securities Group identified ROE and the fixed cost coverage ratio as two key numerical targets under its Medium-Term Management Plan "Passion for the Best" 2017, which covered the three-year period from FY2015 to FY2017. The fixed cost coverage ratio is a proprietary indicator that measures the degree to which stable revenues cover such fixed costs as personnel and real estate expenses included in SG&A expenses. Stable revenues comprise a variety of items including agency fees and asset management fees for investment trusts as well as investment advisory and account management fees for SMA/Fund Wrap management. In FY2017, ROE edged up 0.4 of a percentage point compared with the previous fiscal year, to 8.8%. The fixed cost coverage ratio came in at 68.5%. Despite falling short of the three-year Plan's final fiscal year numerical targets of ROE of 10% or higher and a fixed cost coverage ratio of 75% or higher in FY2017, successful steps have been taken to establish a robust business structure that is resilient to the external environment and to put in place a platform for future growth.

Analysis of Consolidated Balance Sheets and Cash Flow Statements

Assets

Total assets as of the end of FY2017 stood at ¥21,141.7 billion, an increase of ¥1,314.4 billion, or 6.6%, compared with the end of the previous fiscal year. Current assets climbed by ¥1,228.5 billion, or 6.4%, year on year, to ¥20,487.4 billion. This included a ¥134.3 billion, or 3.5%, year-on-year decrease in cash and cash deposits, to ¥3,694.2 billion, and a ¥754.9 billion, or 43.3%, year-on-year downturn in securities, to ¥987.2 billion. Trading assets, on the other hand, increased by ¥120.8 billion, or 1.8%, compared with the previous fiscal year-end, to ¥6,667.0 billion, loans receivable from customers rose by ¥787.2 billion, or 120.1%, year on year, to ¥1,442.9 billion, and collateralized short-term financing agreements grew by ¥1,191.2 billion, or 22.5%, compared with the end of the previous fiscal year, to ¥6,496.7 billion. Meanwhile, the balance of fixed assets increased ¥85.8 billion, or 15.1%, year on year, to ¥654.2 billion.

Liabilities and Net Assets

Total liabilities as of the end of FY2017 stood at ¥19,771.2 billion, an increase of ¥1,287.3 billion, or 7.0%, compared with the end of the previous fiscal year. Current liabilities increased by ¥1,028.3 billion, or 6.4%, year on year, to ¥17,036.2 billion. Breaking down current liabilities by category, trading liabilities climbed by ¥372.2 billion, or 8.0%, compared with the end of the previous fiscal year, to ¥5,030.8 billion, while collateralized short-term financing agreements declined by ¥242.9 billion, or 4.0%, year on year, to ¥5,775.8 billion. Deposits for banking business grew by ¥402.7 billion, or 13.5%, compared with the previous fiscal year-end, to ¥3,388.4 billion and short-term borrowings rose by ¥172.8 billion, or 18.8%, year on year, to ¥1,091.7 billion. Long-term liabilities stood at ¥2,731.0 billion as of the end of the previous fiscal year, an increase of ¥259.0 billion, or 10.5%, compared with the end of FY2016. Specifically, bonds expanded by ¥96.0 billion, or 7.9%, compared with the end of the previous fiscal year, to ¥1,315.3 billion and long-term debt rose by ¥148.5 billion, or 12.6%, year on year, to ¥1,327.7 billion.

Net assets as of the end of FY2017 stood at ¥1,370.5 billion, an increase of ¥27.0 billion, or 2.0%, compared with the end of the previous fiscal year. The sum of capital stock issues and capital surplus was ¥478.1 billion. After adding profit attributable to owners of parent in FY2017, retained earnings came to ¥785.7 billion, an increase of ¥67.4 billion, or 9.4%, compared with the end of the previous fiscal year. Treasury stock at cost increased by ¥41.5 billion, or 327.0%, year on year, to ¥54.3 billion. Valuation difference on available-for-sale securities climbed by ¥1.2 billion, or 2.1%, compared with the previous fiscal year-end, to ¥61.1 billion. Foreign currency translation adjustments declined by ¥4.3 billion, or 63.0%, year on year, to ¥2.5 billion. Non-controlling interests grew by ¥4.7 billion, or 5.7%, compared with the end of the previous fiscal year, to ¥88.5 billion.

Analysis of Cash Flows

Net cash flows used in operating activities came to ¥1,319.2 billion in FY2017 compared with net cash provided by operating activities of ¥44.5 billion in FY2016. This mainly reflected changes in the value of trading assets and liabilities, loans receivable, collateralized short-term financing agreements and the balance of deposits for banking business. Net cash flows provided by investing activities totaled ¥777.8 billion compared with ¥307.7 billion in FY2016. The major components included increase and decrease in time deposits as well as purchases, sales and redemption of investment securities. Net cash flows provided by financing activities were ¥432.8 billion compared with ¥143.2 billion in FY2016. 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 FY2017 stood at ¥3,653.4 billion, a decrease of ¥112.6 billion compared with the end of the previous fiscal year.

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 146.6%, 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, 2018 to March 31, 2018)
High-Quality Liquid Assets	(A)	2,687.6
Cash Outflows	(B)	3,744.6
Cash Inflows	(C)	1,911.7
Consolidated Liquidity Coverage Ratio (LCR)		
Total High-Quality Liquid Assets	(D)	2,687.6
Total Net Cash Outflows	(B)-(C)	1,832.8
Consolidated Liquidity Coverage Ratio (LCR)	(D)/((B)-(C))	146.6%

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.

In Daiwa Securities Group, Daiwa Securities Group Inc. and Daiwa Securities Co. Ltd. obtain funds by issuing securities with assigned credit ratings by rating agencies. As of June 30, 2018, 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, 2018 and 2017

ASSETS	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars (Note 1) 2018
Cash and cash deposits:			
Cash and cash equivalents (Note 5)	**¥ 3,653,464**	¥ 3,766,145	**$ 34,466,642**
Cash segregated as deposits for regulatory purposes (Note 5)	**348,912**	336,338	**3,291,623**
Time deposits (Notes 5 and 9)	**43,819**	62,530	**413,387**
	4,046,195	4,165,013	**38,171,652**
Receivables:			
Loans receivable from customers (Note 5)	**1,442,939**	655,710	**13,612,632**
Loans receivable from other than customers	**5,321**	5,546	**50,198**
Receivables related to margin transactions (Notes 3 and 5)	**262,963**	202,531	**2,480,783**
Other (Note 22)	**410,506**	433,518	**3,872,697**
Less: Allowance for doubtful accounts (Note 5)	**(245)**	(502)	**(2,311)**
	2,121,484	1,296,803	**20,013,999**
Collateralized short-term financing agreements (Notes 4, 5 and 22)	**6,496,753**	5,305,518	**61,290,123**
Trading assets (Notes 5, 6 and 9)	**6,667,033**	6,546,229	**62,896,538**
Securities (Notes 5, 7 and 9)	**984,211**	1,742,128	**9,285,009**
Private equity investments			
Private equity and other investments (Notes 5 and 7)	**115,333**	125,040	**1,088,047**
Less: Allowance for possible investment losses (Note 5)	**(505)**	(11,052)	**(4,764)**
	114,828	113,988	**1,083,283**
Other assets:			
Property and equipment, at cost	**238,549**	236,308	**2,250,462**
Less: Accumulated depreciation	**(114,359)**	(111,328)	**(1,078,840)**
	124,190	124,980	**1,171,622**
Goodwill	**11,171**	6,103	**105,387**
Other intangible fixed assets	**94,606**	84,494	**892,509**
Investment securities (Notes 5, 7 and 9)	**367,196**	318,752	**3,464,113**
Deferred tax assets (Note 14)	**12,865**	12,820	**121,368**
Other	**101,883**	111,130	**961,142**
Less: Allowance for doubtful accounts	**(671)**	(662)	**(6,330)**
	711,240	657,617	**6,709,811**
	¥21,141,744	¥19,827,296	**$199,450,415**

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2018	2017	Thousands of U.S. dollars (Note 1) 2018
Debt:			
Short-term borrowings (Notes 5, 9 and 12)	¥ 983,471	¥ 811,451	$ 9,278,028
Commercial paper (Note 5)	105,000	—	990,566
Long-term debt (Notes 5, 9 and 12)	3,015,808	2,787,968	28,451,019
	4,104,279	3,599,419	38,719,613
Payables:			
Payables to customers and counterparties (Notes 5 and 11)	660,251	677,254	6,228,783
Payables related to margin transactions (Notes 3, 5 and 9)	71,345	62,377	673,066
Deposits for banking business (Note 5)	3,388,444	2,985,734	31,966,453
Other (Note 5)	49,297	51,325	465,065
	4,169,337	3,776,690	39,333,367
Collateralized short-term financing agreements (Notes 4, 5 and 22)	5,775,898	6,018,813	54,489,604
Trading liabilities (Notes 5 and 6)	5,030,818	4,658,595	47,460,547
Trade account payables, net (Note 5)	407,184	216,837	3,841,358
Accrued and other liabilities:			
Income taxes payable	9,212	15,084	86,906
Deferred tax liabilities (Note 14)	15,905	12,025	150,047
Accrued bonuses	34,862	30,873	328,887
Retirement benefits (Note 13)	42,425	40,434	400,236
Other (Note 22)	177,357	111,164	1,673,178
	279,761	209,580	2,639,254
Statutory reserves (Note 15)	3,946	3,930	37,226
Total liabilities	19,771,223	18,483,864	186,520,969
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	247,397	247,397	2,333,934
Capital surplus	230,714	230,712	2,176,547
Retained earnings	785,731	718,239	7,412,557
Treasury stock at cost	(54,310)	(12,719)	(512,358)
Deposit for subscriptions to treasury stock	4	7	38
	1,209,536	1,183,636	11,410,718
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	61,177	59,923	577,142
Deferred gains or losses on hedges	(130)	435	(1,226)
Translation adjustment	2,550	6,896	24,057
	63,597	67,254	599,973
Stock subscription rights (Note 18)	8,791	8,729	82,934
Non-controlling interests	88,597	83,813	835,821
Total net assets	1,370,521	1,343,432	12,929,446
	¥21,141,744	¥19,827,296	$199,450,415

See accompanying notes.

Consolidated Statements of Income

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Operating revenues:			
Commissions	**¥313,626**	¥273,335	**$2,958,736**
Net gain on trading (Note 24)	**109,006**	128,121	**1,028,358**
Net gain on private equity and other investments	**26,912**	14,846	**253,887**
Interest and dividend income (Note 22)	**190,444**	143,242	**1,796,642**
Service fees and other revenues	**72,613**	56,953	**685,028**
	712,601	616,497	**6,722,651**
Interest expense (Note 22)	**148,348**	98,725	**1,399,509**
Cost of service fees and other revenues	**58,902**	45,022	**555,679**
Net operating revenues (Note 21)	**505,351**	472,750	**4,767,463**
Selling, general and administrative expenses (Notes 13 and 25)	**370,293**	353,688	**3,493,330**
Operating income	**135,058**	119,062	**1,274,133**
Other income (expenses):			
Provision for statutory reserves, net (Note 15)	**(16)**	29	**(151)**
Other, net (Note 26)	**18,822**	19,913	**177,566**
	18,806	19,942	**177,415**
Income before income taxes	**153,864**	139,004	**1,451,548**
Income taxes (Note 14):			
Current	**34,694**	39,977	**327,302**
Deferred	**3,848**	(5,251)	**36,302**
	38,542	34,726	**363,604**
Profit	**115,322**	104,278	**1,087,944**
Profit attributable to non-controlling interests	**4,742**	211	**44,736**
Profit attributable to owners of parent	**¥110,580**	¥104,067	**$1,043,208**

	Yen		U.S. dollars (Note 1)
Per share amounts:			
Net income	**¥66.88**	¥61.53	**$0.63**
Diluted net income	**66.45**	61.14	**0.63**
Cash dividends applicable to the year	**28.00**	26.00	**0.26**

See accompanying notes.

Consolidated Statements of Comprehensive Income

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Profit	**¥115,322**	¥104,278	**$1,087,943**
Other comprehensive income:			
Valuation difference on available-for-sale securities	**659**	(38,657)	**6,217**
Deferred gains (losses) on hedges	**(617)**	33,184	**(5,821)**
Translation adjustment	**(4,125)**	(13,926)	**(38,915)**
Share of other comprehensive income of associates accounted for using equity method	**387**	(43)	**3,651**
Total other comprehensive income	**(3,696)**	(19,442)	**(34,868)**
Comprehensive income	**¥111,626**	¥ 84,836	**$1,053,075**

	Millions of yen		Thousands of U.S. dollars (Note 1)
Comprehensive income attributable to:			
Comprehensive income attributable to owners of the parent	**¥106,923**	¥84,747	**$1,008,708**
Comprehensive income attributable to non-controlling interests	**4,703**	89	**44,367**

See accompanying notes.

Consolidated Statements of Changes in Net Assets

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2018 and 2017

Millions of yen

		Owners' equity					Accumulated other comprehensive income				
	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, 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
Cash dividends paid				**(43,500)**							
Profit attributable to owners of parent				**110,580**							
Purchase of treasury shares					**(43,129)**						
Disposal of treasury shares				**(134)**	**1,538**						
Retirement of treasury shares											
Change of scope of consolidation				**546**							
Other			**2**			**(3)**					
Net changes of items other than owners' equity							**1,254**	**(565)**	**(4,346)**	**62**	**4,784**
Balance at March 31, 2018	**1,699,379**	**¥247,397**	**¥230,714**	**¥785,731**	**¥(54,310)**	**¥ 4**	**¥ 61,177**	**¥ (130)**	**¥ 2,550**	**¥8,791**	**¥88,597**

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, 2017	$2,333,934	$2,176,528	$6,775,840	$(119,991)	$ 66	$565,311	$ 4,104	$ 65,057	$82,349	$790,689
Cash dividends paid			**(410,377)**							
Profit attributable to owners of parent			**1,043,208**							
Purchase of treasury shares				**(406,877)**						
Disposal of treasury shares			**(1,264)**	**14,510**						
Retirement of treasury shares										
Change of scope of consolidation			**5,150**							
Other		**19**			**(28)**					
Net changes of items other than owners' equity						**11,831**	**(5,330)**	**(41,000)**	**585**	**45,132**
Balance at March 31, 2018	**$2,333,934**	**$2,176,547**	**$7,412,557**	**$(512,358)**	**$ 38**	**$577,142**	**$(1,226)**	**$ 24,057**	**$82,934**	**$835,821**

See accompanying notes.

Consolidated Statements of Cash Flows

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Cash flows from operating activities:			
Profit	**¥ 115,322**	¥ 104,278	**$ 1,087,943**
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	**30,553**	29,545	**288,236**
Allowance for doubtful accounts, net	**(252)**	(48)	**(2,377)**
Statutory reserves, net	**16**	(29)	**151**
Losses (gains) related to fixed assets	**(371)**	430	**(3,500)**
Losses (gains) related to investment securities	**(5,712)**	(15,162)	**(53,887)**
Losses (gains) on sales of shares of subsidiaries and associates	**—**	652	**—**
Losses (gains) on change in equity	**—**	(769)	**—**
Losses (gains) on step acquisitions	**(1,498)**	—	**(14,132)**
Deferred income taxes	**3,848**	(5,251)	**36,302**
Provision for loss on litigation	**8,997**	11,230	**84,877**
Changes in operating assets and liabilities:			
Receivables and payables related to margin transactions	**(51,465)**	6,967	**(485,519)**
Other receivables and other payables	**24,682**	(44,551)	**232,849**
Collateralized short-term financing agreements	**(1,426,684)**	65,627	**(13,459,283)**
Trading assets and liabilities	**420,403**	103,443	**3,966,066**
Private equity and other investments	**5,275**	2,388	**49,764**
Deposits for banking business	**402,710**	57,103	**3,799,151**
Other, net	**(845,073)**	(271,310)	**(7,972,386)**
Total adjustments	**(1,434,571)**	(59,735)	**(13,533,688)**
Net cash flows provided by (used in) operating activities	**(1,319,249)**	44,543	**(12,445,745)**
Cash flows from investing activities:			
Increase in time deposits	**(82,080)**	(100,112)	**(774,340)**
Decrease in time deposits	**99,167**	108,290	**935,538**
Purchase of securities	**(1,034,742)**	(871,555)	**(9,761,717)**
Proceeds from sales and redemption of securities	**1,874,636**	1,195,448	**17,685,245**
Payments for purchases of property and equipment	**(7,707)**	(8,707)	**(72,708)**
Proceeds from sales of property and equipment	**1,094**	130	**10,321**
Payments for purchases of intangible fixed assets	**(31,753)**	(31,323)	**(299,557)**
Payments for purchases of investment securities	**(52,495)**	(19,155)	**(495,236)**
Proceeds from sales and redemption of investment securities	**17,271**	32,512	**162,934**
Proceeds from liquidation of subsidiaries and associates	**2,592**	—	**24,453**
Purchase of shares of subsidiaries resulting in change in scope of consolidation	**(7,098)**	—	**(66,962)**
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	**—**	2,792	**—**
Payments of loans receivable	**(50)**	(525)	**(472)**
Collection of loans receivable	**48**	527	**453**
Other, net	**(1,010)**	(609)	**(9,528)**
Net cash flows provided by (used in) investing activities	**777,873**	307,713	**7,338,424**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Cash flows from financing activities:			
Increase in short-term borrowings and commercial paper	277,128	60,763	2,614,415
Increase in long-term debt	783,670	770,425	7,393,113
Decrease in long-term debt	(542,714)	(633,832)	(5,119,943)
Payments of cash dividends	(43,500)	(42,326)	(410,377)
Other, net	(41,771)	(11,798)	(394,066)
Net cash flows provided by (used in) financing activities	432,813	143,232	4,083,142
Effect of exchange rate changes on cash and cash equivalents	(5,046)	(1,836)	(47,604)
Net increase or decrease in cash and cash equivalents	(113,609)	493,652	(1,071,783)
Cash and cash equivalents at beginning of year	3,766,145	3,273,640	35,529,670
Increase in cash and cash equivalents from newly consolidated subsidiary	928	1,144	8,755
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	—	(2,291)	—
Cash and cash equivalents at end of year	¥3,653,464	¥3,766,145	$34,466,642

See accompanying notes.

Notes to Consolidated Financial Statements

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2018 and 2017

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 154 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 fellow overseas subsidiaries. DAM is an asset management company of Daiwa, and offers an 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 as 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 as of March 31, 2018, which was ¥106 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 rights 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. If the amount is not material, it will be 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 high liquid investments with original maturities of up to three months.

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 12 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 purposes—Daiwa records derivative financial instruments at fair value except for certain cases as described below, and recognizes changes in the fair value as gains or losses unless the derivative financial instruments are used for hedging purposes. Valuation gains or losses on hedging instruments are deferred in a separate component within the net assets until the gains or losses on the underlying hedged instruments are realized. Plain vanilla hedging interest swap agreements satisfying the required conditions under Japanese GAAP are not required to be marked-to-market. Interest received or paid on such exempt interest rate swap agreements for hedging purposes are accrued without being marked-to-market under special treatment. Also, certain forward foreign exchange contracts are exempted from marked-to-market valuation. The premium or discount on such exempt forward foreign exchange contracts used for hedging purposes is allocated to each fiscal term without being marked-to-market under special treatment.

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

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

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

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

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

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

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

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

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

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

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

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

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

Unapplied accounting standard

- Accounting Standard for Revenue Recognition (ASBJ Statement No. 29 issued on March 30, 2018)
- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30 issued on March 30, 2018)

(a) Overview
It is a comprehensive accounting standard for revenue recognition. Revenue should be recognized by applying following five steps.
Step 1: Identify the contract with a customer.
Step 2: Identify the performance obligations under the contract.
Step 3: Determine the transaction price.
Step 4: Allocate transaction price to the performance obligations under the contract.
Step 5: Recognize revenue when performance obligations are satisfied or as fulfilled.

(b) Application date
Application date is under consideration as of the filing date of securities report.

(c) Impact of application
The impact is under evaluation as of the filing date of securities report.

3. Margin transactions

Margin transactions at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Assets:			
Loans on margin transactions	**¥231,486**	¥174,525	**$2,183,830**
Cash collateral pledged for securities borrowing on margin transactions	**31,477**	28,006	**296,953**
	¥262,963	¥202,531	**$2,480,783**
Liabilities:			
Borrowings on margin transactions	**¥ 3,008**	¥ 3,087	**$ 28,377**
Cash received for securities lending on margin transactions	**68,337**	59,290	**644,689**
	¥ 71,345	¥ 62,377	**$ 673,066**

Loans on margin transactions are stated at amounts equal to the purchase amounts of the relevant securities, which are collateralized by customers' securities and customers' deposits. Cash received for securities lending on margin transactions are stated at the sales amounts.

4. Collateralized short-term financing agreements

Collateralized short-term financing agreements at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Assets:			
Securities purchased under agreements to resell	¥ 23,962	¥ 300,348	$ 226,057
Securities borrowed	6,472,791	5,005,170	61,064,066
	¥6,496,753	¥5,305,518	$61,290,123
Liabilities:			
Securities sold under agreements to repurchase	¥ 130,869	¥ 109,130	$ 1,234,613
Securities loaned	5,645,029	5,909,683	53,254,991
	¥5,775,898	¥6,018,813	$54,489,604

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 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, 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, Daiwa 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 based on risk appetite framework. In addition, the Company set the guidelines related to "three lines of defense" to build the risk governance.

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, 2018 (fiscal year-end) was ¥1.1 billion ($10.4 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, Daiwa 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, 2018, fair value of the listed equities in "operational investment securities" and "investment securities" would fluctuate by ¥15.1 billion ($142.5 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, 2018, 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 ¥2.3 billion ($21.7 million) and ¥0.3 billion ($2.8 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, the subsidiary adopts 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 held for 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, 2018, are ¥0.2 billion ($1.9 million) and ¥6.5 billion ($61.3 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 2017, we estimate that our risk measurement model appropriately captures 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.

In addition to the regulation of Daiwa's consolidated liquidity coverage ratio (Hereunder "LCR") based on 2014 Financial Services Agency Notification No. 61, the Company has organized its liquidity management system other than LCR based on the notification of Financial Services Agency, which is based on original indices for liquidity management. Namely, concerning the unsecured fundraising, the repayment date of which arrives within a period of time and the prospective outflows in the case where some stress events occur in such period, we verify every day that enough liquidity portfolios is secured for such repayment and outflows even in various stress scenarios. Assuming the situation that stress event continues for more than a year, Daiwa measures and monitors the sufficiency of long-term funding for keeping the assets. Daiwa undertakes to make it possible to continue business even if the unsecured fundraising is not available for one year.

The Company collectively manages and monitors the liquidity of 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, 2018 and 2017, 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

	2018			2017		
	Amounts on consolidated balance sheets	Fair value	Difference	Amounts on consolidated balance sheets	Fair value	Difference
Assets						
(1) Cash and cash equivalents	**¥ 3,653,464**	**¥ 3,653,464**	**¥ —**	¥ 3,766,145	¥ 3,766,145	¥ —
(2) Cash segregated as deposits for regulatory purposes	**348,912**	**348,912**	**—**	336,338	336,338	—
(3) Time deposits	**43,819**	**43,819**	**—**	62,530	62,530	—
(4) Loans receivable from customers	**1,442,939**			655,710		
Allowance for doubtful accounts	**(54)**			(360)		
	1,442,885	**1,443,495**	**610**	655,350	656,148	798
(5) Receivables related to margin transactions	**262,963**	**262,963**	**—**	202,531	202,531	—
(6) Collateralized short-term financing agreements	**6,496,753**	**6,496,753**	**—**	5,305,518	5,305,518	—
(7) Trading assets	**6,667,033**	**6,667,033**	**—**	6,546,229	6,546,229	—
(8) Securities, private equity and other investments and investment securities						
(a) Securities intended to be held for trading purposes	**11,923**	**11,923**	**—**	11,928	11,928	—
(b) Held-to-maturity debt securities	**111,545**	**111,961**	**416**	56,231	56,193	(38)
(c) Subsidiaries companies' stocks and related companies' stocks	**116,809**			120,581		
Allowance for possible investment loss	**—**			(6,911)		
	116,809	**152,071**	**35,262**	113,670	140,942	27,272
(d) Available-for-sale securities	**1,079,945**	**1,079,945**	**—**	1,869,677	1,869,677	—
Total assets	**¥20,236,051**	**¥20,272,339**	**¥36,288**	¥18,926,147	¥18,954,179	¥28,032
Liabilities						
(9) Short-term borrowings	**¥ 983,471**	**¥ 983,471**	**¥ —**	¥ 811,451	¥ 811,451	¥ —
(10) Commercial paper	**105,000**	**105,000**	**—**	—	—	—
(11) Long-term debt	**3,015,808**	**3,019,749**	**(3,941)**	2,787,968	2,790,382	(2,414)
(12) Deposits for banking business	**3,388,444**	**3,388,438**	**6**	2,985,734	2,985,730	4
(13) Payables to customers and counterparties	**660,251**	**660,251**	**—**	677,254	677,254	—
(14) Payables related to margin transactions	**71,345**	**71,345**	**—**	62,377	62,377	—
(15) Payables—other	**49,297**	**49,297**	**—**	51,325	51,325	—
(16) Collateralized short-term financing agreements	**5,775,898**	**5,775,898**	**—**	6,018,813	6,018,813	—
(17) Trading liabilities	**5,030,818**	**5,030,818**	**—**	4,658,595	4,658,595	—
(18) Trade account payables, net	**407,184**	**407,184**	**—**	216,837	216,837	—
Total liabilities	**¥19,487,516**	**¥19,491,451**	**¥ (3,935)**	¥18,270,354	¥18,272,764	¥(2,410)
Derivatives used for non-trading						
Derivatives to which hedge accounting is not applied	**¥ (974)**	**¥ (974)**	**¥ —**	¥ 3,597	¥ 3,597	¥ —
Derivatives to which hedge accounting is applied	**5,534**	**2,420**	**(3,114)**	17,976	18,960	984
Total derivatives related to non-trading	**¥ 4,560**	**¥ 1,446**	**¥ (3,114)**	¥ 21,573	¥ 22,557	¥ 984

* 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.

Financial Section

	Thousands of U.S. dollars		
	2018		
	Amounts on consolidated balance sheets	Fair value	Difference
Assets			
(1) Cash and cash equivalents	$ 34,466,642	$ 34,466,642	$ —
(2) Cash segregated as deposits for regulatory purposes	3,291,623	3,291,623	—
(3) Time deposits	413,387	413,387	—
(4) Loans receivable from customers	13,612,632		
Allowance for doubtful accounts	(510)		
	13,612,122	13,617,877	5,755
(5) Receivables related to margin transactions	2,480,783	2,480,783	—
(6) Collateralized short-term financing agreements	61,290,123	61,290,123	—
(7) Trading assets	62,896,538	62,896,538	—
(8) Securities, private equity and other investments and investment securities			
(a) Securities intended to be held for trading purposes	112,481	112,481	—
(b) Held-to-maturity debt securities	1,052,311	1,056,236	3,925
(c) Subsidiaries companies' stocks and related companies' stocks	1,101,972		
Allowance for possible investment loss	—		
	1,101,972	1,434,632	332,660
(d) Available-for-sale securities	10,188,160	10,188,160	—
Total assets	$190,906,142	$191,248,482	$342,340
Liabilities			
(9) Short-term borrowings	$ 9,278,028	$ 9,278,028	$ —
(10) Commercial paper	990,566	990,566	—
(11) Long-term debt	28,451,019	28,488,198	(37,179)
(12) Deposits for banking business	31,966,453	31,966,396	57
(13) Payables to customers and counterparties	6,228,783	6,228,783	—
(14) Payables related to margin transactions	673,066	673,066	—
(15) Payables—other	465,065	465,065	—
(16) Collateralized short-term financing agreements	54,489,604	54,489,604	—
(17) Trading liabilities	47,460,547	47,460,547	—
(18) Trade account payables, net	3,841,358	3,841,358	—
Total liabilities	$183,844,489	$183,881,611	$ (37,122)
Derivatives related to non-trading			
Derivatives to which hedge accounting is not applied	$ (9,189)	$ (9,189)	$ —
Derivatives to which hedge accounting is applied	52,208	22,831	(29,377)
Total derivatives related to non-trading	$ 43,019	$ 13,642	$ (29,377)

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

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

(1) Cash and cash equivalents and (3) Time deposits

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

(2) Cash segregated as deposits for regulatory purposes

Cash segregated as deposits for regulatory purposes which consist of cash segregated as deposits for customers and investments in securities like government bonds are calculated based on reasonably calculated prices utilizing yield spread with index interest rates for each term which are defined by immediately previous traded prices including the ones of similar bonds. 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' safekeeping securities. Loans with a floating rate for banking business are recorded at their book value, because fair value is similar to book value reflecting money market rates in the short term as long as the credit condition of borrowers does not greatly change. The fair value of loans with a fixed rate for banking business is calculated by discounting the total amount of principal and interest at the rate assumed when the similar new loan is performed based on the loan type and duration, etc. Loans secured by securities are recorded at their book value, because the fair value is close to the book value by considering prospective repayment period and interest rate conditions, etc.

(5) Receivables related to margin transactions and (14) Payables related to margin transactions
Receivables related to margin transactions consist of lending money to customers generated from margin transactions and collaterals to securities finance companies. These are stated at their book value as settled in the short term because the former is settled by reversing trades by customers' decisions and the latter is collaterals marked to market on lending and borrowing transactions.

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

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

(7) Trading assets and (17) 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) Short-term borrowings and (10) 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) Payables to customers and counterparties and (15) Payables—other
These are mainly composed of deposits received and cash deposits received as guarantee.

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

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

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

(Note 2) Any financial product for which it is extremely difficult to obtain a fair value at March 31, 2018 and 2017 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.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Subsidiaries' stocks and related companies' stocks			
Unlisted equities	**¥37,301**	¥36,432	**$351,896**
Other securities			
Unlisted equities	**33,703**	33,412	**317,953**
Investments in limited partnership and other similar partnerships	**70,152**	48,819	**661,811**
Others	**5,362**	8,842	**50,585**

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, 2018

	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
				Millions of yen
Cash and cash equivalents	¥ 3,653,464	¥ —	¥ —	¥ —
Cash segregated as deposits for regulatory purposes	348,912	—	—	—
Time deposits	43,819	—	—	—
Loans receivable from customers	771,261	85,168	554,552	31,958
Receivables related to margin transactions	262,963	—	—	—
Collateralized short-term financing agreements	6,496,753	—	—	—
Securities, private equity and other investments and investment securities				
Held-to-maturity securities	10	12,995	—	98,540
Government bonds, municipal bonds, etc.	10	—	—	—
Corporate bonds	—	12,995	—	98,540
Other securities with a maturity date	124,219	189,290	217,370	76,060
Bonds	115,337	189,290	217,370	76,060
Government bonds, municipal bonds, etc.	1,109	37,593	—	—
Corporate bonds	22,047	41,486	—	57,964
Other bonds	92,181	110,211	217,370	18,096
Other securities	8,882	—	—	—
Total	¥11,701,401	¥287,453	¥771,922	¥206,558

* 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.

	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
				Thousands of U.S. dollars
Cash and cash equivalents	$ 34,466,642	$ —	$ —	$ —
Cash segregated as deposits for regulatory purposes	3,291,623	—	—	—
Time deposits	413,387	—	—	—
Loans receivable from customers	7,276,046	803,472	5,231,623	301,491
Receivables related to margin transactions	2,480,783	—	—	—
Collateralized short-term financing agreements	61,290,123	—	—	—
Securities, private equity and other investments and investment securities				
Held-to-maturity securities	94	122,594	—	929,623
Government bonds, municipal bonds, etc.	94	—	—	—
Corporate bonds	—	122,594	—	929,623
Other securities with a maturity date	1,171,878	1,785,755	2,050,660	717,547
Bonds	1,088,086	1,785,755	2,050,660	717,547
Government bonds, municipal bonds, etc.	10,462	354,651	—	—
Corporate bonds	207,991	391,377	—	546,830
Other bonds	869,633	1,039,727	2,050,660	170,717
Other securities	83,792	—	—	—
Total	$110,390,576	$2,711,821	$7,282,283	$1,948,661

* 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, 2018

	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
				Millions of yen
Payable to securities finance companies	¥ 3,008	¥ —	¥ —	¥ —
Deposits for banking business	3,357,350	31,094	—	—
Commercial paper	105,000	—	—	—
Long-term debts	370,646	1,478,350	790,364	376,448
Total	¥3,836,004	¥1,509,444	¥790,364	¥376,448

* 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	$ 28,377	$ —	$ —	$ —
Deposits for banking business	31,673,113	293,340	—	—
Commercial paper	990,566	—	—	—
Long-term debts	3,496,661	13,946,698	7,456,264	3,551,396
Total	$36,188,717	$14,240,038	$7,456,264	$3,551,396

* 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, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Trading assets:			
Trading securities:			
Equities	**¥ 289,729**	¥ 275,938	**$ 2,733,293**
Government, corporate and other bonds	**3,258,291**	2,649,544	**30,738,594**
Investment trusts	**254,654**	177,549	**2,402,396**
Commercial paper, certificates of deposits and others	**367,883**	750,229	**3,470,594**
Derivatives:			
Option transactions	**424,829**	455,876	**4,007,821**
Futures and forward transactions	**61,495**	82,997	**580,142**
Swap agreements	**1,990,964**	2,131,830	**18,782,679**
Other derivatives	**23,957**	27,983	**226,010**
Risk reserves	**(4,769)**	(5,717)	**(44,991)**
	¥6,667,033	¥6,546,229	**$62,896,538**
Trading liabilities:			
Trading securities:			
Equities	**¥ 285,408**	¥ 247,223	**$ 2,692,528**
Government, corporate and other bonds	**2,414,088**	2,002,770	**22,774,415**
Investment trusts	**16**	800	**151**
Commercial paper, certificates of deposits and others	**130,960**	10,928	**1,235,472**
Derivatives:			
Option transactions	**375,240**	370,000	**3,539,999**
Futures and forward transactions	**62,804**	71,047	**592,491**
Swap agreements	**1,738,922**	1,925,183	**16,404,925**
Other derivatives	**23,380**	30,644	**220,566**
	¥5,030,818	¥4,658,595	**$47,460,547**

* 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.

Valuation gains (losses) included in the earnings of securities intended to be held for trading purposes by non-securities companies for the years ended March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
	¥(249)	¥(121)	**$(2,349)**

Amortized cost of held-to-maturity debt securities as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen		
	Cost	Fair value	Difference
March 31, 2018:			
Government, municipal and other bonds	**¥ 10**	**¥ 10**	**¥ 0**
Corporate bonds	**111,535**	**111,951**	**416**
Other	**—**	**—**	**—**
	¥111,545	**¥111,961**	**¥416**

	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)

	Thousands of U.S. dollars		
	Cost	Fair value	Difference
March 31, 2018:			
Government, municipal and other bonds	**$ 94**	**$ 94**	**$ 0**
Corporate bonds	**1,052,217**	**1,056,142**	**3,925**
Other	**—**	**—**	**—**
	$1,052,311	**$1,056,236**	**$3,925**

Cost and fair value of marketable available-for-sale securities as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen		
	Cost	Fair value	Difference
March 31, 2018:			
Equities	**¥103,228**	**¥ 173,514**	**¥70,286**
Government, corporate and other bonds	**595,190**	**598,057**	**2,867**
Other	**297,893**	**308,374**	**10,481**
	¥996,311	**¥1,079,945**	**¥83,634**

	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

	Thousands of U.S. dollars		
	Cost	Fair value	Difference
March 31, 2018:			
Equities	**$ 973,849**	**$ 1,636,925**	**$663,076**
Government, corporate and other bonds	**5,615,000**	**5,642,047**	**27,047**
Other	**2,810,311**	**2,909,188**	**98,877**
	$9,399,160	**$10,188,160**	**$789,000**

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, 2018 and 2017 are as follows:

	Millions of yen		
	Contract amount	Fair value	Unrealized gains (losses)
March 31, 2018:			
Foreign exchange forward	**¥113,494**	**¥(881)**	**¥(881)**
Credit derivative	**10,000**	**(262)**	**(262)**
Stock index future	**11,090**	**(118)**	**(118)**
Interest swap	**10,198**	**(356)**	**(356)**
Currency swap	**124,689**	**643**	**643**

	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

	Thousands of U.S. dollars		
	Contract amount	Fair value	Unrealized gains (losses)
March 31, 2018:			
Foreign exchange forward	**$1,070,698**	**$(8,311)**	**$(8,311)**
Credit derivative	**94,340**	**(2,472)**	**(2,472)**
Stock index future	**104,623**	**(1,113)**	**(1,113)**
Interest swap	**96,208**	**(3,358)**	**(3,358)**
Currency swap	**1,176,311**	**6,066**	**6,066**

B. Derivatives to which hedge accounting is applied

Main hedged items, contract amount and fair value of these derivatives at March 31, 2018 and 2017 are as follows:

March 31, 2018 Millions of yen

Hedging instrument	Hedge accounting treatment	Main hedged item	Contract amount	Fair value
Foreign exchange forward	Fundamental method	Foreign currency loans, securities, and cash	**¥373,942**	**¥ 3,372**
Equity forward	Fundamental method	Equity	**19,170**	**1,998**
Interest swap	Fundamental method	Debt and securities	**259,327**	**(222)**
	Special treatment	Debt	**—**	**—**
Currency swap	Allocation method	Debt	**29,747**	**(3,448)**
	Fundamental method	Foreign currency loans and securities	**194,235**	**386**
Interest and currency swap	Integration of special treatment and allocation method	Corporate bond	**5,631**	**334**

March 31, 2017 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, 2018 Thousands of U.S. dollars

Hedging instrument	Hedge accounting treatment	Main hedged item	Contract amount	Fair value
Foreign exchange forward	Fundamental method	Foreign currency loans, securities, and cash	$3,527,755	$ 31,811
Equity forward	Fundamental method	Equity	180,849	18,849
Interest swap	Fundamental method	Debt and securities	2,446,481	(2,094)
	Special treatment	Debt	—	—
Currency swap	Allocation method	Debt	280,632	(32,528)
	Fundamental method	Foreign currency loans and securities	1,832,406	3,642
Interest and currency swap	Integration of special treatment and allocation method	Corporate bond	53,123	3,151

9. Pledged assets

Secured obligations at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Short-term borrowings	¥ 10,400	¥100,400	$ 98,113
Long-term debt	369,400	365,700	3,484,906
Payables related to margin transactions	3,008	3,053	28,377
	¥382,808	¥469,153	$3,611,396

All above obligations at March 31, 2018 and 2017 were secured by the following assets:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Time deposits	¥ 200	¥ 200	$ 1,887
Loans receivable from customers	407,503	—	3,844,368
Trading assets	643,776	488,099	6,073,358
Securities	—	387,904	—
Investment securities	24,676	16,403	232,793
	¥1,076,155	¥892,606	$10,152,406

In addition to the above, securities borrowed amounting to ¥139,988 million ($1,320,642 thousand) and ¥154,338 million were pledged as guarantees at March 31, 2018 and 2017, respectively.

Total fair value of the securities pledged as collateral at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Securities loaned	¥6,424,651	¥7,230,775	$60,609,915
Other	704,849	628,905	6,649,519
	¥7,129,500	¥7,859,680	$67,259,434

Total fair value of the securities received as collateral at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Securities borrowed	¥7,526,802	¥6,513,335	$71,007,566
Other	341,176	589,547	3,218,642
	¥7,867,978	¥7,102,882	$74,226,208

10. Lease transactions

The information concerning operating leases at March 31, 2018 and 2017 are as follows:

Lessee:	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Operating leases:			
Future lease payments in respect of operating leases	¥89,873	¥94,344	$847,858
Due within one year	12,228	11,757	115,358

Lessor:	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Operating leases:			
Future lease receipts in respect of operating leases	¥1,312	¥1,118	$12,377
Due within one year	457	918	4,311

11. Payables to customers and counterparties

Payables to customers and counterparties at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deposits from customers	¥214,626	¥213,715	$2,024,774
Guarantee deposits received	420,040	418,040	3,962,642
Other	25,585	45,499	241,367
	¥660,251	¥677,254	$6,228,783

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, 2018 and 2017 was 0.17% and 0.11%, respectively.

Long-term debt at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Bond payable in yen: 0.93% due CY2018	¥ 40,000	¥ 40,000	$ 377,358
Bond payable in yen: 1.25% due CY2020	30,000	30,000	283,019
Bond payable in yen: 0.60% due CY2017	—	30,000	—
Bond payable in yen: 0.69% due CY2021	30,000	30,000	283,019
Bond payable in yen: 0.40% due CY2019	20,000	20,000	188,679
Bond payable in yen: 0.87% due CY2024	12,000	12,000	113,208
Bond payable in yen: 0.41% due CY2020	25,000	25,000	235,849
Bond payable in yen: 0.89% due CY2025	20,000	20,000	188,679
Bond payable in yen: 0.40% due CY2020	20,000	20,000	188,679
Bond payable in yen: 0.40% due CY2020	45,000	45,000	424,528
Bond payable in yen: 0.91% due CY2025	25,000	25,000	235,849
Bond payable in yen: 0.67% due CY2022	30,000	30,000	283,019
Bond payable in yen: 0.40% due CY2023	13,000	13,000	122,642
Bond payable in yen: 0.56% due CY2026	11,000	11,000	103,774
Bond payable in yen: 0.40% due CY2023	50,000	50,000	471,698
Bond payable in yen: 0.40% due CY2026	30,000	30,000	283,019
Bond payable in yen: 0.35% due CY2023	22,000	22,000	207,547
Bond payable in yen: 0.22% due CY2022	25,000	—	235,849
Bond payable in yen: 0.41% due CY2027	15,000	—	141,509

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Bond payable in yen: 0.31% due CY2017	—	40,000	—
Bond payable in yen: 0.28% due CY2018	—	40,000	—
Bond payable in yen: 0.31% due CY2017	—	40,000	—
Bond payable in yen: 0.26% due CY2018	20,000	20,000	188,679
Bond payable in yen: 0.27% due CY2022	20,000	20,000	188,679
Bond payable in yen: 0.30% due CY2026	30,000	30,000	283,019
Bond payable in yen: 0.22% due CY2022	30,000	30,000	283,019
Bond payable in yen: 0.30% due CY2027	20,000	20,000	188,679
Bond payable in yen: 0.24% due CY2024	15,000	15,000	141,509
Bond payable in yen: 0.23% due CY2024	20,000	—	188,679
Bond payable in yen: 0.24% due CY2024	20,000	—	188,679
Bond payable in U.S. dollars: 2.54% due CY2018	15,936	16,829	150,340
Bond payable in U.S. dollars: 2.54% due CY2019	15,936	16,829	150,340
Bond payable in U.S. dollars: 3.00% due CY2020	26,560	28,047	250,567
Bond payable in U.S. dollars: 3.13% due CY2022	106,240	—	1,002,264
Bond payable in yen: 1.26% due CY2017	—	19,800	—
Bond payable in yen: 1.72% due CY2020	18,400	18,400	173,585
Bond payable in yen: 2.16% due CY2025	7,800	7,800	73,585
Bond payable in yen: 2.41% due CY2026	3,000	3,000	28,301
Bond payable in yen: 2.24% due CY2026	5,000	5,000	47,170
Bond payable in yen: 0.14% due CY2034	5,000	5,000	47,170
Euro medium-term notes issued by the Company and a domestic consolidated subsidiary, maturing through CY2048	728,447	661,751	6,872,142
Subordinated bond payable in yen: maturing through CY2021	6,525	7,125	61,557
Long-term borrowings principally from banks in yen, maturing through CY2047	1,436,081	1,286,768	13,547,934
Lease obligation	2,883	3,619	27,198
	¥3,015,808	¥2,787,968	$28,451,019

The amount for euro medium-term notes issued by the Company and a domestic consolidated subsidiary as of March 31, 2018 includes US$450,094 thousand and AU$3,000 thousand.

Interest rates of euro medium-term notes range from (0.19)% to 3.59% at March 31, 2018 and from (0.22)% to 6.65% at March 31, 2017. The weighted average interest rate on total outstanding yen subordinated borrowings and borrowings principally from banks at March 31, 2018 and 2017 was 0.39% and 0.32%, respectively. The weighted average interest rate on total outstanding lease obligations at March 31, 2018 was 1.05%.

Daiwa had an unused commitment line amounting to ¥10,624 million ($100,226 thousand) under agreements with several banks at March 31, 2018.

13. Retirement benefits

Retirement benefits for employees

(1) Defined benefit plans

Retirement benefits in the consolidated balance sheets as of March 31, 2018 and 2017 are ¥41,759 million ($393,953 thousand) and ¥39,792 million, respectively. Benefit expenses stated in the consolidated statements of income for the years ended March 31, 2018 and 2017 were ¥3,649 million ($34,425 thousand) and ¥3,870 million, respectively.

Movement in retirement benefit obligations consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
At beginning of period	¥39,792	¥38,418	$375,396
Service cost	3,649	3,870	34,425
Benefits paid	(1,820)	(2,141)	(17,170)
Other	138	(355)	1,302
At end of period	¥41,759	¥39,792	$393,953

(2) Defined Contribution plan

Benefit expenses to "Defined contribution" for the years ended March 31, 2018 and 2017 were ¥4,519 million ($42,632 thousand) and ¥4,267 million, respectively.

Retirement benefits for directors

Directors' retirement benefits in consolidated subsidiaries of ¥666 million ($6,283 thousand) and ¥642 million are included in "Retirement benefits" in the accompanying consolidated balance sheets as of March 31, 2018 and 2017, respectively. Benefit expenses stated in the consolidated statements of income for the years ended March 31, 2018 and 2017 were ¥214 million ($2,019 thousand) and ¥231 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% for the years ended March 31, 2018 and 2017, 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, 2018 and 2017 are as follows:

	2018	2017
Statutory tax rate	30.9%	30.9%
Valuation allowance	(3.4)	(1.5)
Permanent difference (expense)	1.6	1.2
Permanent difference (income)	(1.0)	(1.1)
Lower tax rate applicable to income of overseas consolidated subsidiaries	(0.0)	0.4
Adjustment of unrealized inter-company profit	(0.1)	(0.2)
Amortization of goodwill	0.2	0.2
Share of profit and loss of entities accounted for using equity method	(2.6)	(1.9)
Tax credits	(1.5)	(0.1)
Resolution to subsidiary's liquidation	—	(4.4)
Other	1.0	1.5
Effective tax rate	25.1%	25.0%

Details of deferred tax assets and liabilities at March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets:			
Net operating losses carry-forward	¥ 46,380	¥ 46,395	$ 437,547
Retirement benefits	12,870	12,273	121,415
Compensation and bonuses	7,211	6,737	68,028
Impairment losses on fixed assets	6,578	8,605	62,057
Write-down of investment securities	6,553	6,380	61,821
Elimination of unrealized gain	4,826	4,581	45,528
Depreciation	4,248	4,088	40,075
Loss on private equity and other investments	2,976	5,184	28,075
Loss on trading	2,405	4,863	22,689
Loss on valuation of shares of subsidiaries and associates	1,573	7,563	14,840
Other	15,850	15,975	149,529
Gross deferred tax assets	111,470	122,644	1,051,604
Less: Valuation allowance	(84,792)	(93,139)	(799,925)
Total deferred tax assets	26,678	29,505	251,679
Deferred tax liabilities	29,718	28,710	280,358
Net deferred tax assets	¥ (3,040)	¥ 795	$ (28,679)

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.

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 ¥90 million ($849 thousand) and ¥136 million at March 31, 2018 and 2017, 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, 2018 amounted to ¥347,449 million ($3,277,821 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 ¥15 ($0.13) per share amounting to ¥24,279 million ($216,777 thousand) and ¥13 ($0.12) per share amounting to ¥21,696 million ($193,714 thousand) were approved by the Board of Directors on May 17, 2018 and October 25, 2017, 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, June 28, 2016 and June 28, 2017 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, 2018 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	205,000	¥ 1	($ 0.01)	from July 1, 2005 to June 30, 2025
June 24, 2006	134,000	¥ 1	($ 0.01)	from July 1, 2006 to June 30, 2026
June 23, 2007	174,000	¥ 1	($ 0.01)	from July 1, 2007 to June 30, 2027
June 21, 2008	220,000	¥ 1	($ 0.01)	from July 1, 2008 to June 30, 2028
	2,581,000	¥ 881	($ 8.31)	from July 1, 2013 to June 20, 2018
June 20, 2009	488,000	¥ 1	($ 0.01)	from July 1, 2009 to June 30, 2029
	1,642,000	¥ 496	($ 4.68)	from July 1, 2014 to June 19, 2019
June 26, 2010	884,000	¥ 1	($ 0.01)	from July 1, 2010 to June 30, 2030
	2,929,000	¥ 380	($ 3.58)	from July 1, 2015 to June 25, 2020
June 25, 2011	1,092,000	¥ 1	($ 0.01)	from July 1, 2011 to June 30, 2031
	2,757,000	¥ 326	($ 3.08)	from July 1, 2016 to June 24, 2021
June 27, 2012	784,000	¥ 1	($ 0.01)	from February 12, 2013 to June 30, 2032
	5,170,000	¥ 598	($ 5.64)	from July 1, 2017 to June 26, 2022
June 26, 2013	385,000	¥ 1	($ 0.01)	from February 10, 2014 to June 30, 2033
	—	¥1,062	($10.02)	from July 1, 2018 to June 25, 2023
June 26, 2014	452,000	¥ 1	($ 0.01)	from February 9, 2015 to June 30, 2034
	—	¥ 931	($ 8.78)	from July 1, 2019 to June 25, 2024
June 25, 2015	578,000	¥ 1	($ 0.01)	from February 16, 2016 to June 30, 2035
	—	¥ 733	($ 6.92)	from July 1, 2020 to June 24, 2025
June 28, 2016	571,000	¥ 1	($ 0.01)	from February 8, 2017 to June 30, 2036
	—	¥ 767	($ 7.24)	from July 1, 2021 to June 27, 2026
June 28, 2017	599,000	¥ 1	($ 0.01)	from February 8, 2018 to June 30, 2037
	—	¥ 815	($ 7.69)	from July 1, 2022 to June 27, 2027

19. Investment and rental properties

Daiwa owns redevelopment project site in Tokyo. The book value, net changes in the book value and the fair value of the investment and rental properties are as follows:

			Millions of yen
		Book value	Fair value
As of March 31, 2017	Change during the period	**As of March 31, 2018**	**As of March 31, 2018**
¥—	**¥5,294**	**¥5,294**	**¥—**

			Thousands of U.S. dollars
		Book value	Fair value
As of March 31, 2017	Change during the period	**As of March 31, 2018**	**As of March 31, 2018**
$—	**$49,939**	**$49,939**	**$—**

(Note) The above are deemed to be extremely difficult to determine fair values because they are under construction of a large-scale redevelopment project. Therefore, their fair values are not disclosed.

20. Capital adequacy requirements

In Japan, a securities company is subject to risk-based capital adequacy rules established and administered by the Financial Services Agency. Securities subsidiaries report their capital adequacy ratio as defined pursuant to these rules. The authorities will take certain administrative measures if such ratio declines below 140%. The capital adequacy ratio of Daiwa Securities was 348.3% (unaudited) for March 31, 2018.

Daiwa also announced that it has calculated the consolidated capital adequacy ratio as of March 31, 2018 in accordance with the principal stipulated in 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, 2018 was 22.28% (unaudited).

21. Segment information

Daiwa defines reportable segments as a group of operating segments whose discrete financial information is available and reviewed by the management regularly in order to make decisions about resources to be allocated and assess their performance. Focusing on securities-related business, Daiwa offers overall investment and financial service in coordination with the group's support business, and decides the comprehensive strategies by 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, 2018:							
Net operating revenues:							
Sales to customers	**¥187,942**	**¥170,863**	**¥ 72,355**	**¥27,924**	**¥459,084**	**¥25,750**	**¥484,834**
Intersegment sales and transfers	**26,306**	**330**	**(22,964)**	**(523)**	**3,149**	**15,367**	**18,516**
Total	**¥214,248**	**¥171,193**	**¥ 49,391**	**¥27,401**	**¥462,233**	**¥41,117**	**¥503,350**

							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

							Thousands of U.S. dollars
	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Total
Year ended March 31, 2018:							
Net operating revenues:							
Sales to customers	**$1,773,038**	**$1,611,915**	**$ 682,594**	**$263,434**	**$4,330,981**	**$242,925**	**$4,573,906**
Intersegment sales and transfers	**248,170**	**3,113**	**(216,641)**	**(4,934)**	**29,708**	**144,971**	**174,679**
Total	**$2,021,208**	**$1,615,028**	**$ 465,953**	**$258,500**	**$4,360,689**	**$387,896**	**$4,748,585**

* "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)

Net operating revenues	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars 2018
Reportable segment total	**¥462,233**	¥433,103	**$4,360,689**
Net operating revenues from "Others"	**41,117**	37,087	**387,896**
Elimination between segments	**(18,516)**	(19,406)	**(174,679)**
Commission fee deducted from net operating revenues	**22,195**	22,485	**209,387**
Other adjustments	**(1,678)**	(519)	**(15,831)**
Net operating revenue of financial statements	**¥505,351**	¥472,750	**$4,767,462**

(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, 2018:								
Loss on impairment	**¥—**	**¥—**	**¥—**	**¥—**	**¥—**	**¥—**	**¥—**	**¥—**

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

Thousands of U.S. dollars

	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Corporate/ Elimination	Total
Year ended March 31, 2018:								
Loss on impairment	**$—**	**$—**	**$—**	**$—**	**$—**	**$—**	**$—**	**$—**

22. Transactions with related parties

The information on subsidiaries' material transactions with related parties and individuals for the years ended March 31, 2018 and 2017, and the resulting account balances with those related parties at the balance sheet dates are as follows:

Transaction details, amounts and balances

Millions of yen

Name of related company	Paid-in Capital Millions of yen				2018
Tokyo Tanshi Co., Ltd.	¥10,300	Continual transactions of collateralized short-term financing agreements		Collateralized short-term financing agreements (liabilities)	**¥229,063**
		Interest and dividend expense	**¥ 327**	Collateralized short-term financing agreements (assets)	**726,303**
		Interest income	**800**	Receivables—Other	**17**
		Interest and dividend income	**399**	Accrued and other liabilities—Other	**71**
		Interest expense	**1,162**		

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
		Interest and dividend expense	¥ 571	Collateralized short-term financing agreements (assets)	163,881
		Interest income	1,428	Receivables—Other	51
		Interest and dividend income	312	Accrued and other liabilities—Other	21
		Interest expense	1,006		

			Thousands of U.S. dollars
			2018
Continual transactions of collateralized short-term financing agreements		Collateralized short-term financing agreements (liabilities)	$2,160,972
Interest and dividend expense	$ 3,085	Collateralized short-term financing agreements (assets)	6,851,915
Interest income	7,547	Receivables—Other	160
Interest and dividend income	3,764	Accrued and other liabilities—Other	670
Interest expense	10,962		

The Company has 17.43% of direct voting rights for Tokyo Tanshi Co., Ltd.

23. Special purpose entities subject to disclosure

A consolidated subsidiary utilized seven special purpose entities for the year ended March 31, 2018 (six for the year ended March 31, 2017) principally for the securitization of structured notes in order to support securitization of monetary assets of customers. The consolidated subsidiary acquires and transfers bonds to those special purpose entities (incorporated in the Cayman Islands) and issues structured notes collateralized by those bonds. The Company and the consolidated company do not own any shares with voting rights in any of these special purpose entities and have not dispatched any director or employee to them. Notes issued by those special purpose entities subject to disclosure as of the fiscal year ended March 31, 2018 and 2017 are ¥589,153 million ($5,558,047 thousand) and ¥648,695 million, respectively.

24. Net gain on trading

Net gain on trading for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Equities and others	¥ 38,986	¥ 21,471	$ 367,792
Bonds, forex and others	70,020	106,650	660,566
	¥109,006	¥128,121	$1,028,358

25. Selling, general and administrative expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2018 and 2017 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Employees' compensation and benefits	¥185,866	¥175,831	$1,753,453
Commissions and brokerage	34,673	34,171	327,104
Communications	21,620	20,685	203,962
Occupancy and rental	35,910	35,267	338,774
Data processing and office supplies	26,553	27,047	250,500
Taxes other than income taxes	10,732	10,530	101,245
Depreciation	24,336	23,406	229,585
Other	30,603	26,751	288,707
	¥370,293	¥353,688	$3,493,330

26. Other income (expenses)

Details of "Other, net" in the accompanying consolidated statements of income for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Gain on sales of non-current assets	¥ 854	¥ —	$ 8,057
Gain on sales of investment securities	5,781	13,137	54,538
Gain on liquidation of subsidiaries	—	1,310	—
Gain on step acquisitions	1,498	—	14,132
Gain on change in equity	—	769	—
Gain on recoveries of written-off claims	481	—	4,538
Gain on reversal of subscription rights to shares	895	1,229	8,443
Gain on reversal of business restructuring cost	—	701	—
Other income	22,627	17,989	213,462
Loss on sales and retirement of non-current assets	(483)	—	(4,557)
Impairment loss	—	(430)	—
Loss on sales of shares of subsidiaries and associates	—	(652)	—
Loss on valuation of investment securities	(69)	(51)	(651)
Loss on liquidation of subsidiaries	—	(769)	—
Provision of reserve for financial products transaction liabilities	(16)	—	(151)
Office transfer expenses	(2,021)	—	(19,066)
Business restructuring cost	(193)	(207)	(1,821)
Expenses related to redemption of Money Management Fund and other	—	(306)	—
Provision for loss on litigation	(8,997)	(11,230)	(84,877)
Other expenses	(1,551)	(1,577)	(14,632)
	¥18,806	¥ 19,913	$177,415

Impairment loss

(Fiscal year ended March 31, 2017)

Daiwa recognized the impairment losses for the following asset group.

			Millions of yen	Thousands of U.S. dollars
	Condition	Location	Impairment loss	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.

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.

(Fiscal year ended March 31, 2018)

Daiwa Capital Markets Europe Limited ("DCME"), a UK overseas subsidiary of the Company, received the judgment on February 1, 2018 from the Court of Appeal Civil Division on a lawsuit filed by Singularis Holdings Limited and appealed by DCME. The Court of Appeal Civil Division dismissed DCME's appeal. DCME reviewed this judgment and costs relating to this lawsuit, thus DCME made additional provision for loss on litigation.

27. Subsequent events

None

Independent Auditor's Report

KPMG

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, 2018 and 2017, 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, 2018 and 2017, 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, 2018 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 28, 2018
Tokyo, Japan

Report Regarding Consolidated Capital Adequacy Ratio and Consolidated Leverage Ratio Situation of Soundness in Management as of March 31, 2018

In accordance with the Financial Instruments and Exchange Act Article 57-17, "Notification, etc. of Documents Describing Status of Soundness in Management", Daiwa Securities Group Inc. reports the situation of soundness in management as of March 31, 2018.

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Key Metrics (at consolidated group level)

Basel III template number		March 2018	December 2017	September 2017	June 2017	March 2017
						Millions of yen, %
Available capital (amounts)						
1	Common Equity Tier 1 (CET1)	¥ 1,142,340	¥ 1,142,707	¥ 1,134,487	¥ 1,140,227	¥ 1,131,194
2	Tier 1	1,142,340	1,142,707	1,134,487	1,140,227	1,131,194
3	Total capital	1,142,340	1,142,707	1,134,487	1,140,227	1,131,194
Risk-weighted assets (amounts)						
4	Total risk-weighted assets (RWA)	5,125,879	5,257,936	5,106,753	5,043,690	4,996,323
5	CET1 ratio (%)	22.28%	21.73%	22.21%	22.60%	22.64%
6	Tier 1 ratio (%)	22.28%	21.73%	22.21%	22.60%	22.64%
7	Total capital ratio (%)	22.28%	21.73%	22.21%	22.60%	22.64%
Additional CET1 buffer requirements as a percentage of RWA						
8	Capital conservation buffer requirement (2.5% from 2019) (%)	1.87%	1.25%	1.25%	1.25%	1.25%
9	Countercyclical buffer requirement (%)	0.00%	0.00%	0.00%	0.00%	0.00%
10	Bank G-SIB and/or D-SIB additional requirements (%)	0.37%	0.25%	0.25%	0.25%	0.25%
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	2.25%	1.50%	1.50%	1.50%	1.50%
12	CET1 available after meeting the bank's minimum capital requirements (%)	14.28%	13.73%	14.21%	14.60%	14.64%
Leverage ratio						
13	Total leverage ratio exposure measure	20,358,038	20,987,142	19,524,574	18,979,308	19,090,638
14	Leverage ratio (%) including the impact of any applicable temporary exemption of central bank reserves	5.61%	5.44%	5.81%	6.00%	5.92%

Composition of Capital Disclosure

Basel III template number	Items		Group Consolidated Quarter-End	Exclusion under transitional arrangements
			Millions of yen, %	
Common Equity Tier 1 capital: Instruments and reserves		(1)		
1a+2-1c-26	Shareholders' equity		¥1,185,256	
1a	Common stock and capital surplus		478,111	
2	Retained earnings		785,730	
1c	Treasury stock (△)		54,306	
26	Planned distributions (△)		24,279	
	Others		—	
1b	Stock subscription rights		8,790	
3	Accumulated other comprehensive income (and other reserves)		63,597	¥—
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)	1,257,644	
Common Equity Tier 1 capital: regulatory adjustments		(2)		
8+9	Intangible assets other than mortgage-servicing rights (net of related tax liability)		105,776	—
8	Goodwill (net of related tax liability)		11,170	—
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)		94,605	—
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)		580	—
11	Cash-flow hedge reserve		(127)	—
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)		428	—
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)		4,629	—
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		4,016	
28	Total regulatory adjustments to Common equity Tier 1	(b)	115,303	
Common Equity Tier 1 capital				
29	Common Equity Tier 1 capital (CET1) ((a) - (b))	(c)	¥1,142,340	

Basel III template number		Items		Millions of yen, % Group Consolidated Quarter-End	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		—	
		Foreign currency translation adjustment		—	
36		Additional Tier 1 capital before regulatory adjustments	(d)	—	
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)		769	—
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		—	
		Goodwill (net of related tax liability)		—	
42		Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions		3,246	
43		Total regulatory adjustments to Additional Tier 1 capital	(e)	4,016	
Additional Tier 1 capital					
44		Additional Tier 1 capital ((d) - (e))	(f)	—	
Tier 1 capital					
45		Tier 1 capital ((c) + (f))	(g)	1,142,340	
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		—	
		Capital instruments		—	
		Unrealized holding gain or loss on securities and cash flow hedge reserve		—	
51		Tier 2 capital before regulatory adjustments	(h)	¥ —	

Basel III template number	Items		Group Consolidated Quarter-End	Exclusion under transitional arrangements
			Millions of yen, %	
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)		3,246	—
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		—	
	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		—	
57	Total regulatory adjustments to Tier 2 capital	(i)	3,246	
Tier 2 capital				
58	Tier 2 capital ((h) - (i))	(j)	—	
Total capital				
59	Total capital ((g) + (j))	(k)	1,142,340	
Risk weighted assets		(5)		
	Amount of risk weighted assets under transitional Basel III rules		—	
	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)		—	
	Intangible assets (other than goodwill)		—	
	Deferred tax assets excluding assets arising from temporary differences (net of related tax liability)		—	
60	Total risk weighted assets	(l)	5,125,879	
Consolidated capital adequacy ratio				
61	Common Equity Tier 1 (as a percentage of risk weighted assets) ((c) / (l))		22.28%	
62	Tier 1 (as a percentage of risk weighted assets) ((g) / (l))		22.28%	
63	Total capital (as a percentage of risk weighted assets) ((k) / (l))		22.28%	
Amounts below the thresholds for deduction (before risk weighting)		(6)		
72	Non-significant investments in the capital of other financials		115,098	
73	Significant investments in the common stock of financials		33,651	
74	Mortgage servicing rights (net of related tax liability)		—	
75	Deferred tax assets arising from temporary differences (net of related tax liability)		12,283	
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 under the provision of Article 3 of the Consolidated Capital Adequacy Ratio Notification published by Japan FSA (hereunder the Notification).

Not applicable.

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

Number of consolidated subsidiaries: 59 companies

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 Capital Holdings	Integration and management of subsidiaries
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 Notification

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 (hereunder the 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 the Group

Not applicable.

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

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

<Stress Testing>

The Group uses the stress testing method to perform analysis on the impact to the soundness of the Group while in a stressed situation, validate the relevancy of plans from the angle of the economic capital and the regulatory capital as well as evaluate the capability of risk taking. The experts and relevant departments conduct discussions on analyzing both the inside and outside environments to make multiple scenarios for the stress test.

3. Overview of the risk characteristics, and the policies, procedures and organizations of the Group-wide risk management

The Group has introduced the Risk Appetite Framework (hereunder RAF) to strengthen risk governance from the management level.

Under the RAF, according to the liquidity and capital adequacy, the Group adopts appropriate risk appetite metrics and sets the acceptable level of risk, and keeps conducting management and monitoring them.

The Group has facilitated documentation of the risk appetite statement for this framework, also instilled the risk appetite in the Group and improved the level of business and risk management, as well as fostered a culture of risk management.

Based on the RAF, the Group’s board has established “Risk Management Rules” to define the basic policies of risk management, which target risk types, as well as the officer or department in charge of each major risk. The basic policies are clarified as the following items:

a. Active involvement of executives in risk management.
b. Enhancement of risk management organization in accordance with each type of risk.
c. Grasp of entire risk based on enterprise risk management, enhancement of capital adequacy and ensuring soundness related to liquidity.
d. Clarification of risk management process.

Furthermore, in order to construct an effective risk governance structure, the Group has established guidelines for “The Three Lines of Defense” model and has developed a framework for risk management.

4. Credit risk

A) Overview of the risk characteristics and the policies, procedures and organizations of risk management

The Group’s credit risk consists of counterparty credit risk and issuer risk.

For counterparty credit risk, the Group assigns a credit limit to each counterparty group, and monitors regularly. Additionally, the Group measures the aggregated counterparty risk. 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 group. 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 a cumulative exposure amount and monitors regularly.

B) Overview of accounting allowance and write-off standards

In order to prepare for the loss from bad debts on loans and others, allowances are provided, based on the historical default rate for normal claims, and based on individually assessed amounts for doubtful and default loans.

The subsidiary bank classifies the normal claims by category, according to the "Practical Guidelines on Self-Assessment of Assets of Financial Institutions of Banks and Others and Impairment of Bankruptcy and Allowance for Allowance for Doubtful Accounts" (JICPA Bankruptcy Audit Special Committee Report No. 4 July 4, 2012), and records them on an expected loss ratio basis. For doubtful debts, the estimated amount of collateral disposal and the estimated amount of recoverable amount due to guarantees are deducted from the amount of claims, and the remaining amount is recognized as deemed necessary. For loans to bankrupt borrowers and real bankrupt obligors, the remaining amount is deducted from the amount of claims by deducting the expected disposal amount of collateral and the estimated recoverable amount due to guarantees. Based on the self-assessment criteria of assets, the sales department and credit examination department conducts assessments for all claims and assets.

C) Use of the External Credit Assessment Institutions (hereunder ECAIs) for determining the risk weight under the standardized approach

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

5. Overview of the risk characteristics and the policies, procedures and organization for the Credit Risk Mitigation (hereunder CRM) techniques (excluding credit risk mitigation-related derivative and repo-style transactions)

Collateral is used for the CRM techniques. Types of collateral 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 collateral taken are also subject to the monitoring.

6. Overview of the risk characteristics and the policies, procedures and organization for the counterparty credit risk management of derivative and repo-style transactions (including CRM-related transactions)

For derivative and repo-style 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.

Collateral is used for the CRM techniques. Types of collateral are generally cash or high liquid securities. Received collateral is valued mark to market daily and monitored against exposures. In addition, balance by types of collateral is also subject to the monitoring.

For derivative and repo-style 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.

Upon the time when its 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.

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.

7. Securitization exposures

A) Overview of the risk characteristics and the policies, procedures and organization for risk management

The Group is involved in securitization transactions generally as an investor, and, accordingly, holds securitization products under investment and trading accounts. These securitization products include market risk, credit risk, as well as risks related to the assets, stratified/tranched structure and other. 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 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) List of special purpose entities (hereunder SPEs) where the Group acts as sponsor, indicating whether the Group consolidates the SPEs into its scope of regulatory consolidation, and affiliated entities that the Group manages or advises and that invest either in the securitization exposures that the Group has securitized or in SPEs that the Group sponsors

Not applicable.

D) List of entities to which the Group provides implicit support and the associated capital impact for each of them

Not applicable.

E) 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.

F) Names of ECAIs used for securitizations and the type of securitization exposures for which each agency is used

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

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

G) Overview of the process for implementing the Basel Internal Assessment Approach if applicable

Not applicable.

8. Market risk

A) Overview of the risk characteristics and the policies, procedures and organization for the risk management

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 at the 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) Overview and the scope of application of Internal Model Approach (hereunder IMA)

The Group applies VaR that implies maximum loss anticipated at a specified confidence level and stress VaR that implies maximum loss anticipated at a specified confidence level in a given stress time frame under the IMA. 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.

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

	VaR	Stressed VaR
Holding period	10 business days	
Observation period	520 business days	260 business days (Stressed period)
Confidence level	99%	
Historical data updating frequency	Daily	
Historical data weighting	None	
Aggregation approach	By the historical simulation date	
Valuation approach	Basically use full valuation approach, but use sensitivity approach for specific products (ex. Over-the-counter derivatives)	
Methodology of simulating potential movements in risk factors	Use absolute return for general interest, and use relative return for equity of exchange interest	

IMA is applied to general market risk which includes Daiwa Securities Co. Ltd., overseas subsidiaries and Daiwa Next Bank, Ltd. (trading book).

9. 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.

10. Overview of the risk characteristics and the policies, procedures and organization for the exposure of the investments or equities subject to credit risk

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. These are subject to 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.

11. Interest rate risk

A) Overview of risk management policies and procedures

In the scope of market risk management, the Group calculates changes in Economic Value of Equity (hereunder EVE) and Net Interest Income (hereunder NII) to reflect the interest rate risk arising from the non-trading transactions. The result is reported in the group's risk management meeting.

B) Overview of the method for measuring interest rate risk

For financial assets and financial liabilities owned by major subsidiaries and Daiwa Securities Group Inc., based on the shock scenario of interest rate fluctuation assuming certain stress every quarter, the Group computes changes in EVE and NII. In all financial assets and liabilities held by the Group, bonds and long-term debts are mainly subject to interest rate risk.

12. The amount of each account in the balance sheets as in published statements and the reference number in composition of capital disclosure

Millions of yen

Reference number in composition of capital disclosure		Balance sheets as in published statements	Under regulatory scope of consolidation
	Assets		
	Current assets		
	Cash and deposits	¥ 3,694,283	¥ 3,694,283
	Cash segregated as deposits	348,912	348,912
	Notes and accounts receivable-trade	19,479	19,479
18, 39, 54, 72, 73	Short-term investment securities	987,210	987,210
16, 18, 39, 54, 72, 73	Trading products	6,667,033	6,667,033
	Trading date accrual	—	—
18, 39, 54, 72, 73	Operational investment securities	115,332	115,332
	Allowance for investment loss	(505)	(505)
	Operating loans	1,442,939	1,442,939
	Work in process	479	479
	Margin transaction assets	262,963	262,963
	Loans secured by securities	6,496,752	6,496,752
	Advances paid	17,549	17,549
	Short-term loans receivable	388	388
	Accrued income	35,880	35,880
10, 75	Deferred tax assets	9,021	9,021
	Other current assets	390,020	390,020
	Allowance for doubtful accounts	(244)	(244)
	Total current assets	20,487,498	20,487,498
	Noncurrent assets		
	Property, plant and equipment	124,190	124,190
	Intangible assets	105,776	105,776
8	Goodwill	11,170	11,170
9	Others	94,605	94,605
	Investments and other assets	424,278	424,278
18, 39, 54, 72, 73	Investment securities	367,196	367,196
10, 75	Deferred tax assets	3,843	3,843
	Others	53,239	53,239
	Total noncurrent assets	654,245	654,245
	Total deferred charges	—	—
	Total assets	¥21,141,743	¥21,141,743

Reference number in composition of capital disclosure		Balance sheets as in published statements (Millions of yen)	Under regulatory scope of consolidation (Millions of yen)
	Liabilities		
	Current liabilities		
	Notes and accounts payable-trade	¥ 7,065	¥ 7,065
	Trading products	5,030,817	5,030,817
	Trading date accrual	407,184	407,184
	Margin transaction liabilities	71,344	71,344
	Loans payable secured by securities	5,775,897	5,775,897
	Deposits from banking business	3,388,444	3,388,444
	Deposits received	256,858	256,858
	Guarantee deposits received	420,039	420,039
	Short-term loans payable	1,091,771	1,091,771
	Commercial paper	105,000	105,000
	Current portion of bonds	261,494	261,494
	Income taxes payable	9,211	9,211
	Deferred tax liabilities	1,099	1,099
	Provision for bonuses	34,862	34,862
	Other current liabilities	175,115	175,115
	Noncurrent liabilities		
	Bonds payable	1,315,349	1,315,349
	Long-term loans payable	1,327,780	1,327,780
	Deferred tax liabilities	14,805	14,805
	Net defined benefit liabilities	41,758	41,758
	Provision for loss on litigation	24,485	24,485
	Negative goodwill	—	—
	Other noncurrent liabilities	6,889	6,889
	Reserves under the special laws	3,945	3,945
	Total liabilities	19,771,223	19,771,223
	Net assets		
	Shareholders' equity		
1a	Common stock	247,397	247,397
1a	Capital surplus	230,713	230,713
2	Retained earnings	785,730	785,730
1c	Treasury stock	(54,310)	(54,310)
1c	Advances on subscription of treasury stock	3	3
	Total shareholders' equity	1,209,535	1,209,535
	Accumulated other comprehensive income		
	Valuation difference on available-for-sale securities	61,176	61,176
11	Deferred gains or losses on hedges	(129)	(129)
	Foreign currency translation adjustment	2,550	2,550
3	Total accumulated other comprehensive income	63,597	63,597
1b	Subscription rights to shares	8,790	8,790
34-35, 48-49	Minority interests	88,596	88,596
	Total net assets	¥ 1,370,520	¥ 1,370,520

13. Main sources of differences between regulatory exposure amounts and carrying values in financial statements

Please refer to the comments under Quantitative Disclosure (Consolidated), 4. Other quantitative disclosure, LI2—Main sources of differences between regulatory exposure amounts and carrying values in financial statements.

Quantitative Disclosure (Consolidated)

1. List of the Group's subsidiaries applicable to "significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation", the capital of which is less than the capital requirement, as well as the total amount of deficit.

Not applicable.

2. Credit risk (excluding counterparty credit risk and securitization)

A) Breakdown of exposures by geographical areas, industry and residual maturity

Millions of yen

	Credit risk exposures			
March 2018		Loans	Securities	Others
Japan	¥5,604,819	¥751,323	¥ 973,771	¥3,879,725
Overseas	320,531	34,892	29,153	256,484
Total (by area)	5,925,350	786,216	1,002,924	4,136,210
Sovereign	4,345,865	646,375	610,979	3,088,510
Financial institutions	703,002	—	30,505	672,496
Corporate	294,251	130,733	63,517	100,000
Individuals	—	—	—	—
CCPs	53	—	—	53
Others	582,178	9,107	297,922	275,149
Total (by industry)	5,925,350	786,216	1,002,924	4,136,210
< 1 year	274,135	95,953	125,563	52,618
> 1 year ≤ 3 years	48,008	—	48,008	—
> 3 years ≤ 5 years	121,696	—	121,696	—
> 5 years ≤ 7 years	107,973	—	107,973	—
> 7 years	265,900	—	265,900	—
Indeterminate	5,107,635	690,262	333,781	4,083,591
Total (by maturity)	¥5,925,350	¥786,216	¥1,002,924	¥4,136,210

B) Amounts of impaired exposures (according to the definition used by the Group for accounting purposes) and related allowances and write-offs, broken down by geographical areas and industry (under the provision of Article 183 Paragraph 1(i)-(iv) of the Notification)

Millions of yen

Type of allowances	Geographic area	March 2018	Changes
General allowance		¥ —	¥ —
Specific allowance	Japan	493	(12,885)
	Overseas	205	37
Allowance to specific foreign obligations		—	—

Type of allowance	Industry	March 2018	Changes
General allowance		¥ —	¥ —
Specific allowance	Sovereign	—	—
	Financial Institutions	—	—
	Corporate	579	18
	Individuals	—	—
	Others	119	(12,866)
Allowance to specific foreign obligations		—	—

C) Aging analysis of accounting past-due exposures

Millions of yen

	Past due exposures	< 1 month	≥ 1 month < 2 months	≥ 2 months < 3 months	≥ 3 months
Japan	¥ 92	¥ 1	¥10	¥—	¥ 80
Overseas	531	132	3	—	395
Total (by area)	624	134	13	—	475
Sovereign	—	—	—	—	—
Financial institutions	—	—	—	—	—
Corporate	624	134	13	—	475
Individuals	—	—	—	—	—
CCPs	—	—	—	—	—
Others	—	—	—	—	—
Total (by industry)	¥624	¥134	¥13	¥—	¥475

D) Breakdown of restructured exposures between impaired and not impaired exposures

Not applicable.

3. Amount of exposure of which the risk weight cannot be directly determined due to multiple assets and transactions backed

Millions of yen

	Exposures
Total	¥717,507

4. Other quantitative disclosures

OV1: Overview of RWA

Millions of yen

Basel III template number		RWA March 2018	RWA March 2017	Minimum capital requirements March 2018	Minimum capital requirements March 2017
1	Credit risk (excluding counterparty credit risk) (CCR)	¥ 903,175		¥ 72,254	
2	Of which standardized approach (SA)	747,448		59,795	
3	Of which internal rating-based (IRB) approach	—		—	
	Of which significant investments	—		—	
	Of which exposures for estimated residual value of lease	—		—	
	Others	155,726		12,458	
4	Counterparty credit risk	1,261,575		100,926	
5	Of which standardized approach for counterparty credit risk (SA-CCR)	—		—	
	Of which current exposure method (CEM)	330,889		26,471	
6	Of which internal model method (IMM)	—		—	
	Of which credit valuation adjustment (CVA) risk	564,809		45,184	
	Of which exposures to central counterparties (CCPs)	27,929		2,234	
	Others	337,948		27,035	
7	Equity positions under market-based approach	—		—	
	Exposures backed by multiple assets and transactions	301,418		24,113	
	Exposures under Article 144 of the Notification	—		—	
11	Settlement risk	391		31	

Financial Section

Basel III template number		Millions of yen RWA March 2018	March 2017	Minimum capital requirements March 2018	March 2017
12	Securitization exposures in banking book	138,181		11,054	
13	Of which IRB ratings-based approach (RBA)	—		—	
14	Of which IRB Supervisory Formula Approach (SFA)	—		—	
15	Of which SA/simplified supervisory formula approach (SSFA)	138,181		11,054	
	Of which 1250% risk weight applied	—		—	
16	Market risk	1,461,548		116,923	
17	Of which standardized approach (SA)	860,281		68,822	
18	Of which internal model approaches (IMM)	601,266		48,101	
19	Operational risk	1,028,878		82,310	
20	Of which Basic Indicator Approach	1,028,878		82,310	
21	Of which Standardized Approach	—		—	
22	Of which Advanced Measurement Approach	—		—	
23	Amounts below the thresholds for deduction (subject to 250% risk weight)	30,709		2,456	
	Amounts included in risk weighted asset due to transitional arrangements	—		—	
24	Floor adjustment	—		—	
25	Total	¥5,125,879		¥410,070	

LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

Millions of yen

	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items: Subject to credit risk framework[1]	Subject to counterparty credit risk framework	Subject to the securitization framework[2]	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets							
1. Cash and deposits	¥ 3,694,283	¥3,694,273	¥ —	¥ —	¥ 218,385	¥ —	
2. Cash segregated as deposits	348,912	348,912	—	—	16,105	—	
3. Notes and accounts receivable-trade	19,479	19,375	—	—	—	—	
4. Short-term investment securities	987,210	957,191	—	18,096	424,477	—	
5. Trading products	6,667,033	—	2,355,646	—	6,671,802	(4,769)	
6. Trading date accrual	—	—	—	—	—	—	
7. Operational investment securities	115,332	115,332	—	—	15,025	—	
8. Allowance for investment loss	(505)	(505)	—	—	—	—	
9. Operating loans	1,442,939	780,887	—	662,051	528,799	—	
10. Work in process	479	479	—	—	—	—	
11. Margin transaction assets	262,963	—	262,963	—	—	—	
12. Loans secured by securities	6,496,752	—	7,235,571	—	2,937,968	—	
13. Advances paid	17,549	17,548	—	—	102	—	
14. Short-term loans receivable	388	388	—	—	81	—	
15. Accrued income	35,880	34,990	—	—	20,297	—	
16. Deferred tax assets	9,021	9,021	—	—	51	—	
17. Other current assets	390,020	170,854	202,600	—	70,406	13,417	
18. Allowance for doubtful accounts	(244)	(133)	—	—	—	—	
19. Total current assets	20,487,498	6,148,616	10,056,782	680,147	10,903,498	8,647	
20. Property, plant and equipment	124,190	—	—	—	3,408	120,782	

							Millions of yen
			Carrying values of items:				
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to credit risk framework[1]	Subject to counterparty credit risk framework	Subject to the securitization framework[2]	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
21. Intangible assets		105,776	—	—	—	10,113	95,663
22. Goodwill		11,170	—	—	—	7,079	4,091
23. Others		94,605	—	—	—	3,034	91,571
24. Investments and other assets		424,278	424,355	—	—	53,601	—
25. Investment securities		367,196	367,196	—	—	25,414	—
26. Deferred tax assets		3,843	3,926	—	—	3,054	—
27. Others		53,239	53,232	—	—	25,133	—
28. Total noncurrent assets		654,245	424,355	—	—	67,122	216,445
29. Total deferred assets		—	—	—	—	—	—
30. Total assets		¥21,141,743	¥6,572,972	¥10,056,782	¥680,147	¥10,970,620	¥225,093
Liabilities							
31. Notes and accounts payable-trade		¥ 7,065	¥ —	¥ —	¥—	¥ —	¥ 7,065
32. Trading products		5,030,817	—	2,117,532	—	5,007,437	—
33. Trading date accrual		407,184	803	18,808	—	13,909	387,572
34. Margin transaction liabilities		71,344	—	71,344	—	—	—
35. Loans payable secured by securities		5,775,897	—	6,514,876	—	4,187,775	—
36. Deposits from banking business		3,388,444	—	—	—	300,540	3,087,904
37. Deposits received		256,858	—	—	—	43,673	213,185
38. Guarantee deposits received		420,039	—	—	—	3,293	416,746
39. Short-term loans payable		1,091,771	—	—	—	58,275	1,033,496
40. Commercial paper		105,000	—	—	—	—	105,000
41. Current portion of bonds		261,494	—	—	—	—	261,494
42. Income taxes payable		9,211	—	—	—	—	9,211
43. Deferred tax liabilities		1,099	—	—	—	—	1,099
44. Provision for bonuses		34,862	—	—	—	11,515	23,347
45. Other current liabilities		175,115	805	16,180	—	98,125	158,002
46. Bonds payable		1,315,349	—	—	—	42,187	1,273,162
47. Long-term loans payable		1,327,780	—	—	—	—	1,327,780
48. Deferred tax liabilities		14,805	—	—	—	—	14,805
49. Net defined benefit liabilities		41,758	—	—	—	—	41,758
50. Provision for loss on litigation		24,485	—	—	—	22,517	1,968
51. Negative goodwill		—	—	—	—	—	—
52. Other noncurrent liabilities		6,889	—	—	—	991	5,898
53. Reserves under the special laws		3,945	—	—	—	—	3,945
54. Total liabilities		¥19,771,223	¥1,608	¥8,738,742	¥—	¥9,790,238	¥8,373,447

1 Amount of “Subject to credit risk framework” excludes amounts of “Subject to counterparty credit risk framework” and “Subject to the securitization framework”.
2 Amount of “Subject to the securitization framework” excludes amount of “Subject to the market risk framework”.

LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

Millions of yen

	Total	Items subject to: Credit risk framework[1]	Counterparty credit risk framework[2]	Securitization framework	Market risk framework
1. Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	¥21,141,743	¥6,572,972	¥10,056,782	¥680,147	¥10,970,620
2. Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	19,771,223	1,608	8,738,742	—	9,790,238
3. Total net amount under regulatory scope of consolidation	1,370,520	6,571,363	1,318,039	680,147	1,180,382
4. Off-balance sheet amounts	167,569	15,945	151,623	—	—
5. Differences in valuations	—	—	—	—	—
6. Differences due to different netting rules, other than those already included in row 2	—	—	—	—	—
7. Differences due to consideration of provisions	—	—	—	—	—
8. Differences due to prudential filters	—	—	—	—	—
9. Differences due to application of CEM	2,966,663	—	2,966,663	—	—
10. Differences due to netting and CRM for SFTs	14,133,866	—	14,133,866	—	—
11. Other differences	2,637,038	226,657	(180,850)	(10,760)	—
12. Exposure amounts considered for regulatory purposes	14,009,083	6,706,867	2,440,750	690,908	1,180,382

1 Amount of "Subject to credit risk framework" excludes amounts of "Subject to counterparty credit risk framework" and "Subject to securitization framework".
2 Amount of "Subject to securitization framework" excludes amount of "Subject to market risk framework".

(Note) Differences are mainly due to the following:
- Exposure of derivatives in the trading book is included in both counterparty credit risk and market risk after netting under certain conditions.
- Exposure of SFT assets is computed after netting with SFT liabilities under certain conditions.
- Some off-balance sheet items are included in credit risk.

CR1: Credit quality of assets

Millions of yen

	Gross carrying values of: Defaulted exposures	Non-defaulted exposures	Allowances/ impairments	Net values[1]
On-balance sheet assets				
1. Loans	¥ —	¥ 786,264	¥ 48	¥ 786,216
2. Debt Securities	—	705,002	—	705,002
3. Other on-balance sheet assets (debt products)	475	3,790,742	1,710	3,789,507
4. Sub-total on-balance sheet assets (1+2+3)	475	5,282,009	1,758	5,280,726
Off-balance sheet assets				
5. Acceptances and guarantees	—	7,691	—	7,691
6. Commitments	—	25,574	—	25,574
7. Sub-total off-balance sheet assets (5+6)	—	33,266	—	33,266
Total				
8. Total (4+7)	¥475	¥5,315,276	¥1,758	¥5,313,993

1 "Net values" = "Gross carrying values of defaulted exposures" + "Non-defaulted exposures" - "Allowances/impairments"

CR3: Credit risk mitigation techniques—overview

Millions of yen

	Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by credit derivatives, of which: secured amount
1. Loans	¥ 736,023	¥50,192	¥50,192	¥—	¥—
2. Debt securities	705,002	—	—	—	—
3. Other on-balance sheet assets (debt products)	3,789,508	—	—	—	—
4. Total (1+2+3)	5,230,534	50,192	50,192	—	—
5. Of which defaulted	475	—	—	—	—

CR4: Standardized approach—credit risk exposure and Credit Risk Mitigation (CRM) effects

Millions of yen, %

	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA	RWA density
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount		
Asset classes						
1. Cash	¥ —	¥ —	¥ —	¥ —	¥ —	—
2. Japanese government and central bank	3,807,879	—	3,807,879	—	—	—
3. Non-Japanese sovereign and central bank	195,853	—	195,853	—	59	0.03%
4. Bank for International Settlements (BIS)	—	—	—	—	—	—
5. Japanese local public authorities	35,059	—	35,059	—	—	—
6. Non-Japanese public sector entities (excluding sovereign)	2,409	—	2,409	—	541	22.46%
7. Multilateral Development Banks (MDBs)	10,910	—	10,910	—	—	—
8. Japan Finance Organization for Municipalities (JFM)	28,127	—	28,127	—	5,618	19.97%
9. Japanese government-sponsored entities	265,616	—	265,616	—	29,801	11.22%
10. Three major local public corporations of Japan	8	—	8	—	1	12.50%
11. Financial institutions and securities firms	702,983	19,011	702,983	3,802	152,310	21.55%
12. Corporates	281,613	1,847	231,421	1,847	191,892	82.26%
13. SMEs and individuals (risk weight 75% applied)	—	—	—	—	—	—
14. Residential mortgage loans	—	—	—	—	—	—
15. Projects including acquisition of real estate properties	9,176	12,410	9,176	8,261	17,437	100.00%
16. Past due exposures for three months or more (excluding residential mortgage loans)	475	—	475	—	713	150.11%
17. Past due exposures for three months or more (residential mortgage loans related)	—	—	—	—	—	—
18. Cash items in process of collection	—	—	—	—	—	—
19. Exposures secured by Credit Guarantee Association in Japan	—	—	—	—	—	—
20. Exposures secured by Enterprise Turnaround Initiative Corporation of Japan	—	—	—	—	—	—
21. Equities (excluding significant investments)	298,609	—	298,609	—	349,071	116.90%
22. Total	¥5,638,722	¥33,269	¥5,588,530	¥13,910	¥747,448	13.34%

CR5: Standardized approach—exposures by asset classes and risk weights

Millions of yen

	Credit risk exposures (post-CCF and post-CRM)					
Risk weight	0%	10%	20%	35%	50%	75%
Asset classes						
1. Cash	¥ —	¥ —	¥ —	¥—	¥ —	¥—
2. Japanese government and central bank	3,807,879	—	—	—	—	—
3. Non-Japanese sovereign and central bank	195,735	—	1	—	113	—
4. Bank for International Settlements (BIS)	—	—	—	—	—	—
5. Japanese local public authorities	35,059	—	—	—	—	—
6. Non-Japanese public sector entities (excluding sovereign)	—	—	2,334	—	—	—
7. Multilateral Development Banks (MDBs)	10,910	—	—	—	—	—
8. Japan Finance Organization for Municipalities (JFM)	—	72	28,054	—	—	—
9. Japanese government-sponsored entities	—	233,218	32,398	—	—	—
10. Three major local public corporations of Japan	—	—	8	—	—	—
11. Financial institutions and securities firms	—	—	676,781	—	26,100	—
12. Corporates	—	—	36,620	—	24,158	—
13. SMEs and individuals (risk weight 75% applied)	—	—	—	—	—	—
14. Residential mortgage loans	—	—	—	—	—	—
15. Projects including acquisition of real estate properties	—	—	—	—	—	—
16. Past due exposures for three months or more (excluding residential mortgage loans)	—	—	—	—	—	—
17. Past due exposures for three months or more (residential mortgage loans related)	—	—	—	—	—	—
18. Cash items in process of collection	—	—	—	—	—	—
19. Exposures secured by Credit Guarantee Association in Japan	—	—	—	—	—	—
20. Exposures secured by Enterprise Turnaround Initiative Corporation of Japan	—	—	—	—	—	—
21. Equities (excluding significant investments)	—	—	—	—	—	—
22. Total	¥4,049,584	¥233,291	¥776,198	¥—	¥50,373	¥—

	Millions of yen				
	Credit risk exposures (post-CCF and post-CRM)				
Risk weight	100%	150%	250%	1250%	Total
Asset classes					
1. Cash	¥ —	¥ —	¥ —	¥—	¥ —
2. Japanese government and central bank	—	—	—	—	3,807,879
3. Non-Japanese sovereign and central bank	2	—	—	—	195,853
4. Bank for International Settlements (BIS)	—	—	—	—	—
5. Japanese local public authorities	—	—	—	—	35,059
6. Non-Japanese public sector entities (excluding sovereign)	74	—	—	—	2,409
7. Multilateral Development Banks (MDBs)	—	—	—	—	10,910
8. Japan Finance Organization for Municipalities (JFM)	—	—	—	—	28,127
9. Japanese government-sponsored entities	—	—	—	—	265,616
10. Three major local public corporations of Japan	—	—	—	—	8
11. Financial institutions and securities firms	3,903	—	—	—	706,785
12. Corporates	172,489	—	—	—	233,268
13. SMEs and individuals (risk weight 75% applied)	—	—	—	—	—
14. Residential mortgage loans	—	—	—	—	—
15. Projects including acquisition of real estate properties	17,437	—	—	—	17,437
16. Past due exposures for three months or more (excluding residential mortgage loans)	—	475	—	—	475
17. Past due exposures for three months or more (residential mortgage loans related)	—	—	—	—	—
18. Cash items in process of collection	—	—	—	—	—
19. Exposures secured by Credit Guarantee Association in Japan	—	—	—	—	—
20. Exposures secured by Enterprise Turnaround Initiative Corporation of Japan	—	—	—	—	—
21. Equities (excluding significant investments)	264,967	—	33,641	—	298,609
22. Total	¥458,875	¥475	¥33,641	¥—	¥5,602,441

CCR1: Analysis of counterparty credit risk (CCR) exposure by approach

	Millions of yen					
	Replacement cost	Add-on	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
1. SA-CCR (for derivatives)	¥ —	¥ —		¥1.4	¥ —	¥ —
CEM (for derivatives)	480,436	664,416			857,287	330,889
2. Internal Model Method (for derivatives and SFTs)			¥—	—	—	—
3. Simple Approach for credit risk mitigation (for SFTs)					—	—
4. Comprehensive Approach for credit risk mitigation (for SFTs)					583,366	337,948
5. VaR for SFTs					—	—
6. Total						¥668,837

CCR2: Credit valuation adjustment (CVA) capital charge

	Millions of yen	
	EAD post-CRM	RWA
1. Total portfolios subject to the Advanced CVA capital charge	¥ —	¥ —
2. (i) VaR component (including the 3×multiplier)	—	—
3. (ii) Stressed VaR component (including the 3×multiplier)	—	—
4. All portfolios subject to the Standardized CVA capital charge	750,831	564,809
5. Total subject to the CVA capital charge	¥750,831	¥564,809

CCR3: Standardized approach—CCR exposures by regulatory portfolio and risk

	Millions of yen		
	EAD (post-CRM)		
Risk weight	0%	10%	20%
Regulatory portfolio			
1. Japanese government and central bank	¥ 1,948	¥ —	¥ —
2. Non-Japanese sovereign and central bank	1,564	—	—
3. Bank for International Settlements (BIS)	3,606	—	—
4. Japanese local public authorities	—	—	—
5. Non-Japanese public sector entities (excluding sovereign)	—	—	48,987
6. Multilateral Development Banks (MDBs)	5,183	—	—
7. Japan Finance Organization for Municipalities (JFM)	—	6,700	—
8. Japanese government-sponsored entities	—	5,897	—
9. Three major local public corporations of Japan	—	—	—
10. Financial institutions and securities firms	—	—	866,713
11. Corporates	—	—	8,393
12. SMEs and individuals (risk weight 75% applied)	—	—	—
13. Other assets	—	—	—
14. Total	¥12,303	¥12,597	¥924,094

	Millions of yen		
	EAD (post-CRM)		
Risk weight	50%	75%	100%
Regulatory portfolio			
1. Japanese government and central bank	¥ —	¥—	¥ —
2. Non-Japanese sovereign and central bank	—	—	—
3. Bank for International Settlements (BIS)	—	—	—
4. Japanese local public authorities	—	—	—
5. Non-Japanese public sector entities (excluding sovereign)	524	—	—
6. Multilateral Development Banks (MDBs)	—	—	—
7. Japan Finance Organization for Municipalities (JFM)	—	—	—
8. Japanese government-sponsored entities	—	—	—
9. Three major local public corporations of Japan	—	—	—
10. Financial institutions and securities firms	198	—	—
11. Corporates	17,074	—	473,860
12. SMEs and individuals (risk weight 75% applied)	—	—	—
13. Other assets	—	—	—
14. Total	¥17,796	¥—	¥473,860

	Millions of yen		
	EAD (post-CRM)		
Risk weight	150%	Others	Total credit exposure
Regulatory portfolio			
1. Japanese government and central bank	¥—	¥—	¥ 1,948
2. Non-Japanese sovereign and central bank	—	—	1,564
3. Bank for International Settlements (BIS)	—	—	3,606
4. Japanese local public authorities	—	—	—
5. Non-Japanese public sector entities (excluding sovereign)	—	—	49,512
6. Multilateral Development Banks (MDBs)	—	—	5,183
7. Japan Finance Organization for Municipalities (JFM)	—	—	6,700
8. Japanese government-sponsored entities	—	—	5,897
9. Three major local public corporations of Japan	—	—	—
10. Financial institutions and securities firms	—	—	866,911
11. Corporates	—	—	499,328
12. SMEs and individuals (risk weight 75% applied)	—	—	—
13. Other assets	—	—	—
14. Total	¥—	¥—	¥1,440,653

CCR5: Composition of collateral for CCR exposure

Millions of yen

		Collateral used in derivative transactions				Collateral used in SFTs	
		Fair value of collateral received		Fair value of posted collateral			
		Segregated	Unsegregated	Segregated	Unsegregated	Fair value of collateral received	Fair value of posted collateral
1	Cash—domestic currency	¥ 13,275	¥170,599	¥35,054	¥204,316	¥ 2,289,853	¥ 3,796,491
2	Cash—other currencies	67,469	30,294	—	18,210	4,361,124	3,706,506
3	Domestic sovereign debt	10	19,175	—	7,372	2,489,471	2,074,812
4	Other sovereign debt	598	—	—	—	3,380,530	3,194,129
5	Government agency debt	3,490	—	—	—	793,573	1,166,549
6	Corporate bonds	29,081	—	—	—	44,531	183,627
7	Equity securities	16,030	—	53,507	26	775,906	449,301
8	Other collateral	3,583	—	—	—	12,309	110,428
9	Total	¥133,535	¥220,068	¥88,562	¥229,925	¥14,147,298	¥14,681,844

CCR6: Credit derivatives exposures

Millions of yen

		Protection bought	Protection sold
Notionals			
1	Single-name credit default swaps	¥ 709,819	¥ 893,030
2	Index credit default swaps	724,289	658,238
3	Total return swaps	—	—
4	Credit options	—	—
5	Other credit derivatives	—	—
6	Total notionals	1,434,109	1,551,269
Fair values			
7	Positive fair value (asset)	517	20,381
8	Negative fair value (liability)	(19,078)	(1,781)

CCR8: Exposures to central counterparties

Millions of yen

		EAD (post-CRM)	RWA
1	Exposures to QCCPs (total)		¥27,929
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	¥819,245	16,384
3	(i) OTC derivatives	562,055	11,241
4	(ii) Exchange-traded derivatives	112,763	2,255
5	(iii) Securities financing transactions	144,426	2,888
6	(iv) Netting sets where cross-product netting has been approved	—	—
7	Segregated initial margin	93,861	
8	Non-segregated initial margin	48,552	845
9	Pre-funded default fund contributions	38,435	10,698
10	Unfunded default fund contributions	—	—
11	Exposures to non-QCCPs (total)		—
12	Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	—	—
13	(i) OTC derivatives	—	—
14	(ii) Exchange-traded derivatives	—	—
15	(iii) Securities financing transactions	—	—
16	(iv) Netting sets where cross-product netting has been approved	—	—
17	Segregated initial margin	—	
18	Non-segregated initial margin	—	—
19	Pre-funded default fund contributions	—	—
20	Unfunded default fund contributions	—	—

SEC1: Securitization exposures in the banking book

Millions of yen

Type of underlying assets		Group acts as originator		
		Traditional	Synthetic	Sub-total
1	Retail (total)—of which	¥—	¥—	¥—
2	residential mortgage	—	—	—
3	credit card	—	—	—
4	other retail exposures	—	—	—
5	re-securitization	—	—	—
6	Wholesale (total)—of which	—	—	—
7	loans to corporates	—	—	—
8	commercial mortgage	—	—	—
9	lease and receivables	—	—	—
10	other wholesale	—	—	—
11	re-securitization	—	—	—

Millions of yen

Type of underlying assets		Group acts as sponsor		
		Traditional	Synthetic	Sub-total
1	Retail (total)—of which	¥—	¥—	¥—
2	residential mortgage	—	—	—
3	credit card	—	—	—
4	other retail exposures	—	—	—
5	re-securitization	—	—	—
6	Wholesale (total)—of which	—	—	—
7	loans to corporates	—	—	—
8	commercial mortgage	—	—	—
9	lease and receivables	—	—	—
10	other wholesale	—	—	—
11	re-securitization	—	—	—

Millions of yen

Type of underlying assets		Group acts as investor		
		Traditional	Synthetic	Sub-total
1	Retail (total)—of which	¥121,027	¥—	¥121,027
2	residential mortgage	59,695	—	59,695
3	credit card	550	—	550
4	other retail exposures	60,781	—	60,781
5	re-securitization	—	—	—
6	Wholesale (total)—of which	569,881	—	569,881
7	loans to corporates	—	—	—
8	commercial mortgage	—	—	—
9	lease and receivables	1,526	—	1,526
10	other wholesale	568,355	—	568,355
11	re-securitization	—	—	—

SEC2: Securitization exposures in the trading book

Millions of yen

Type of underlying assets	Group acts as originator		
	Traditional	Synthetic	Sub-total
1 Retail (total)—of which	¥ —	¥—	¥ —
2 residential mortgage	—	—	—
3 credit card	—	—	—
4 other retail exposures	—	—	—
5 re-securitization	—	—	—
6 Wholesale (total)—of which	2,285	—	2,285
7 loans to corporates	2,285	—	2,285
8 commercial mortgage	—	—	—
9 lease and receivables	—	—	—
10 other wholesale	—	—	—
11 re-securitization	—	—	—

Millions of yen

Type of underlying assets	Group acts as sponsor		
	Traditional	Synthetic	Sub-total
1 Retail (total)—of which	¥—	¥—	¥—
2 residential mortgage	—	—	—
3 credit card	—	—	—
4 other retail exposures	—	—	—
5 re-securitization	—	—	—
6 Wholesale (total)—of which	—	—	—
7 loans to corporates	—	—	—
8 commercial mortgage	—	—	—
9 lease and receivables	—	—	—
10 other wholesale	—	—	—
11 re-securitization	—	—	—

Millions of yen

Type of underlying assets	Group acts as investor		
	Traditional	Synthetic	Sub-total
1 Retail (total)—of which	¥228	¥—	¥228
2 residential mortgage	228	—	228
3 credit card	—	—	—
4 other retail exposures	—	—	—
5 re-securitization	—	—	—
6 Wholesale (total)—of which	—	—	—
7 loans to corporates	—	—	—
8 commercial mortgage	—	—	—
9 lease and receivables	—	—	—
10 other wholesale	—	—	—
11 re-securitization	—	—	—

SEC3: Securitization exposures in the banking book and associated regulatory capital requirements—bank acting as originator or as sponsor

Not applicable.

SEC4: Securitization exposures in the banking book and associated capital requirements—bank acting as investor

Millions of yen

	Total exposures				
		Traditional securitization			
			Of which securitization		
				Of which retail underlying	Of which wholesale
Exposure values (by RW bands)					
1 ≤20% RW	¥690,908	¥690,908	¥690,908	¥121,027	¥569,881
2 >20% to 50% RW	—	—	—	—	—
3 >50% to 100% RW	—	—	—	—	—
4 >100% to <1250% RW	—	—	—	—	—
5 1250% RW	—	—	—	—	—
Exposure values (by regulatory approach)					
6 IRB RBA (including IAA)	—	—	—	—	—
7 IRB SFA	—	—	—	—	—
8 SA/SSFA	690,908	690,908	690,908	121,027	569,881
9 1250%	—	—	—	—	—
RWA (by regulatory approach)					
10 IRB RBA (including IAA)	—	—	—	—	—
11 IRB SFA	—	—	—	—	—
12 SA/SSFA	138,181	138,181	138,181	24,205	113,976
13 1250%	—	—	—	—	—
Capital charge after cap					
14 IRB RBA (including IAA)	—	—	—	—	—
15 IRB SFA	—	—	—	—	—
16 SA/SSFA	11,054	11,054	11,054	1,936	9,118
17 1250%	—	—	—	—	—

Millions of yen

	Total exposures				
	Traditional securitization			Synthetic securitization	
	Of which re-securitization				
		Of which senior	Of which non-senior		Of which securitization
Exposure values (by RW bands)					
1 ≤20% RW	¥—	¥—	¥—	¥—	¥—
2 >20% to 50% RW	—	—	—	—	—
3 >50% to 100% RW	—	—	—	—	—
4 >100% to <1250% RW	—	—	—	—	—
5 1250% RW	—	—	—	—	—
Exposure values (by regulatory approach)					
6 IRB RBA (including IAA)	—	—	—	—	—
7 IRB SFA	—	—	—	—	—
8 SA/SSFA	—	—	—	—	—
9 1250%	—	—	—	—	—
RWA (by regulatory approach)					
10 IRB RBA (including IAA)	—	—	—	—	—
11 IRB SFA	—	—	—	—	—
12 SA/SSFA	—	—	—	—	—
13 1250%	—	—	—	—	—
Capital charge after cap					
14 IRB RBA (including IAA)	—	—	—	—	—
15 IRB SFA	—	—	—	—	—
16 SA/SSFA	—	—	—	—	—
17 1250%	—	—	—	—	—

Millions of yen

	Total exposures				
	Synthetic securitization				
	Of which securitization		Of which re-securitization		
	Of which retail	Of which wholesale		Of which senior	Of which non-senior
Exposure values (by RW bands)					
1 ≤20% RW	¥—	¥—	¥—	¥—	¥—
2 >20% to 50% RW	—	—	—	—	—
3 >50% to 100% RW	—	—	—	—	—
4 >100% to <1250% RW	—	—	—	—	—
5 1250% RW	—	—	—	—	—
Exposure values (by regulatory approach)					
6 IRB RBA (including IAA)	—	—	—	—	—
7 IRB SFA	—	—	—	—	—
8 SA/SSFA	—	—	—	—	—
9 1250%	—	—	—	—	—
RWA (by regulatory approach)					
10 IRB RBA (including IAA)	—	—	—	—	—
11 IRB SFA	—	—	—	—	—
12 SA/SSFA	—	—	—	—	—
13 1250%	—	—	—	—	—
Capital charge after cap					
14 IRB RBA (including IAA)	—	—	—	—	—
15 IRB SFA	—	—	—	—	—
16 SA/SSFA	—	—	—	—	—
17 1250%	—	—	—	—	—

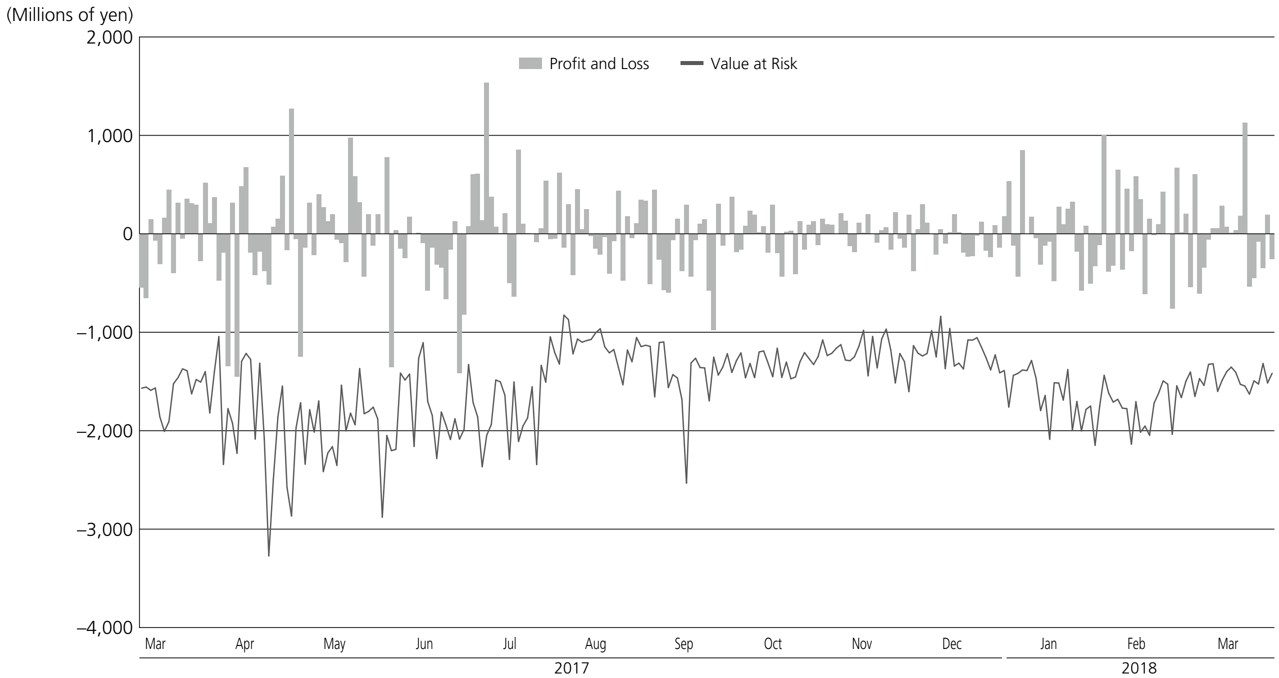
MR1: Market risk under standardized approach

	Millions of yen
	RWA
1 Interest rate risk (general and specific)	¥195,739
2 Equity risk (general and specific)	587,857
3 Foreign exchange risk	51,666
4 Commodity risk	—
Options	
5 Simplified approach	—
6 Delta-plus method	—
7 Scenario approach	—
8 Securitization	25,017
9 Total	¥860,281

MR3: IMA values for trading portfolios

	Millions of yen
VaR (10 day 99%)—	
1 Maximum value	¥11,018
2 Average value	4,782
3 Minimum value	1,546
4 Period end	2,574
Stressed VaR (10 day 99%)	
5 Maximum value	21,025
6 Average value	9,448
7 Minimum value	3,930
8 Period end	8,542
Incremental Risk Charge (99.9%)	
9 Maximum value	—
10 Average value	—
11 Minimum value	—
12 Period end	—
Comprehensive Risk capital charge (99.9%)	
13 Maximum value	—
14 Average value	—
15 Minimum value	—
16 Period end	—
17 Floor (standardized measurement method)	—

MR4: Comparison of VaR estimates with gains/losses



IRRBB1: Quantitative information on IRRBB

		Millions of yen	
		△EVE	
		March 2018	March 2017
1	Parallel up	¥ 4,288	
2	Parallel down	30,982	
3	Steepener	11,995	
4	Flattener	520	
5	Short rate up	1,563	
6	Short rate down	28,576	
7	Maximum	30,982	
8	Tier 1 capital	1,142,340	

△NII is not disclosed because there is only minimal impact from the changes in net income subject to the interest rate risk which occurs from the non-trading business.

Consolidated Leverage Ratio

1. Composition of consolidated leverage ratio

Basel III template number (2)	Basel III template number (1)	Items		March 2018	March 2017
				Millions of yen	
On-balance sheet exposures			(1)		
1		On-balance sheet items before adjustments		¥11,659,677	¥11,334,368
1a	1	Total assets in the consolidated balance sheet		21,141,743	19,827,296
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		9,482,066	8,492,928
2	7	Common Equity Tier 1 capital: regulatory adjustments		115,303	101,137
3		Total on-balance sheet exposures (excluding derivatives and SFTs)	(A)	11,544,374	11,233,231
Derivative exposures			(2)		
4		Replacement cost associated with all derivatives transactions		432,448	500,144
5		Add-on amounts for PFE associated with all derivatives transactions		1,310,291	1,303,547
		Gross-up for collateral posted in derivative transactions		264,892	254,647
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		118,441	125,683
8		Exempted CCP leg of client-cleared trade exposures			
9		Adjusted effective notional amount of written credit derivatives		1,551,276	1,964,204
10		Adjusted effective notional offsets and add-on deductions for written credit derivatives		1,253,152	1,693,399
11	4	Total derivative exposures (sum of lines 4 to 10)	(B)	2,187,314	2,203,460
Securities financing transaction exposures			(3)		
12		Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions		7,517,198	6,792,105
13		Netted amounts of cash payables and cash receivables of gross SFT assets		1,156,495	1,335,036
14		CCR exposure for SFT assets		211,873	153,878
15		Agent transaction exposures			
16	5	Total securities financing transaction exposures (sum of lines 12 to 15)	(C)	6,572,576	5,610,947
Other off-balance sheet exposures			(4)		
17		Off-balance sheet exposure at gross notional amount		80,259	53,673
18		Adjustments for conversion to credit equivalent amounts		26,485	10,673
19	6	Off-balance sheet items	(D)	53,774	43,000
Capital and total exposures			(5)		
20		Tier 1 capital	(E)	1,142,340	1,131,194
21	8	Total exposures (A)+(B)+(C)+(D)	(F)	20,358,038	19,090,638
22		Basel III consolidated leverage ratio (E)/(F)		5.61%	5.92%

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

There is no significant difference in the consolidated leverage ratio over the 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	1,185,256 million Yen
9	Par value of instrument	—
10	Accounting classification	
	Consolidated balance sheets	Shareholders' equity
11	Original date of issuance	—
12	Perpetual or dated	NA
13	Original maturity date	—
14	Issuer call subject to prior supervisory approval	NA
15	Optional call date, contingent call dates and redemption amount	—
16	Subsequent call dates, if applicable	—
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	—
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	NA
22	Noncumulative or cumulative	NA
23	Convertible or non-convertible	NA
24	If convertible, conversion trigger(s)	—
25	If convertible, fully or partially	—
26	If convertible, conversion rate	—
27	If convertible, mandatory or optional conversion	—
28	If convertible, specify instrument type convertible into	—
29	If convertible, specify issuer of instrument it converts into	—
30	Write-down feature	NA
31	If write-down, write-down trigger(s)	—
32	If write-down, full or partial	—
33	If write-down, permanent or temporary	—
34	If temporary write-down, description of write-up mechanism	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts
36	Non-compliant transitioned features	NA
37	If yes, specify non-compliant features	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in July 2006	Stock subscription right issued in July 2007
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	182 million Yen	228 million Yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Stock subscription right	Stock subscription right
11	Original date of issuance	July 1, 2006	July 1, 2007
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 30, 2026	June 30, 2027
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	213 million Yen	632 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	283 million Yen	249 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	331 million Yen	243 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	390 million Yen	245 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	445 million Yen	1,004 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	368 million Yen	1,105 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	384 million Yen	733 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	383 million Yen	249 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	404 million Yen	240 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	—	—

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 2018	Stock subscription right series 14
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	435 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, 2018	February 8, 2018
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 30, 2037	June 27, 2027
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	—	—

Balance Sheets

DAIWA SECURITIES Co. Ltd.
As of March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2018	2017	2018
Cash and cash deposits:			
Cash and cash equivalents (Note 5)	¥ 1,317,548	¥ 1,160,586	$ 12,429,698
Cash segregated as deposits for regulatory purposes (Note 5)	327,070	315,583	3,085,566
	1,644,618	1,476,169	15,515,264
Receivables:			
Loans receivable from customers (Note 5)	95,944	86,837	905,132
Loans receivable from other than customers (Notes 5 and 18)	224,957	154,121	2,122,236
Receivables related to margin transactions (Notes 3 and 5)	256,387	197,800	2,418,745
Short-term guarantee deposits (Note 5)	307,890	329,864	2,904,623
Other (Note 18)	59,701	51,483	563,217
Less: Allowance for doubtful accounts	(149)	(432)	(1,406)
	944,730	819,673	8,912,547
Collateralized short-term financing agreements (Notes 4, 5 and 18)	3,811,926	3,172,998	35,961,566
Trading assets (Notes 5, 6, 8 and 18)	5,163,208	4,655,239	48,709,509
Trading account receivables, net (Note 5)	—	40,133	—
Other assets:			
Property and equipment, at cost	19,128	19,194	180,453
Less: Accumulated depreciation	(16,045)	(15,696)	(151,368)
	3,083	3,498	29,085
Intangible fixed assets	65,671	57,738	619,538
Lease deposits	15,299	15,148	144,330
Investment securities (Notes 5 and 7)	15,579	24,402	146,972
Deferred tax assets (Note 13)	9,504	9,629	89,660
Other (Note 18)	12,852	14,115	121,246
Less: Allowance for doubtful accounts	(2,914)	(2,916)	(27,491)
	119,074	121,614	1,123,340
	¥11,683,556	¥10,285,826	$110,222,226

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2018	2017	Thousands of U.S. dollars (Note 1) 2018
Debt:			
Short-term borrowings (Notes 5, 8 and 18)	**¥ 1,207,496**	¥ 1,094,876	**$ 11,391,472**
Commercial paper (Note 5)	**105,000**	—	**990,566**
Long-term debt (Notes 5, 11 and 18)	**1,641,975**	1,374,011	**15,490,330**
	2,954,471	2,468,887	**27,872,368**
Payables:			
Payables to customers and counterparties (Notes 5 and 10)	**603,973**	581,978	**5,697,859**
Payables related to margin transactions (Notes 3 and 5)	**70,599**	61,467	**666,028**
	674,572	643,445	**6,363,887**
Collateralized short-term financing agreements (Notes 4, 5 and 18)	**2,920,274**	2,673,925	**27,549,755**
Trading liabilities (Notes 5, 6 and 18)	**3,850,446**	3,529,438	**36,324,962**
Trading account payables, net (Note 5)	**329,873**	—	**3,112,009**
Accrued and other liabilities:			
Income taxes payable	**5,026**	11,251	**47,415**
Deferred tax liabilities (Note 13)	**655**	2,329	**6,179**
Accrued bonuses	**16,585**	14,903	**156,462**
Retirement benefits (Note 12)	**30,529**	29,127	**288,009**
Other (Note 18)	**96,171**	69,412	**907,275**
	148,966	127,022	**1,405,340**
Statutory reserves (Note 14)	**3,932**	3,915	**37,094**
Total liabilities	**10,882,534**	9,446,632	**102,665,415**
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	**943,396**
Capital surplus	**349,920**	349,920	**3,301,132**
Retained earnings	**346,250**	382,279	**3,266,509**
	796,170	832,199	**7,511,037**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	**4,852**	6,995	**45,774**
Total net assets	**801,022**	839,194	**7,556,811**
	¥11,683,556	¥10,285,826	**$110,222,226**

See accompanying notes.

Statements of Income

DAIWA SECURITIES Co. Ltd.
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Operating revenues:			
Commissions (Note 18)	**¥209,184**	¥181,236	**$1,973,434**
Net gain on trading (Note 20)	**99,962**	116,274	**943,038**
Interest and dividend income (Note 18)	**49,689**	37,402	**468,764**
	358,835	334,912	**3,385,236**
Interest expense (Note 18)	**32,742**	20,809	**308,887**
Net operating revenues (Note 17)	**326,093**	314,103	**3,076,349**
Selling, general and administrative expenses (Notes 12 and 21)	**240,538**	231,688	**2,269,226**
Operating income	**85,555**	82,415	**807,123**
Other income (expenses):			
Provision for statutory reserves, net (Note 14)	**(16)**	1	**(151)**
Other, net (Note 22)	**3,599**	2,978	**33,953**
	3,583	2,979	**33,802**
Income before income taxes	**89,138**	85,394	**840,925**
Income taxes (Note 13):			
Current	**25,289**	26,804	**238,576**
Deferred	**(587)**	129	**(5,538)**
	24,702	26,933	**233,038**
Profit	**¥ 64,436**	¥ 58,461	**$ 607,887**

	Yen		U.S. dollars (Note 1)
Per share amounts:			
Net income	**¥79,531.48**	¥72,156.28	**$750**
Cash dividends applicable to the year (Note 16)	**79,531**	124,000	**755**

See accompanying notes.

Statements of Changes in Net Assets

DAIWA SECURITIES Co. Ltd.
Years ended March 31, 2018 and 2017

		Millions of yen			
		Owners' equity			Accumulated other comprehensive income
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Valuation difference on available-for-sale securities
Balance at April 1, 2016	810,200	¥100,000	¥349,920	¥ 323,818	¥ 7,427
Profit				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
Profit				64,436	
Cash dividends paid				(100,465)	
Net changes of items other than owners' equity					(2,143)
Balance at March 31, 2018	**810,200**	**¥100,000**	**¥349,920**	**¥ 346,250**	**¥ 4,852**

	Thousands of U.S. dollars (Note 1)			
	Owners' equity			Accumulated other comprehensive income
	Common stock	Capital surplus	Retained earnings	Valuation difference on available-for-sale securities
Balance at April 1, 2017	$943,396	$3,301,132	$3,606,406	$ 65,991
Profit			607,887	
Cash dividends paid			(947,784)	
Net changes of items other than owners' equity				(20,217)
Balance at March 31, 2018	**$943,396**	**$3,301,132**	**$3,266,509**	**$ 45,774**

See accompanying notes.

Statements of Cash Flows

DAIWA SECURITIES Co. Ltd.
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Cash flows from operating activities:			
Profit	**¥ 64,436**	¥ 58,461	**$ 607,887**
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	**16,372**	15,666	**154,453**
Allowance for doubtful accounts, net	**(284)**	(41)	**(2,679)**
Provision for retirement benefits, net	**1,425**	1,398	**13,443**
Losses (gains) related to investment securities	**(3,699)**	—	**(34,896)**
Deferred income taxes	**(587)**	129	**(5,538)**
Changes in operating assets and liabilities:			
Receivables and payables related to margin transactions	**(49,456)**	6,856	**(466,566)**
Short-term guarantee deposits	**21,973**	18,520	**207,292**
Other receivables and other payables	**(1,408)**	(126,839)	**(13,283)**
Collateralized short-term financing agreements	**(392,579)**	39,021	**(3,703,575)**
Trading assets and liabilities	**183,044**	(16,693)	**1,726,830**
Other, net	**(64,930)**	(19,446)	**(612,548)**
Total adjustments	**(290,129)**	(81,429)	**(2,737,067)**
Net cash flows provided by (used in) operating activities	**(225,693)**	(22,968)	**(2,129,180)**
Cash flows from investing activities:			
Decrease in time deposits	**—**	1,000	**—**
Payments for purchases of property and equipment	**(328)**	(210)	**(3,094)**
Payments for purchases of intangible fixed assets	**(23,943)**	(23,050)	**(225,877)**
Payments for purchases of investment securities	**(147)**	(614)	**(1,387)**
Proceeds from sales and redemption of investment securities	**9,088**	3,105	**85,736**
Payments for guarantee deposits	**(512)**	(212)	**(4,830)**
Proceeds from collection of guarantee deposits	**361**	114	**3,406**
Other, net	**(88)**	182	**(831)**
Net cash flows provided by (used in) investing activities	**(15,569)**	(19,685)	**(146,877)**
Cash flows from financing activities:			
Increase or Decrease in short-term borrowings and commercial paper	**217,620**	(14,112)	**2,053,019**
Increase in long-term debt	**609,195**	399,343	**5,747,123**
Decrease in long-term debt	**(328,126)**	(315,749)	**(3,095,528)**
Payments of cash dividends	**(100,465)**	—	**(947,784)**
Net cash flows provided by (used in) financing activities	**398,224**	69,482	**3,756,830**
Net increase in cash and cash equivalents	**156,962**	26,829	**1,480,773**
Cash and cash equivalents at beginning of year	**1,160,586**	1,133,757	**10,948,925**
Cash and cash equivalents at end of year	**¥1,317,548**	¥1,160,586	**$12,429,698**

See accompanying notes.

Notes to Financial Statements

DAIWA SECURITIES Co. Ltd.
Years ended March 31, 2018 and 2017

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 as 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 as of March 31, 2018, which was ¥106 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 high liquid investments with original maturities of up to three months.

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 (a) debt securities intended to be held to maturity ("Held-to-maturity debt securities") which are carried at amortized cost, (b) 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 (c) 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(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 12 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 inhabitant 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 carryforwards, 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.

Unapplied accounting standard

- Accounting Standard for Revenue Recognition (ASBJ Statement No. 29 issued on March 30, 2018)
- Implementation Guidelines on Accounting Standards for Revenue Recognition (ASBJ Guidance No. 30 issued on March 30, 2018)

(a) Overview
It is a comprehensive accounting standard for revenue recognition. Revenue should be recognized by applying following five steps.
Step 1: Identify the contract with a customer.
Step 2: Identify the performance obligations under the contract.
Step 3: Determine the transaction price.
Step 4: Allocate transaction price to the performance obligations under the contract.
Step 5: Recognize revenue when performance obligations are satisfied or as fulfilled.

(b) Application date
Application date is under consideration as of the filing date of securities report.

(c) Impact of application
The impact is under evaluation as of the filing date of securities report.

3. Margin transactions

Margin transactions at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Assets:			
Loans on margin transactions	¥224,934	¥169,835	$2,122,019
Cash collateral pledged for securities borrowing on margin transactions	31,453	27,965	296,726
	¥256,387	¥197,800	$2,418,745
Liabilities:			
Borrowings on margin transactions	¥ 2,348	¥ 2,254	$ 22,151
Cash received for securities lending on margin transactions	68,251	59,213	643,877
	¥ 70,599	¥ 61,467	$ 666,028

Loans on margin transactions are stated at amounts equal to the purchase amounts of the relevant securities, which are collateralized by customers' securities and customers' deposits. Cash received for securities lending on margin transactions are stated at the sales amounts.

4. Collateralized short-term financing agreements

Collateralized short-term financing agreements at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Assets:			
Securities purchased under agreements to resell	¥ 125,353	¥ 324,205	$ 1,182,575
Securities borrowed	3,686,573	2,848,793	34,778,991
	¥3,811,926	¥3,172,998	$35,961,566
Liabilities:			
Securities sold under agreements to repurchase	¥1,196,089	¥1,216,169	$11,283,859
Securities loaned	1,724,185	1,457,756	16,265,896
	¥2,920,274	¥2,673,925	$27,549,755

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 raises capital. Also, the Company uses interest rate swaps and foreign currency swaps, etc., for the purpose of hedging against fluctuation in interest rates and foreign exchange rates.

The Company appropriately manage the variety of risks incurred by holding financial assets and liabilities and maintains sound finances.

(2) Contents and risk of financial instruments

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

(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, 2018 (fiscal year-end) was ¥1.0 billion ($9.4 million). In the meantime, the Company executes backtesting which compares calculated VaR and the actual profit/loss to verify its effectiveness. However the VaR statistically figures the risk based on historical market fluctuation and may be sometimes unable to completely grasp the risk in the environment that the market unexpectedly changes beyond the estimation.

(b) Management of credit risk

The credit risk generated in the trading business of the Company consists of counterparty risk and issuer risk. To manage the counterparty risk, the Company has established the credit limit for each counterparty based on internal credit ratings of counterparties in advance and monitors the observance of such credit limit. To manage the issuer risk of financial instruments held as the market maker, the

Company mainly monitors the fluctuation risk of the credit spread. In addition, the Company is periodically monitoring the influence from the large-lot credit.

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

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

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

(Quantitative information concerning market risk)

The main financial assets that are influenced by market risk are "Investment securities" for the business relationship. As of March 31, 2018 fair value of the listed equities in "Investment securities" would fluctuate by ¥0.7 billion ($6.6 million) if the indices, such as TOPIX, were to change by 10%.

Also, the main financial liabilities in the Company that are influenced by market risk are "bonds and notes" and "long-term debt." As of March 31, 2018, 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 ¥0.1 billion ($0.9 million) and ¥1.4 billion ($13.2 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, Daiwa Securities Group Inc.—our parent company collectively manages and monitors the liquidity of Daiwa securities Group Inc. and its subsidiaries ("Daiwa") under the basic policy to secure the appropriate liquidity of Daiwa as a whole. Also, 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.

The contingency funding plan of the Company is periodically revised to quickly respond to changing financial environments.

(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, 2018 and 2017, 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					
	2018			2017		
	Amounts on balance sheets	Fair value	Difference	Amounts on balance sheets	Fair value	Difference
Assets						
(1) Cash and cash equivalents	¥ 1,317,548	¥ 1,317,548	¥ —	¥ 1,160,586	¥ 1,160,586	¥ —
(2) Cash segregated as deposits for regulatory purposes	327,070	327,070	—	315,583	315,583	—
(3) Trading assets	5,163,208	5,163,208	—	4,655,239	4,655,239	—
(4) Receivables related to margin transactions	256,387	256,387	—	197,800	197,800	—
(5) Trading account receivables, net	—	—	—	40,133	40,133	—
(6) Collateralized short-term financing agreements	3,811,926	3,811,926	—	3,172,998	3,172,998	—
(7) Short-term guarantee deposits	307,890	307,890	—	329,864	329,864	—
(8) Loans receivable from customers	95,944	95,944	—	86,837	86,837	—
(9) Loans receivable from other than customers	224,957	224,957	—	154,121	154,121	—
(10) Investment securities						
Other securities	7,504	7,504	—	9,912	9,912	—
Total Assets	¥11,512,434	¥11,512,434	¥ —	¥10,123,073	¥10,123,073	¥ —
Liabilities						
(11) Trading liabilities	¥ 3,850,446	¥ 3,850,446	¥ —	¥ 3,529,438	¥ 3,529,438	¥ —
(12) Payables related to margin transactions	70,599	70,599	—	61,467	61,467	—
(13) Trading account payables, net	329,873	329,873	—	—	—	—
(14) Collateralized short-term financing agreements	2,920,274	2,920,274	—	2,673,925	2,673,925	—
(15) Payables to customers and counterparties	603,973	603,973	—	581,978	581,978	—
(16) Short-term borrowings	1,207,496	1,207,496	—	1,094,876	1,094,876	—
(17) Commercial paper	105,000	105,000	—	—	—	—
(18) Long-term debt	1,641,975	1,646,775	(4,800)	1,374,011	1,375,788	(1,777)
Total Liabilities	¥10,729,636	¥10,734,436	¥(4,800)	¥ 9,315,695	¥ 9,317,472	¥(1,777)

	Thousands of U.S. dollars		
	2018		
	Amounts on balance sheets	Fair value	Difference
Assets			
(1) Cash and cash equivalents	$ 12,429,698	$ 12,429,698	$ —
(2) Cash segregated as deposits for regulatory purposes	3,085,566	3,085,566	—
(3) Trading assets	48,709,509	48,709,509	—
(4) Receivables related to margin transactions	2,418,745	2,418,745	—
(5) Trading account receivables, net	—	—	—
(6) Collateralized short-term financing agreements	35,961,566	35,961,566	—
(7) Short-term guarantee deposits	2,904,623	2,904,623	—
(8) Loans receivable from customers	905,132	905,132	—
(9) Loans receivable from other than customers	2,122,236	2,122,236	—
(10) Investment securities			
Other securities	70,793	70,793	—
Total assets	$108,607,868	$108,607,868	$ —

	Thousands of U.S. dollars		
	2018		
	Amounts on balance sheets	Fair value	Difference
Liabilities			
(11) Trading liabilities	**$ 36,324,962**	**$ 36,324,962**	**$ —**
(12) Payables related to margin transactions	**666,028**	**666,028**	**—**
(13) Trading account payables, net	**3,112,009**	**3,112,009**	**—**
(14) Collateralized short-term financing agreements	**27,549,755**	**27,549,755**	**—**
(15) Payables to customers and counterparties	**5,697,859**	**5,697,859**	**—**
(16) Short-term borrowings	**11,391,472**	**11,391,472**	**—**
(17) Commercial paper	**990,566**	**990,566**	**—**
(18) Long-term debt	**15,490,330**	**15,535,613**	**(45,283)**
Total liabilities	**$101,222,981**	**$101,268,264**	**$(45,283)**

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

(1) Cash and cash equivalents

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

(2) Cash segregated as deposits for regulatory purposes

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

(3) Trading assets and (11) 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.

(4) Receivables related to margin transactions and (12) Payables related to margin transactions

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

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

(5) Trading account receivables, net and (13) 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.

(6), (14) 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) Short-term guarantee deposits and (15) Payables to customers and counterparties
These are mainly deposits as guarantee relating to derivative transactions and stated as their book value as settled in the short term with those characteristics which are marked to market for each transaction. Concerning the other cash deposit received as guarantee from customers, the payment amount (book value) when settled at the end of this fiscal year is considered as fair value.

(8) Loans receivable from customers and (9) 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.

(10) 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

(16) Short-term borrowings and (17) 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.

(18) 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, 2018 and 2017 is as below and is not included in the "Assets (10) Investment securities—Other securities" of fair value information of financial instruments.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Subsidiaries' stocks and related companies' stocks			
Unlisted equities	**¥1,135**	¥1,135	**$10,708**
Other securities			
Unlisted equities	**3,016**	3,996	**28,452**
Investments in limited partnership and other similar partnerships	**2,380**	7,074	**22,453**
Others	**1,544**	2,285	**14,566**

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, 2018

	Millions of yen			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and cash equivalents	¥1,317,548	¥—	¥—	¥—
Cash segregated as deposits for regulatory purposes	327,070	—	—	—
Receivables related to margin transactions	256,387	—	—	—
Collateralized short-term financing agreements	3,811,926	—	—	—
Short-term guarantee deposits	307,890	—	—	—
Investment securities:				
Other securities with a maturity date	—	—	—	—
Other securities	—	—	—	—
Total	¥6,020,821	¥—	¥—	¥—

* 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	$12,429,698	$—	$—	$—
Cash segregated as deposits for regulatory purposes	3,085,566	—	—	—
Receivables related to margin transactions	2,418,745	—	—	—
Collateralized short-term financing agreements	35,961,566	—	—	—
Short-term guarantee deposits	2,904,623	—	—	—
Investment securities:				
Other securities with a maturity date	—	—	—	—
Other securities	—	—	—	—
Total	$56,800,198	$—	$—	$—

* 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, 2018

	Millions of yen			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Commercial paper	¥105,000	¥ —	¥ —	¥ —
Long-term debt	220,495	652,429	408,103	360,948
Total	¥325,495	¥652,429	¥408,103	¥360,948

	Thousands of U.S. dollars			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Commercial paper	$ 990,566	$ —	$ —	$ —
Long-term debt	2,080,141	6,154,991	3,850,028	3,405,170
Total	$3,070,707	$6,154,991	$3,850,028	$3,405,170

6. Trading assets and trading liabilities

Trading assets and trading liabilities at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Trading assets:			
Trading securities:			
Equities	**¥ 285,590**	¥ 272,109	**$ 2,694,245**
Government, corporate and other bonds	**2,125,282**	1,492,097	**20,049,830**
Investment trusts	**254,654**	177,549	**2,402,396**
Commercial paper, certificates of deposits and others	**2,529**	22,324	**23,859**
Derivatives:			
Option transactions	**424,524**	455,163	**4,004,943**
Futures and forward transactions	**59,060**	77,949	**557,170**
Swap agreements	**1,992,381**	2,135,782	**18,796,047**
Other derivatives	**23,957**	27,983	**226,010**
Risk reserves	**(4,769)**	(5,717)	**(44,991)**
	¥5,163,208	¥4,655,239	**$48,709,509**
Trading liabilities:			
Trading securities:			
Equities	**¥ 226,059**	¥ 191,181	**$ 2,132,632**
Government, corporate and other bonds	**1,425,583**	943,673	**13,448,896**
Investment trusts	**16**	800	**151**
Derivatives:			
Option transactions	**375,796**	370,066	**3,545,245**
Futures and forward transactions	**58,639**	62,492	**553,198**
Swap agreements	**1,741,600**	1,930,832	**16,430,189**
Other derivatives	**22,753**	30,394	**214,651**
	¥3,850,446	¥3,529,438	**$36,324,962**

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, 2018 and 2017 consisted of the following:

			Millions of yen
	Cost	Fair value	Difference
March 31, 2018:			
Equities	**¥1,245**	**¥7,504**	**¥6,259**
Bonds	**—**	**—**	**—**
	¥1,245	**¥7,504**	**¥6,259**
March 31, 2017:			
Equities	¥1,468	¥9,912	¥8,444
Bonds	—	—	—
	¥1,468	¥9,912	¥8,444

			Thousands of U.S. dollars
	Cost	Fair value	Difference
March 31, 2018:			
Equities	**$11,745**	**$70,793**	**$59,048**
Bonds	**—**	**—**	**—**
	$11,745	**$70,793**	**$59,048**

Cost/amortized cost of held-to-maturity securities and non-marketable securities as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Other securities:			
Unlisted equities	**4,151**	5,131	**39,160**
Investments in limited partnership and other similar partnerships	**2,380**	7,074	**22,453**
Other	**1,544**	2,285	**14,566**
	¥8,075	¥14,490	**$76,179**

8. Pledged assets

Secured obligations at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Short-term borrowings	**¥10,000**	¥100,000	**$94,340**
	¥10,000	¥100,000	**$94,340**

The above obligations at March 31, 2018 and 2017 were secured by the following assets:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Trading assets	**¥638,006**	¥486,573	**$6,018,925**
	¥638,006	¥486,573	**$6,018,925**

In addition to the above, securities borrowed amounting to ¥36,769 million ($346,877 thousand) and ¥37,906 million were pledged as guarantees at March 31, 2018 and 2017, respectively.

Total fair value of the securities pledged as collateral at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Securities loaned	**¥1,726,035**	¥1,453,921	**$16,283,349**
Securities sold under agreements to repurchase	**1,200,335**	1,216,974	**11,323,915**
Other	**498,487**	433,100	**4,702,708**
	¥3,424,857	¥3,103,995	**$32,309,972**

Total fair value of the securities received as collateral at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Securities borrowed	**¥3,862,244**	¥2,940,613	**$36,436,264**
Securities purchased under agreements to resell	**121,531**	319,674	**1,146,519**
Other	**358,096**	310,854	**3,378,264**
	¥4,341,871	¥3,571,141	**$40,961,047**

9. Lease transactions

The information concerning operating leases at March 31, 2018 and 2017 are as follows:

Lessee:	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Operating leases:			
Future lease payments in respect of operating leases	¥49,704	¥5,627	$468,906
Due within one year	7,811	5,594	73,689

10. Payables to customers and counterparties

Payables to customers and counterparties at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deposits from customers	¥179,301	¥189,547	$1,691,519
Guarantee deposits received	413,997	392,431	3,905,632
Other	10,675	—	100,708
	¥603,973	¥581,978	$5,697,859

11. Long-term debt

Long-term debt as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Bond payable in yen: 1.26% due CY2017	¥ —	¥ 19,800	$ —
Bond payable in yen: 1.72% due CY2020	18,400	18,400	173,585
Bond payable in yen: 2.16% due CY2025	7,800	7,800	73,585
Bond payable in yen: 2.41% due CY2026	3,000	3,000	28,301
Bond payable in yen: 2.24% due CY2026	5,000	5,000	47,170
Bond payable in yen: 0.14% due CY2034	5,000	5,000	47,170
Medium-term notes maturing through CY2047	723,158	650,086	6,822,245
Subordinated medium-term notes maturing through CY2021	6,525	7,125	61,557
Subordinated borrowings in yen maturing through CY2025	50,000	50,000	471,698
Long-term borrowings in yen maturing through CY2047	823,092	607,800	7,765,019
	¥1,641,975	¥1,374,011	$15,490,330

The amount for medium-term notes as of March 31, 2018 includes US$397,094 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, 2018 and 2017 are ¥30,478 million ($287,528 thousand) and ¥29,053 million, respectively. Benefit expenses stated in the statements of income for the years ended March 31, 2018 and 2017 were ¥2,599 million ($24,519 thousand) and ¥2,450 million, respectively.

Movement in retirement benefit obligations consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
At beginning of period	¥29,053	¥27,654	$274,085
Service cost	2,599	2,450	24,519
Benefits paid	(1,440)	(1,331)	(13,585)
Other	266	280	2,509
At end of period	¥30,478	¥29,053	$287,528

(2) Defined Contribution plan

Benefit expenses to "Defined contribution" for the years ended March 31, 2018 and 2017 were ¥2,227 million ($21,009 thousand) and ¥2,154 million, respectively.

Retirement benefits for directors

Directors' and corporate auditors' retirement benefits of ¥51 million ($481 thousand) and ¥74 million are included in "Retirement benefits" in the accompanying balance sheets as of March 31, 2018 and 2017. Benefit expenses stated in the statements of income for the years ended March 31, 2018 and 2017 were ¥14 million ($132 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, 2018 and 2017 are as follows:

	2018	2017
Statutory tax rate:	30.9%	30.9%
Valuation allowance	(1.5)	0.3
Other	(1.7)	0.3
Effective tax rate	27.7%	31.5%

Details of deferred tax assets and liabilities as of March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets:			
Retirement benefits	¥ 9,348	¥ 8,921	$ 88,189
Compensation and bonuses	4,928	4,474	46,491
Loss on trading	2,405	4,605	22,689
Statutory reserves	1,204	1,199	11,358
Enterprise tax and office taxes	1,084	807	10,226
Write-down of investment securities	562	406	5,302
Depreciation	327	282	3,085
Other	6,151	5,896	58,028
Gross deferred tax assets	26,009	26,590	245,368
Less: Valuation allowance	(14,524)	(15,851)	(137,019)
Total deferred tax assets	11,485	10,739	108,349
Deferred tax liabilities	2,636	3,439	24,868
Net deferred tax assets	¥ 8,849	¥ 7,300	$ 83,481

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

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 ¥68 million ($642 thousand) and ¥96 million at March 31, 2018 and 2017, respectively. The outstanding balances of the guarantees obligated by the Company arising as guarantors of derivative transactions of fellow subsidiaries were ¥339 million ($3,198 thousand) and ¥335 million at March 31, 2018 and 2017, 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 ¥79,531 ($755) per share amounting to ¥64,436 million ($607,887 thousand) were approved by the shareholders' meeting on June 20, 2018.

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)

	Retail sales	Domestic wholesale	Reportable segment total	Others	Total
					Millions of yen
Year ended March 31, 2018:					
Net operating revenues:					
Sales to customers	**¥209,163**	**¥115,001**	**¥324,164**	**¥(1,147)**	**¥323,017**
Intersegment sales and transfers	**—**	**—**	**—**	**—**	**—**
Total	**¥209,163**	**¥115,001**	**¥324,164**	**¥(1,147)**	**¥323,017**

	Retail sales	Domestic wholesale	Reportable segment total	Others	Total
					Millions of yen
Year ended March 31, 2017:					
Net operating revenues:					
Sales to customers	¥182,580	¥125,705	¥308,285	¥363	¥308,648
Intersegment sales and transfers	—	—	—	—	—
Total	¥182,580	¥125,705	¥308,285	¥363	¥308,648

	Retail sales	Domestic wholesale	Reportable segment total	Others	Total
					Thousands of U.S. dollars
Year ended March 31, 2018:					
Net operating revenues:					
Sales to customers	**$1,973,236**	**$1,084,915**	**$3,058,151**	**$(10,821)**	**$3,047,330**
Intersegment sales and transfers	**—**	**—**	**—**	**—**	**—**
Total	**$1,973,236**	**$1,084,915**	**$3,058,151**	**$(10,821)**	**$3,047,330**

* "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
Net operating revenues	**2018**	2017	**2018**
Reportable segment total	**¥324,164**	¥308,285	**$3,058,151**
Net operating revenues from "Others"	**(1,147)**	363	**(10,821)**
Commission fee deducted from net operating revenues	**5,296**	5,907	**49,962**
Other adjustments	**(2,220)**	(452)	**(20,943)**
Net operating revenue of financial statements	**¥326,093**	¥314,103	**$3,076,349**

(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, 2018 and 2017, 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 2018
Daiwa Securities Group Inc.	¥247,397 million	Proceeds from Borrowings		Short-term borrowings	¥327,496
		Interest expense (Note 1)	¥ 8,215	Long-term debt	437,553
				Accrued and other liabilities—Other	2,165
Daiwa Capital Markets Europe Limited	£732 million	Continual transactions of collateralized short-term financial agreements		Collateralized short-term financing agreements (Assets)	¥ 3,700
		Interest income (Note 3)	¥ 79	Collateralized short-term financing agreements (Liabilities)	596,242
		Interest expense (Note 3)	880		
		Continual transactions of loans		Loans receivable from other than customers	¥166,266
		Interest income (Note 3)	¥ 2,458	Receivables—Other	763
		Continual transactions of purchase and sale of securities (Notes 2, 3)	—		
		Continual transactions of derivatives (Notes 2, 3)		Trading assets	¥ 31,468
				Trading liabilities	40,003
Daiwa Capital Markets America Inc.	$100 million	Continual transactions of collateralized short-term financial agreements		Collateralized short-term financing agreements (Assets)	¥120,124
		Interest income (Note 3)	¥ 199	Collateralized short-term financing agreements (Liabilities)	537,611
		Interest expense (Note 3)	7,705		
		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	¥ 3,914
		Commissions (Note 4)	¥23,127		
Daiwa Next Bank, Ltd.	¥50,000 million	Continual transactions of collateralized short-term financial agreements		Collateralized short-term financing agreements (Assets)	¥121,374
		Interest income (Note 3)	¥ 1,489		
		Interest expense (Note 3)	—		
		Continual transactions of purchase and sale of securities (Notes 2, 3)	—		
		Continual transactions of derivatives (Notes 2, 3)		Trading assets	¥ 189
				Trading liabilities	92

* "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 2017	
Daiwa Securities Group Inc.	¥247,397 million	Proceeds from Borrowings		Short-term borrowings	¥374,876
		Interest expense (Note 1)	¥ 2,710	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)	¥ 32	Collateralized short-term financing agreements (Liabilities)	610,256
		Interest expense (Note 3)	945		
		Continual transactions of loans		Loans receivable from other than customers	¥ 98,278
		Interest income (Note 3)	¥ 1,176	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
Daiwa Capital Markets America Inc.	$100 million	Continual transactions of collateralized short-term financial agreements		Collateralized short-term financing agreements (Assets)	¥ 23,393
		Interest income (Note 3)	¥ (62)	Collateralized short-term financing agreements (Liabilities)	619,598
		Interest expense (Note 3)	5,419		
		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)	¥ 1,313		
		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

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Terms and conditions of the transactions and transaction policy
(Note 1) Interest rates on borrowings are determined rationally in consideration of market interest rates.
(Note 2) The description of transaction amount is omitted because these are continual transactions.
(Note 3) Terms of transaction are determined based on the market trends.
(Note 4) These are based on the investment trust contract of each fund. The fee is determined in the same manner as other sales companies.

Name of related company	Paid-in Capital	Description of transactions		Account balances Thousands of U.S. dollars	2018
Daiwa Securities Group Inc.	¥247,397 million	Proceeds from Borrowings		Short-term borrowings	$3,089,585
		Interest expense (Note 1)	$ 77,500	Long-term debt	4,127,858
				Accrued and other liabilities—Other	20,425
Daiwa Capital Markets Europe Limited	£732 million	Continual transactions of collateralized short-term financial agreements		Collateralized short-term financing agreements (Assets)	$ 34,906
		Interest income (Note 3)	$ 745	Collateralized short-term financing agreements (Liabilities)	5,624,925
		Interest expense (Note 3)	8,302		
		Continual transactions of loans		Loans receivable from other than customers	$1,568,547
		Interest income (Note 3)	$ 23,189	Receivables—Other	7,198
		Continual transactions of purchase and sale of securities (Notes 2, 3)	—		
		Continual transactions of derivatives (Notes 2, 3)		Trading assets	$ 296,868
				Trading liabilities	377,387
Daiwa Capital Markets America Inc.	$100 million	Continual transactions of collateralized short-term financial agreements		Collateralized short-term financing agreements (Assets)	$1,133,245
		Interest income (Note 3)	$ 1,877	Collateralized short-term financing agreements (Liabilities)	5,071,802
		Interest expense (Note 3)	72,689		
		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	$ 36,925
		Commissions (Note 4)	$218,179		
Daiwa Next Bank, Ltd.	¥50,000 million	Continual transactions of collateralized short-term financial agreements		Collateralized short-term financing agreements (Assets)	$1,145,038
		Interest income (Note 3)	$ 14,047		
		Interest expense (Note 3)	—		
		Continual transactions of purchase and sale of securities (Notes 2, 3)	—		
		Continual transactions of derivatives (Notes 2, 3)		Trading assets	$ 1,783
				Trading liabilities	868

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Terms and conditions of the transactions and transaction policy
(Note 1) Interest rates on borrowings are determined rationally in consideration of market interest rates.
(Note 2) The description of transaction amount is omitted because these are continual transactions.
(Note 3) Terms of transaction are determined based on the market trends.
(Note 4) These are based on the investment trust contract of each fund. The fee is determined in the same manner as other sales companies.

19. Special purpose entities subject to disclosure

The Company utilized seven special purpose entities for the year ended March 31, 2018 (six for the year ended March 31, 2017) 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, 2018 and 2017 are ¥589,153 million ($5,558,047 thousand) and ¥648,695 million, respectively.

20. Net gain on trading

Net gain on trading for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Equities and others	**¥40,414**	¥ 21,716	**$381,264**
Bonds, forex and others	**59,548**	94,558	**561,774**
	¥99,962	¥116,274	**$943,038**

21. Selling, general and administrative expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2018 and 2017 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Employees' compensation and benefits	**¥102,746**	¥ 99,720	**$ 969,302**
Commissions and brokerage	**17,097**	16,943	**161,292**
Communications	**12,387**	11,810	**116,858**
Occupancy and rental	**24,834**	24,049	**234,283**
Data processing and office supplies	**46,506**	44,134	**438,736**
Taxes other than income taxes	**4,576**	4,672	**43,170**
Depreciation	**16,372**	15,666	**154,453**
Other	**16,020**	14,694	**151,132**
	¥240,538	¥231,688	**$2,269,226**

22. Other income (expenses)

Details of "Other, net" in the accompanying statements of income for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Gains on sales of investment securities	**¥ 3,699**	¥ —	**$ 34,896**
Reversal of provision for loss on litigation	**—**	158	**—**
Compensation for transfer	**688**	—	**6,491**
Office transfer expenses	**(2,034)**	—	**(19,189)**
Other	**1,246**	2,820	**11,755**
	¥ 3,599	¥2,978	**$ 33,953**

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, 2018 and 2017, 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, 2018 and 2017, 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, 2018 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 28, 2018
Tokyo, Japan