

Daiwa Securities Group

Integrated Report 2019

Year ended March 31, 2019

PASSION

FOR

A BETTER

SOCIETY

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ESG Index Selection

Daiwa Securities Group Inc. has been selected for inclusion in the Dow Jones Sustainability World Index, the FTSE4Good Index, the FTSE Blossom Japan Index, the 2019 Bloomberg Gender-Equality Index and the MSCI Japan Empowering Women Index.

MEMBER OF

**Dow Jones
Sustainability Indices**

In Collaboration with RobecoSAM



MSCI Japan Empowering Women Index (WIN)

Forward-Looking Statements

This Integrated Report contains forward-looking statements about the Daiwa Securities Group. You can identify these statements by the fact that they do not relate strictly to historic or current facts. These statements discuss future expectations, identify strategies, contain projections of results of operations or of financial condition, or state other "forward-looking" information. These statements are based on currently available information and represent the beliefs of the management of the Daiwa Securities Group. These statements are subject to numerous risks and uncertainties that could cause the Daiwa Securities Group's actual results, performance, achievements or financial condition to differ materially from those described or implied in the forward-looking statements. The Daiwa Securities Group undertakes no obligation to publicly update any forward-looking statements after the date of issuance of this report. These potential risks and uncertainties include, but are not limited to: competition within the financial services industries in Japan and overseas, our ability to adjust our business focus and to maintain profitable strategic alliances, volatile and sudden movements in the international securities markets, and foreign exchange and global economic situations affecting the Daiwa Securities Group. "FY2018" refers to the fiscal year ended March 31, 2019, and other fiscal years are referred to in a corresponding manner.

Editorial Policy

Publication of Daiwa Securities Group Integrated Report 2019

Daiwa Securities Group has formulated and published the corporate principle which consists of four components: “building trust,” “placing importance on personnel,” “contributing to society,” and “maintaining healthy earnings results.” This corporate principle is the bedrock from which we aim to increase corporate value over the longer term, by managing operations with an eye on creating value for our stakeholders, while fulfilling our social responsibilities as a major player in capital markets. Based on this philosophy, the Group performs its social mission of contributing to the development of society and the economy through participation in financial and capital markets, by bringing together the asset formation needs of individuals, corporations and institutional investors and the funding needs of companies, national and local governments, public institutions, and international institutions.

In carrying out this mission, in order to deepen understanding of the corporate activities of the Group, and together with all of our stakeholders to generate value, we have started to publish an integrated report annually as a tool for dialogue.

In this year's report, we explain the Group's efforts toward sustainable growth, and the unique corporate culture and competitiveness behind them, and provide specific examples to facilitate the getting of points across to our readers. In particular, we compiled a special feature on customer-oriented initiatives in the Retail Division.

With regard to the ESG field, this year we also held dialogues with people outside the Group, from which we received opinions on the Group's corporate governance and advice from an SDG perspective for the Group's sustainable growth.

Comprehensive ESG data is introduced in the [SDGs Data Book PDF version](#) on our website. I would appreciate it if you could provide us with your opinions on these reports.

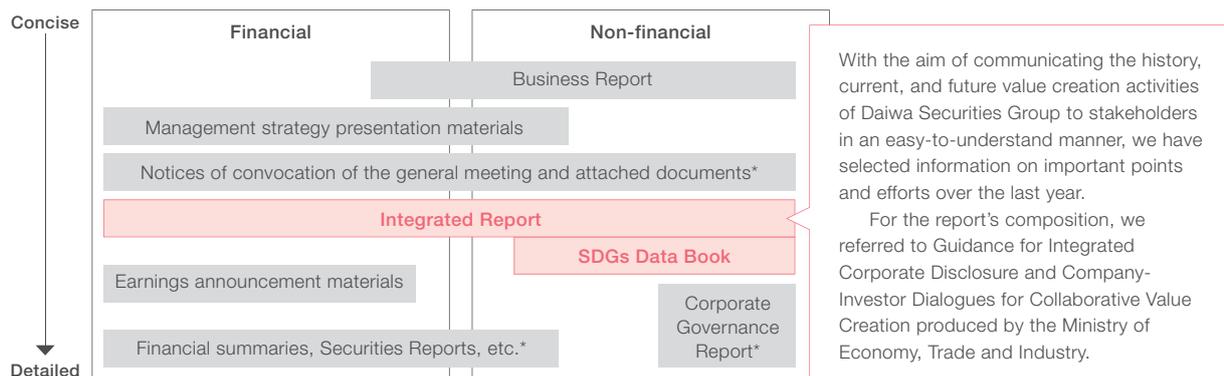
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Seiji Nakata
President and CEO
Daiwa Securities Group Inc.



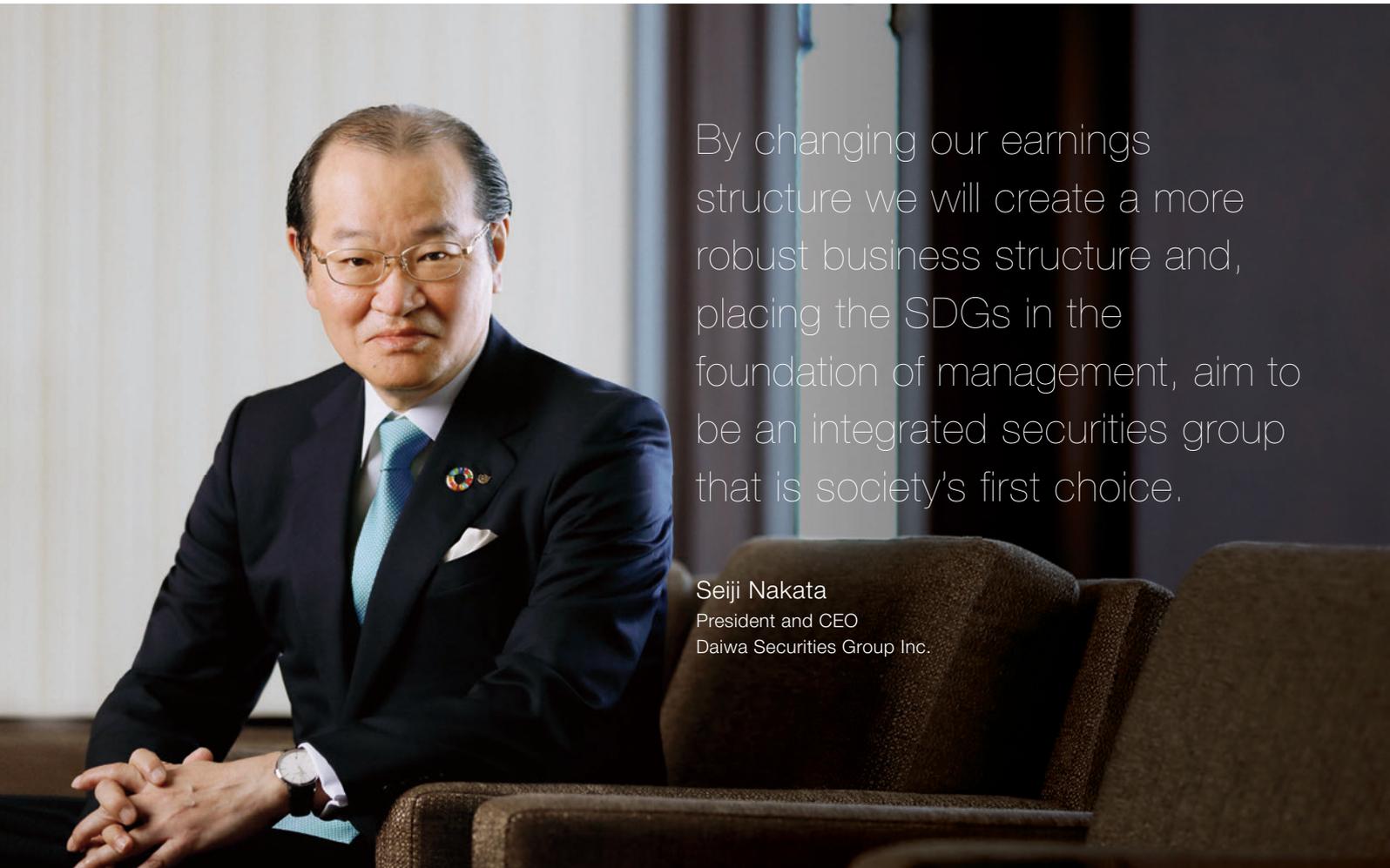
Note: Please send your comments and questions here: <https://www.daiwa-grp.jp/ir/english/inquiry.html>

Position of Integrated Report in Disclosure Documents



* Documents systematically stipulated under the Companies Act, Financial Instruments and Exchange Law, etc.

Message from the CEO



By changing our earnings structure we will create a more robust business structure and, placing the SDGs in the foundation of management, aim to be an integrated securities group that is society's first choice.

Seiji Nakata
President and CEO
Daiwa Securities Group Inc.

In a difficult business environment, steady execution of initiatives adopted in the Medium-Term Management Plan

In FY2018, the market environment deteriorated particularly in the second half, but we recognize that economic growth, which had continued for 10 years since the global financial crisis, peaked at the beginning of 2018. In addition to the feeling that domestic business conditions had come full circle, there was an increasing sense of uncertainty about the direction of global business conditions brought about by the outbreak and widening of U.S.-China trade friction, and thus the securities markets, and the Japanese market in particular, lost momentum. As a result, activities related to securities transactions, especially for individual customers, slowed down significantly, and the Group was unable to escape from the impact. The Daiwa Securities Group reported consolidated net operating revenues of ¥441.2 billion, a decrease of 12.7% over the previous fiscal year, ordinary income of ¥83.1 billion (down 46.6%), and profit attributable to owners of parent of ¥63.8 billion, a decrease of 42.3% over the previous fiscal year, punishing results in what was the first year of the Medium-Term Management Plan (the Plan).

With regard to shareholder returns, from FY2018 the dividend payout ratio has been increased from around 40% to 50% or higher. Based on that policy, the full-year dividend for the fiscal year was ¥21 per share, and the dividend payout ratio was 52.6%. The total return ratio exceeded 100% after adding the total amount paid for the share repurchase of ¥34.8 billion implemented during the period.

With regard to the state of progress with the Plan, under performance KPIs, ROE was 5.1% and ordinary income was ¥83.1 billion. The reality is that the external environment is worse than expected when the Plan was formulated. However, we do think that there is sufficient possibility of a future market recovery, and so have not changed the target figures at this time. In the meantime, we are making good progress with customer-oriented KPIs. The Daiwa Securities version of NPS[®], which was introduced in earnest in FY2018, has been installed at all branches as originally planned. Assets under custody declined compared with the end of the previous fiscal year due mainly to the decline in the market, but if you look at the amount of asset inflow that deposited new assets with the Group, the pace of progress was significantly higher than expected. Especially in the Retail Division, which is promoting customer-oriented sales reforms, the annual net assets inflow (the amount newly deposited with the Retail Division minus the amount of withdrawals) totaled ¥1,222.2 billion, the highest level since FY2007, before stock certificate digitization came into effect. The consolidated total capital ratio, which is the financial KPI, continues to maintain a robust financial base at 22.1%.

Although it was a tough market environment in FY2018, we believe that we were able to achieve certain results in each division.

* NPS[®]: Net Promoter Score, an indicator that quantifies customer-oriented loyalty. NPS[®] is a registered trademark of Bain & Company, Fred Reichheld and Satmetrix Systems Inc.

▶▶ Page 14
Medium-Term Management Plan

▶▶ Page 37
Strategies by Division

Accelerating earnings structure change, creating more robust business structure

From the current fiscal year onward, even if the harsh market environment continues, we will accelerate productivity improvement efforts to achieve sustainable growth over the medium to long term. While reviewing the cost structure of existing businesses, we will also increase profits by boldly investing management resources in priority strategies.

In FY2018, we established the Business Reform and Productivity Improvement Committee. Due to having adopted business efficiency KPIs, such as the reallocation of more than three million hours a year, a reduction of 134,000 hours was achieved by making meetings more efficient, 8,000 hours was saved by the use of voice recognition tools, and 23,000 hours by the use of chatbots. We are also commencing efforts to improve efficiency by utilizing digital technologies such as robotic process automation (RPA). Under the Retail Division's branch strategy, we have been opening small, low-cost sales offices based on thorough area marketing with the aim of expanding contacts with customers. At the same time, we have been operating businesses with an emphasis on cost efficiency, such as consolidating existing branches with overlapping sales areas.

At the present time, however, the business environment in the securities industry remains difficult. We realize that, should this harsh situation continue, further steps to reduce costs and increase profitability by improving the top line will become urgent issues. We thus positioned initiatives up to and including FY2018 as Phase 1, and formulated an income/expense structure reform plan to contribute to medium- to long-term profit expansion with FY2019 and FY2020 regarded as Phase 2.

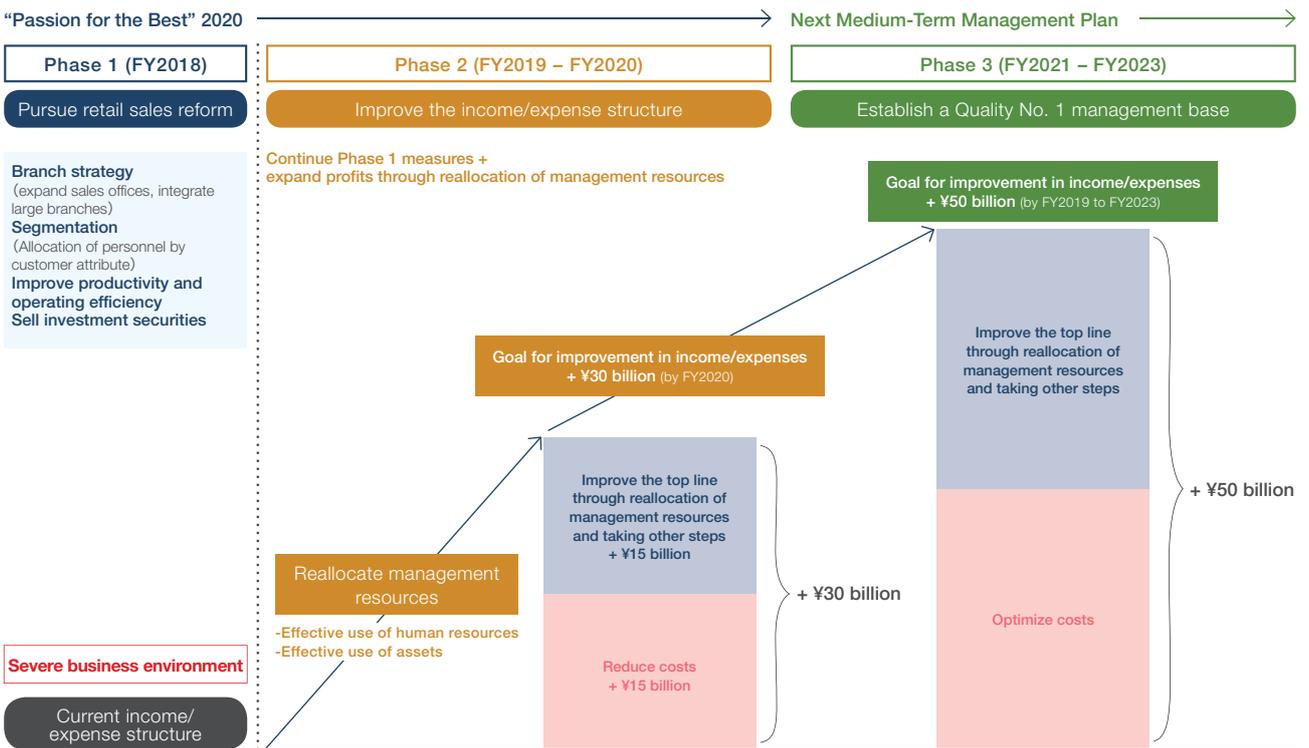
With regard to cost reductions, we have accumulated highly feasible numbers from each department and created a roadmap for future profit expansion through the reallocation of management resources. Through these efforts, we will create a pool of more than 400 people and reallocate them to priority strategic business areas in a phased manner. By accelerating the rate of increase in revenue contribution from priority areas, including new businesses, we aim to increase the top line by ¥15.0 billion and aim to improve consolidated ordinary income by a total of ¥30.0 billion.

Under the reassignments to priority strategic areas, in addition to those employees reassigned to the focus fields of existing businesses—such as Anshin Planners and Financial Consultants in the Retail Division and the M&A and IPO businesses in the Wholesale Division—others will be assigned to new businesses, such as Daiwa Energy & Infrastructure and CONNECT, or deployed as external partnership personnel.

Message from the CEO

The point I would like to emphasize here is that the Group currently maintains a surplus even under these testing business conditions, and these initiatives to improve profitability are not “restructuring” designed to rid ourselves of losses. Restructuring centered on cost reduction leads to diminished balance and carries with it the risk of nipping in the bud future profit growth. Rather, our approach is to divert limited management resources to businesses that are more likely to grow in the future through a thorough review of existing businesses. We are reviewing our business portfolio and believe that this is an extremely positive, forward-looking measure that can be expected to greatly improve productivity per employee.

Road Map to Reforming the Income / Expense Structure



Measures for FY2019 – FY2020

Reassess unprofitable businesses and services	Retail Division: <ul style="list-style-type: none"> Carefully examine cost-effectiveness by, for example, reviewing the FX business structure and various promotions Wholesale Division: <ul style="list-style-type: none"> Review secondary business lines, such as European FICC Middle/back function systems optimization
Slim down headquarters and division functions	<ul style="list-style-type: none"> Optimize and slim down number of departments and personnel through organizational restructuring
Improve the efficiency of sales branch functions	<ul style="list-style-type: none"> Consider promoting the integration of nearby branches in the Tokyo metropolitan area and Kansai region Consolidation of middle-back functions at sales branches near Tokyo
Reassess owned assets	<ul style="list-style-type: none"> Sale of owned properties, impairment of systems/facilities, external sales
Cut unnecessary SG&A expenses	<ul style="list-style-type: none"> Reduction of advertising, entertainment, travel, transportation and other expenses throughout Group

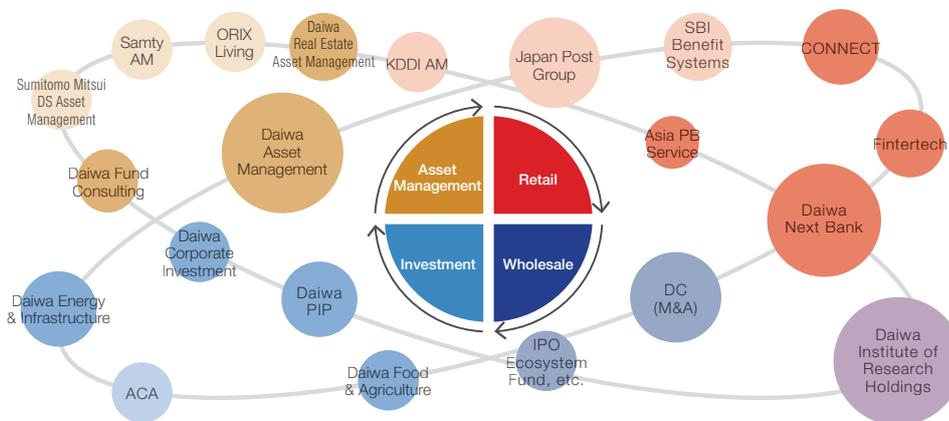
Pursuing a hybrid strategy designed to expand Daiwa Ecosystem

Of the two basic policies under the Plan, we are promoting “providing new value as an integrated securities group with a hybrid business model” as a business portfolio strategy unique to the Daiwa Securities Group. This concept involves expanding the business areas to new businesses from which we can expect synergies with the traditional securities business as the core, that is, “hybrid businesses.” In other words, we intend to expand our earnings base and improve profitability through the expansion of the Daiwa Ecosystem. In FY2018, ordinary income at Daiwa Next Bank and the real estate asset management business, which we have been conducting as hybrid businesses for the past 10 years, were ¥6.8 billion and ¥8.3 billion, respectively, and accounted for approximately 18% of consolidated ordinary income, complementing the traditional securities business and contributing to profit stabilization.

In a new business with a different risk profile from the core securities business, assuming capital allocation that matches the risk and return, investment is made based on the diversification of the business portfolio, synergies with existing businesses, and even SDGs. Although a certain amount of time is needed to expand the scale of a new business, we believe that a comparatively early contribution to profits can be expected from the renewable energy and infrastructure businesses, including solar and biomass, in which the Investment Division is already investing. We are continuing to expand the contribution to ordinary income from these hybrid businesses, including new businesses.

With regard to capital policy, which forms the basis of the investment plan, the Company currently maintains a high consolidated total capital ratio. Our policy is to proactively return surplus capital after maintaining 18% or more for regulatory compliance and at the present time securing sufficient capital for future growth investments.

Expanding Business Portfolio around the Core of the Traditional Securities Business



Major hybrid-type businesses

Daiwa Next Bank, Ltd.	▶▶ Page 58
Real estate asset management	▶▶ Page 54
Daiwa Energy & Infrastructure Co. Ltd.	▶▶ Page 56, 57
Fintertech Co. Ltd.	▶▶ Page 60
Daiwa Food & Agriculture Co. Ltd.	▶▶ Page 60
ORIX Living Corporation	▶▶ Page 59
Daiwa ACA HealthCare Inc.	▶▶ Page 60

Accelerating “savings to asset formation” in collaboration with partners

In May 2019, the Daiwa Securities Group signed a Memorandum of Understanding with the Japan Post Group to enter a partnership to strengthen collaboration in the field of asset formation. We believe that, through this collaboration, we will be able to expand access to provide our customers with a wider range of financial functions and financial services than those maintained by the Group.

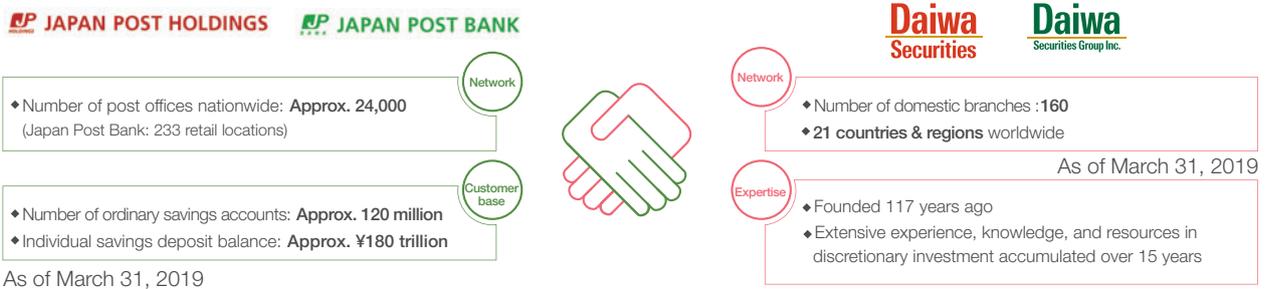
We are aiming for this collaboration—between the Japan Post Group, which has the largest customer base in Japan, and the Group, which has a 15-year history and track record in the discretionary investment management business—to kick start a major advance from “savings to asset formation,” an area in which there has not been any significant progress made for many years.

Message from the CEO

The Group has put together a large product lineup in discretionary investment management services. We are also expanding a range of functions to meet customer needs, no matter whether the need for face-to-face interaction or not, and have accumulated a wealth of know-how and resources on discretionary investment management services. We believe that the know-how of the Group can boost the face-to-face proposals and strengthen the customer-oriented product lineup according to the life stages of individual customers adopted by Japan Post Bank.

As of the end of March 2019, the Group's discretionary investment management contract balance stands at ¥2.1 trillion, but we would like to expand that to ¥5 trillion and ¥10 trillion through collaboration with the Japan Post Group. To deepen the consulting services targeted by the Japan Post Group, we would like to undertake further studies in the years to come so that we can expand collaboration in a wide range of securities business fields.

Furthermore, this alliance is positive from the point of view of ratings evaluations from overseas rating agencies for both the Group and Japan Post Bank. For the Group's evaluations, the significant increase in points of contact with customers is expected to improve the profitability of the retail and asset management divisions.



Next-generation transactions connected with new brand CONNECT

One of the important issues in recent years, one for which the Group has been studying a raft of measures, has been approaches to the younger generations, people in their 20s to their 40s, who regard transactions via the Internet and smartphone as natural, referred to as digital natives, and individual active traders. One answer to this is the new brand CONNECT (company established in April 2019, start of business planned for spring 2020*).

We believe that CONNECT's business model and service lineup are highly competitive and highly convenient for customers. For younger generations who have difficulty in investing, for given reasons that include "I'm interested in investing, but it's difficult to fully understand investing in stock" and "Investing requires a lot of money," we will provide services that enable them to have fun learning and have a casual investment experience.

For the active trader on the other hand, we not only offer the lowest standard trading commission in the industry, we also will strive to gain market share by offering an attractive product lineup. That lineup will include offerings for IPOs, which is where the Group's strength lies, in addition to domestic stocks.

Having been the first to implement online trading in Japan, Daiwa Securities has been constantly researching the online securities business. Currently, systems can be developed at a significantly lower cost than in 2000, when Internet securities companies were being established. By utilizing an application programming interface (API) platform, it is now possible to develop an efficient system and seamlessly expand business in cooperation with outside companies.

If you look at the recent size of the market for online securities, stock-related revenue, including interest from credit transactions, exceeds ¥150 billion (year-to-date). By leveraging the strengths in the utilization of technology and Group networks, CONNECT will of course gain market share from the net securities revenue pool by providing more attractive services. The company will also be aiming to acquire new investors, even among the younger age group, many of whom who have no previous investment experience.

* Business is scheduled to commence after the process of registering the business as a financial instruments business operator with the relevant government authorities has been completed.

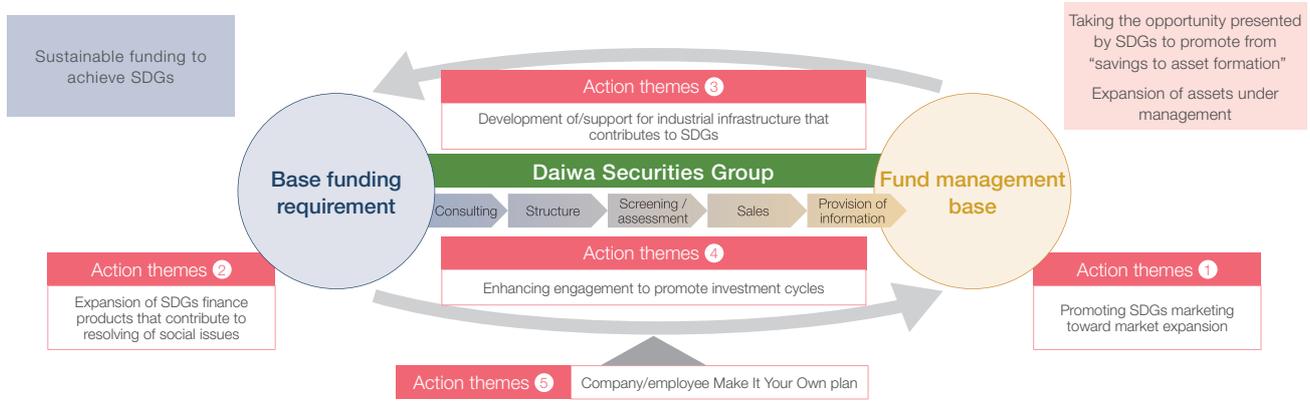


Construct SDGs value chain and create more value

The Daiwa Securities Group has placed the SDGs in the foundation of management in the belief that CSV* will achieve sustainable growth over the long term. In FY2018, we announced the Daiwa Securities Group SDGs Declaration (Passion for SDGs 2018). While promoting awareness of the Declaration outside and instilling the SDGs inside the Group, we have been receiving opinions from a variety of stakeholders and advancing in-house reviews with regard to what should be done for the Daiwa Securities Group to grow sustainably with society.

Having gathered a lot of opinions, the issues received were deemed materiality, and the “actions to be taken” clearly stated as SDGs promotion action plans. This will form the guideline for integrating the SDGs into the business and bringing about the change of the entire business into a sustainable entity in the years to come.

Building a Daiwa Version of an SDG Value Chain That Will Create a Sustainable Capital Cycle



* Creating Shared Value. Creation of shared value that balances economic value and social value

Social value essential requirement for sustainable management

The stakeholders that form the value chain of the Daiwa Securities Group remain very diverse. Among them, investors have diverse needs. The Daiwa Securities Group supports investors in their efforts to invest funds that help resolve social issues around the world and lead to proper innovation. We ourselves will also invest funds and resources in the same manner.

The Daiwa Securities Group fulfills the role of connecting customer asset management and fund procurement, but the added value provided is not just money. We believe that by bringing about improvements to the value of resources shared by society as a whole, such as region, people, environment, and technology, this money should form the ideal financial and securities business.

It is not easy to put these kinds of philosophies into practice, although they should be. In my position as CEO, I recognize that both initiatives toward the SDGs and customer-oriented sales reform in the Retail Division are essential requirements for the sustainable growth of the Group, and I am promoting these initiatives with the preparedness to carry them out thoroughly to completion. None, however, can be realized or established with commitment from top management alone. It is important for each and every employee to be fully convinced and always have a high level of awareness and engage in tasks as if they were matters of personal consequence. When formulating the SDGs promotion action plan, we gathered thoughts and opinions from many employees. In the case of the Retail Division sales reform, we are also pursuing customer initiatives by making the most of the unique features of each branch together with customers and local residents. I believe that these efforts are feasible because each and every employee also has a high level of awareness and vision, and the Daiwa Securities Group has been cultivating this as the soil for its corporate culture in a cherished manner. By further enhancing this corporate culture, I would like to pursue our goal of the Daiwa Securities Group becoming one of the most outstanding firms in its field.

▶▶ Page 20 A Dialogue on SDGs
▶▶ Page 27
Feature: Retail Sales Reform

▶▶ Page 26
SDGs Promotion Action Plan

中田 誠 司

Seiji Nakata
President and CEO
Daiwa Securities Group Inc.

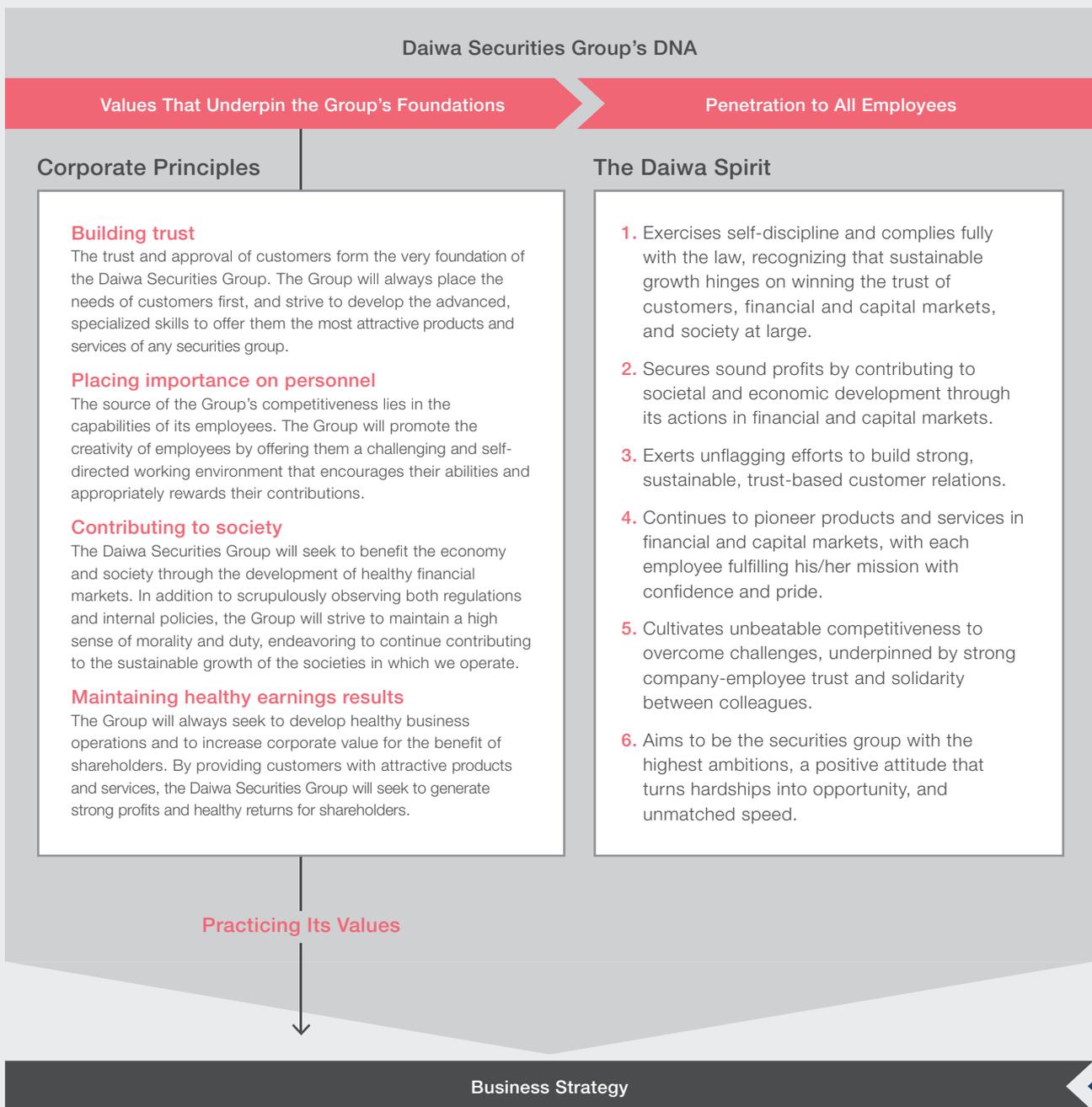
Values of Daiwa Securities Group

Our DNA Underpinning Sustainable Growth in Concert with Society

Daiwa Securities Group's corporate principles were established in 1998. In today's Daiwa Securities Group there is little or no talk of the founder's purpose for the Company's establishment or his maxims. Since the start of operations in 1902, each and every employee has been creating the history of the Group. Despite having been in operation more than 100

years, the corporate culture that has been accumulated by and imprinted on the Group's employees has been the Group's corporate principles.

The background to the compilation of the corporate principles was the Group taking another look back at its history, including reflections on securities company scandals, such as the *sokaiya* (corporate racketeer) cases that followed the collapse of the bubble economy in Japan, and the determination to reunite and rebuild the relationship of trust that had been built



Medium-Term Management Plan FY2018-FY2020:

“Passion for the Best” 2020 A Financial and Capital Market Pioneer That Creates the Future

Action plan / Fiscal year management policy

Fiscal year numerical targets and budgets

together with society. Daiwa Securities Group's uniqueness, including ways to tackle work and compliance awareness that become second nature to Group employees has been encapsulated as Daiwa Spirit and instilled in all employees.

Having been the first listed company in Japan to move to a holding company structure, the Group has also been working to build a highly transparent and objective governance system, including also promptly shifting to become a company with a Three Committees System.

True governance, however, should be realized not only in the form of a system, but rather from the bottom up, by which employees think for themselves, unite and provide support for the benefit of a company. Recognizing the importance that the Group places on its people, we believe that this is feasible based on the longstanding DNA that we have been fostering, for example through the careful nurturing of our employees, creation of workplace environments where they can work with peace of mind and empowerment of women.

Daiwa Securities Group's Materiality (Key Issues)

Finance	Leveraging financial capabilities to contribute to a sustainable society Developing sound financial and capital markets for the next generation
Technology	Contributing to the creation of future society by utilizing advanced technologies
Regions	Contributing to local communities by utilizing the Group's network of sales offices in Japan and overseas
Life	Responding to the diversified needs of customers and stakeholders Creating a pleasant working environment Initiatives for reducing environmental impact
Corporate governance	Constructing and developing an appropriate corporate governance system
Compliance	Creating a corporate culture that complies with laws, regulations and standards in Japan and overseas, based on self-discipline Appropriate anticorruption and human rights measures
Risk management	Appropriate risk management Construction and maintenance of a strong IT system

Process of Identifying Materiality (Key Issues)



In 2018, the Group established the SDGs Promotion Committee, chaired by President and CEO Seiji Nakata. Proactively promoting initiatives that contribute to the SDGs through our business, we have stipulated them in Passion for SDGs 2018—Daiwa Securities Group's SDGs Declaration—.

In addition to collecting a wide range of initiative case studies related to the SDGs, on the basis of this declaration we have established, for example, an SDGs working group made up of employee volunteers and considered future visions for the Group. We have identified current Group initiatives that should be taken more deeply and matters to be newly started as issues.

We organized the issues identified by this bottom-up approach and social requirements ascertained from our communications with stakeholders and the knowledge of outside experts. Following discussions at SDGs Promotion Committee meetings, we decided on Daiwa Securities Group Materiality.

Values of Daiwa Securities Group

The culture and DNA of Daiwa Securities

Corporate History

Benefit the economy and society through the development of healthy financial markets

Looking back at Daiwa Securities Group's history, what we come to see is a broadening of securities investment to consistently achieve asset building for the people of Japan. The Group accomplished this through a number of initiatives, including the publishing of survey reports that examine world markets, and by breaking new ground in Japan as the first domestic securities company to introduce investment trust methods and online trading. Such endeavors promote building and development within the Japanese financial market itself, and at the same time, have guided our trajectory of steadily building relationships with individual customers.

In consideration of our past mission statement of "being careful and bold," espoused from 1954, as well as our thoughts on prioritizing customer needs, Daiwa Securities Group cultivates products and schemes and works as a pioneer in the

financial and capital market. As a pillar in the financial and capital market, we have focused our efforts on the development of society, and it is for this very reason that this year we mark 117 years of longevity. We believe that this is why we have been permitted to continue being a presence in society.

In the not so distant past, we weathered the Asian currency crisis, the global financial crisis and other experiences where the operating environment was extraordinarily severe. Thinking of Daiwa Securities Group's strategic vision, we made the determination that we will move forward as an independent securities group.

The Group holds high regard for a range of societal issues, both in and outside of Japan. We continue to lead the industry with our innovative corporate culture, and work toward creating new securities businesses as a means of "contributing to society." This includes supporting development of the financial market in Myanmar and developing SDG bonds (Impact Investment Bonds), which are without precedent.



1910

Publication of the regularly issued *Kinyu-Shunpo* (recent news in the financial market) publication



First edition of *Kinyu-Shunpo*, October 1910



Daiwa Investment Weekly, April 2018

1943

Established Daiwa Securities Co. Ltd. by the merger of Fujimoto Securities Co. Ltd. and Nippon Trust Bank



1942

Fujimoto Bill Broker Securities Co. Ltd. changed its corporate name to Fujimoto Securities Co. Ltd.

1902

Commenced operations as Fujimoto Bill Broker



1917

First import of foreign currency government bonds as a domestic securities company

1919

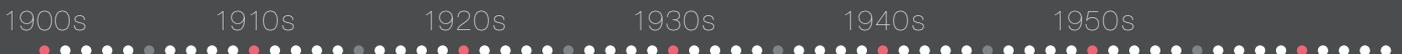
Establishment of representative office in New York

1937

Formation of Fujimoto Securities Investment Union, the template for investment trusts

1951

Registered as investment trust management company
Overseas division established to introduce Japan's industry to overseas investors



1904

Russo-Japanese War

1929

The Great Depression

1927

Banking Act announced (enacted in the following year)

1923

Great Kanto Earthquake

1939

Outbreak of World War II

1951

Treaty of San Francisco
Law for Securities Investment Trust enacted

1949

Tokyo Stock Exchange founded



Group built up over 117 years of history

1959

Established representative office in New York
Established Daiwa Asset Management Co. Ltd.

1971

Became lead manager for the world's first Asian dollar bond (Development Bank of Singapore)

1970

Listed on the First Section of the Tokyo, Osaka, and Nagoya stock exchanges
Became underwriting manager for the first yen-denominated bond issuance of Asia Development Bank

1961

Listed on the Second Section of the Tokyo, Osaka, and Nagoya stock exchanges

1985

Became lead manager for the first yen-denominated bond issuance in the U.S. market

1986

Start of Japan's first home trading with PCs



1998

Finalized final agreement with the Sumitomo Bank Ltd. on setting up a joint venture company

1999

Daiwa Securities Co. Ltd. became the first listed company in Japan to move to a holding company structure and changed its corporate name to Daiwa Securities Group Inc.

2011

Commenced Daiwa Next Bank, Ltd.

2012

Merger of Daiwa Securities Co. Ltd. and Daiwa Securities Capital Markets Co. Ltd. to create "new" Daiwa Securities

2016

Opening of Myanmar Securities Exchange Centre, acquisition of securities license
Saigon Securities to become an equity-method affiliate

2004

Shifted to a Committee System (Currently, a company with Three Committees System)

2017

Acquisition of Sagent Advisors and Signal Hill (Currently DC Advisory)

2009

Daiwa Securities Group and Sumitomo Mitsui Financial Group decided to dissolve the joint venture in wholesale business

Assets under custody
(¥ trillion)

60

30

Medium-Term Management Plan (2012–2020)

2012 "Passion for the Best" 2014

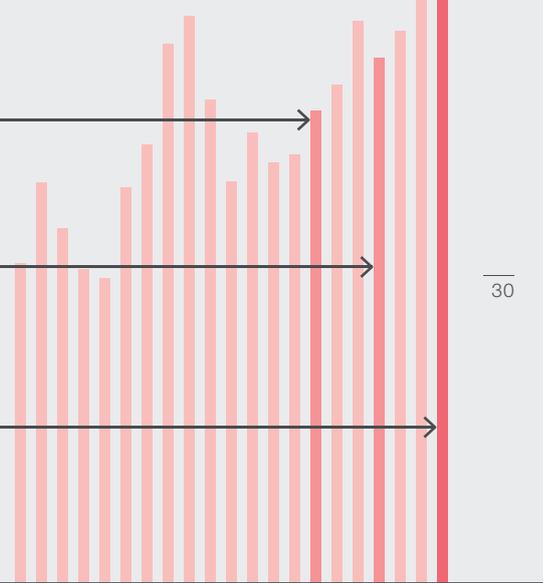
Establish a robust business structure immune to the external environment and aspire to achieve sound growth based on a new growth strategy.

2015 "Passion for the Best" 2017

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

2018 "Passion for the Best" 2020

Daiwa Securities Group plays a role as a financial and capital market pioneer that offers high value-added solutions through the use of "Quality No. 1" consulting capabilities, as well as new value as an integrated securities group with a hybrid business model.



1960s

1970s

1980s

1990s

2000s

2010s

1964

Tokyo Olympics
Japan becomes a member of OECD

1973

First Oil Shock

1979

Second Oil Shock

1985

Plaza Accords

1990

Collapse of Japan Economic Bubble

1996

Financial "Big Bang"

1997

Asian Financial Crisis

2001

Collapse of IT Bubble

2011

The East Japan Earthquake

2008

Global Financial Crisis

2016

The United Kingdom decides to leave the EU

2015

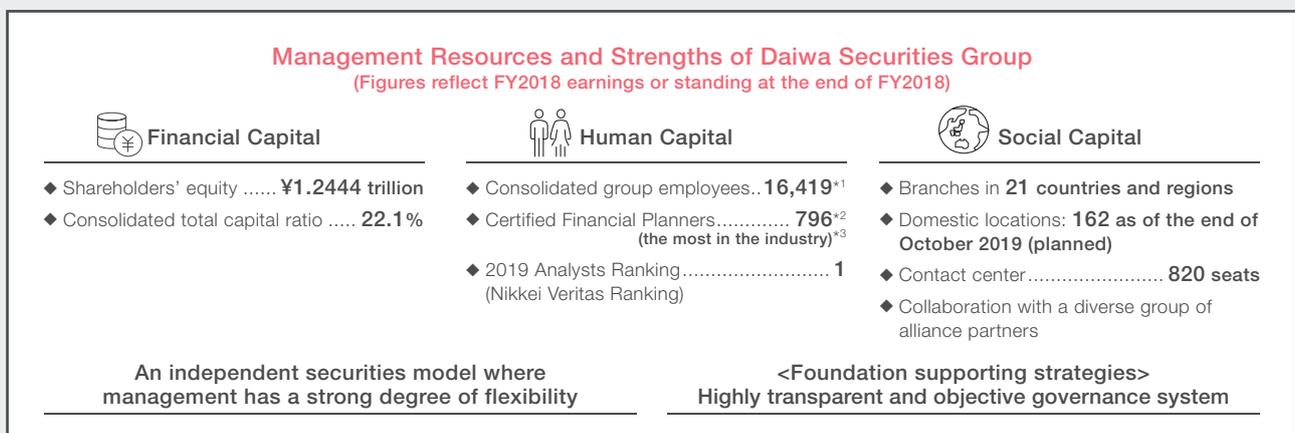
China shock
Introduction of negative interest rate policy

Values of Daiwa Securities Group

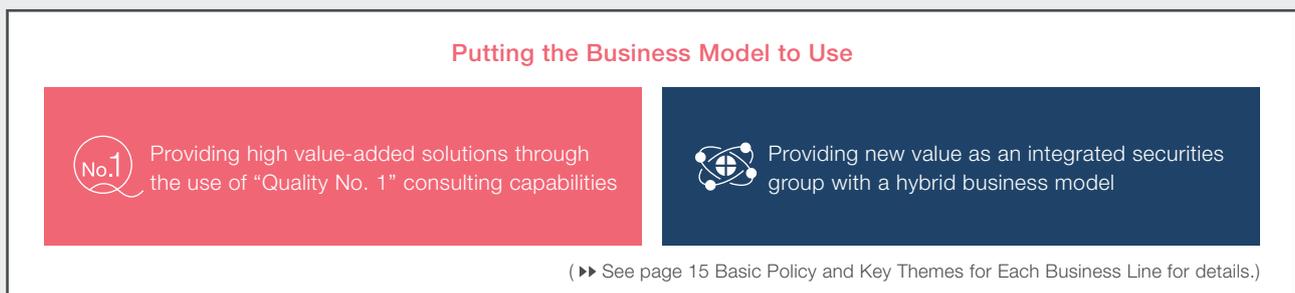
Daiwa Securities Group Value Creation Model

In the current societal environment surrounding our business sectors there exists a multitude of emerging problems and uncertainties. The declining birthrate and aging population, as well as climate change are among the various issues that confront society, and moreover, innovations are expected to lead to rapid social changes. In 2018, Daiwa Securities Group took the standpoint of SDGs, which have been adopted by

the United Nations, as fundamental to its corporate strategy. We did this in order to sustainably raise our corporate value and to walk hand-in-hand with society for another century as well. We have the determination to further drive forward on initiatives to find solutions to societal issues through our core business. The Group will put its strengths and capital to use, based on its sense of values and history, and aims to maximize both economic value and social value.



*1 The sum of consolidated group companies and Daiwa SB Investments (Currently Sumitomo Mitsui DS Asset Management)
 *2 Includes the number of employees who have passed all six subjects and are in the process of applying for certification.
 *3 Based on Japan Association for Financial Planners data



Daiwa Securities Group Value Creation Story

1. By improving our human resources, our most important resource, and providing the highest quality in consulting, we are contributing to the realization of a wide variety of life plans in an era in which many will live to be 100 years old.
2. Amid an ongoing shift in the structure of industry as technology progresses, by supporting investment and financing that creates new value for society, we are contributing to enhanced corporate value and the fostering of next-generation industries.
3. By providing mutual Japanese and overseas investment opportunities, we are assisting Japan in fostering global economic development and growth.
4. We are contributing to trust in the financial markets by maintaining a stable financial base and our function as part of the social infrastructure.

Creating Shared Value (Figures reflect FY2018 earnings or standing at the end of FY2018)

Economic (Financial) Value

Ordinary income	ROE	Total shareholder returns
¥83.1 billion	5.1%	¥68.2 billion
Rating (as of August 2, 2019)		Market capitalization
S&P BBB+	Moody's Baa1	¥915.9 billion
(Daiwa Securities Group Inc.)	(Daiwa Securities Group Inc.)	
A-	A3	
(Daiwa Securities Co. Ltd.)	(Daiwa Securities Co. Ltd.)	

Social Value

Expansion of customer assets/Growth of companies driving the Japanese economy

Daiwa Securities total assets under custody **¥66.3 trillion**

Retail Division

- ◆ Asset formation to meet the life plan needs of people
- ◆ Improve customer satisfaction

Accounts with balances.....**3,025,000**
Overall score of satisfaction with Daiwa Securities.....**4.90 (7-point scale)**

Asset Management Division

- ◆ Development of ESG-focused ETFs and investment trusts
- ◆ Expanding health care facilities in an aging society

ESG-related investment trust management balance*1.....**¥117.7 billion**
Rooms provided for nursing homes and elderly care facilities*2.....**4,383**

*1 See page 55 for details.

*2 The sum of Nippon Healthcare Investment Corporation holdings (end April 2019), ORIX Living operation (end March 2019)

*3 Sum of solar power plants and biomass power plants (including those under construction)

Wholesale Division

- ◆ Providing diversified international investment opportunities
- ◆ Supporting corporate financing and restructuring
- ◆ Supporting fund raising that contributes to resolving social issues

SDG bonds for individual investors (Impact Investment Bonds) sales.....**¥697.4 billion (cumulative)**

Investment Division

- ◆ Investment in new industries
- ◆ Investment and development in renewable energy

Daiwa Corporate Investment cumulative investment total.....**¥427.4 billion**

Daiwa Energy & Infrastructure annual estimated energy generation volume*3.....**Equivalent to approximately 44,000 households**

Reinvestment

Daiwa Securities Group makes continuous efforts for sustainable growth on healthy profits built through the value creation cycle

Medium-Term Management Plan “Passion for the Best” 2020

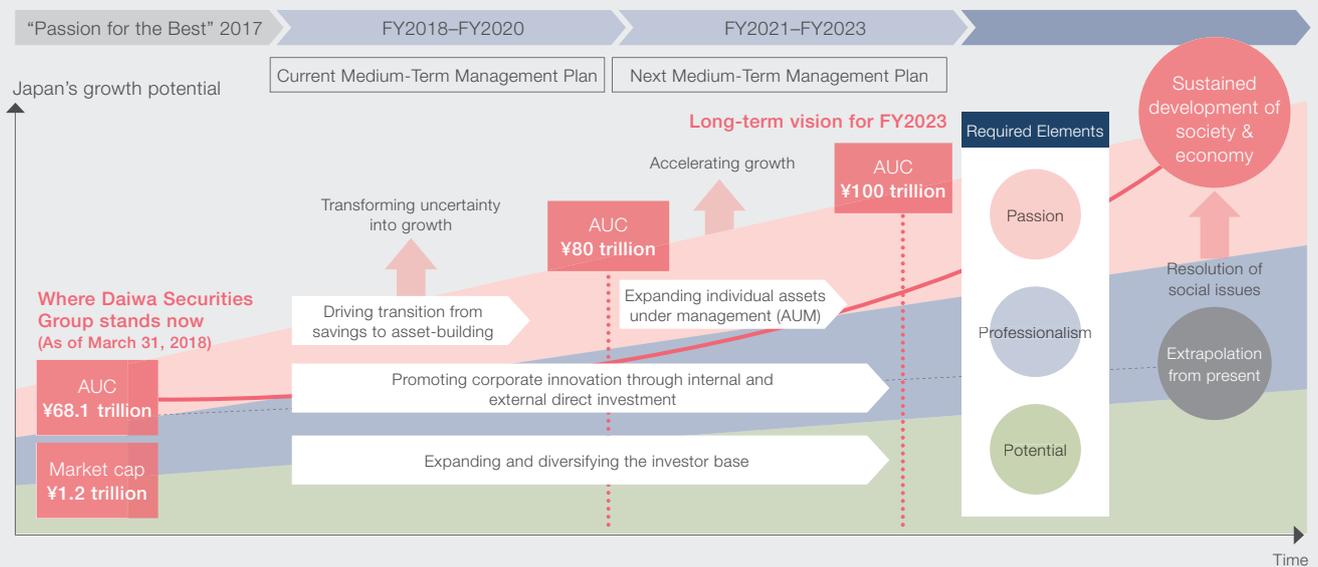
A financial and capital market pioneer that creates the future

Daiwa Securities Group views the increasing uncertainties of a changing society as business opportunities, and it aims to contribute to the creation of a better society in the future. Looking toward sustainable growth, we formulated our Medium-Term Management Plan “Passion for the Best” 2020 based on the perspective of what action we should take as our business strategy for the up-coming three-year period.

Our core mission in the securities business is to support with asset formation that provides prosperity to the lives of all in society, and brings our customers closer to the goals that they pursue. The Plan sets the degree of customer satisfaction as an important KPI, and we will improve the strength of the bonds that we share with our customers in order to secure a competitive edge over the long term and into the future.

Please see the Message from the CEO in the Integrated Report 2018 for details with regard to our Medium-Term Management Plan. http://www.daiwa-grp.jp/english/pdf/ar2018/ar2018e_05.pdf

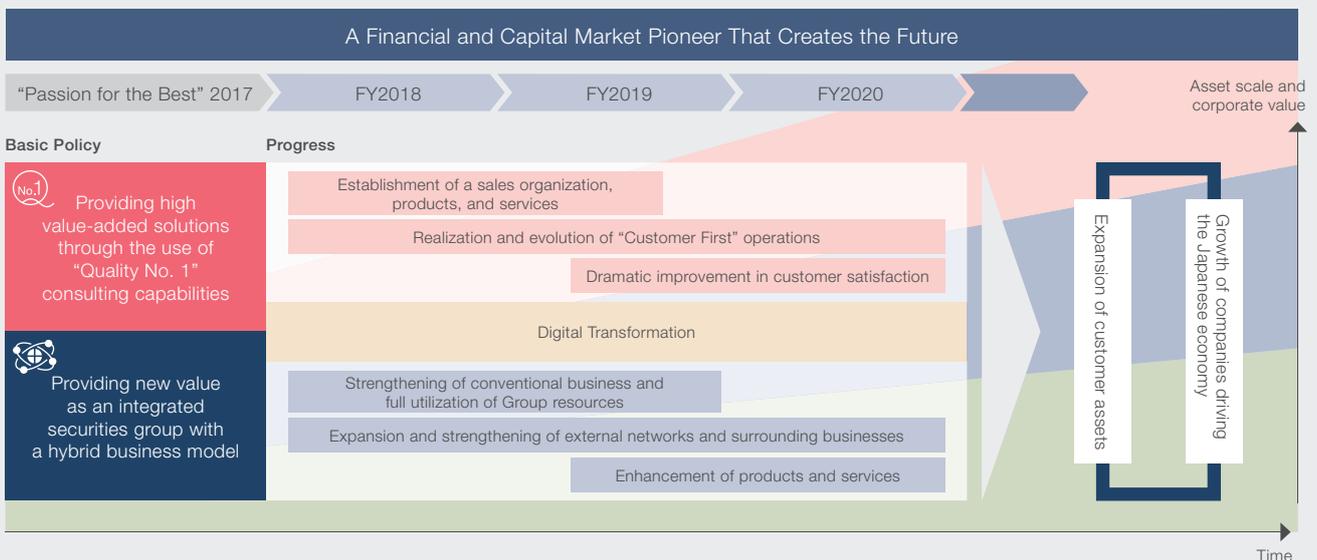
Direction for the Future



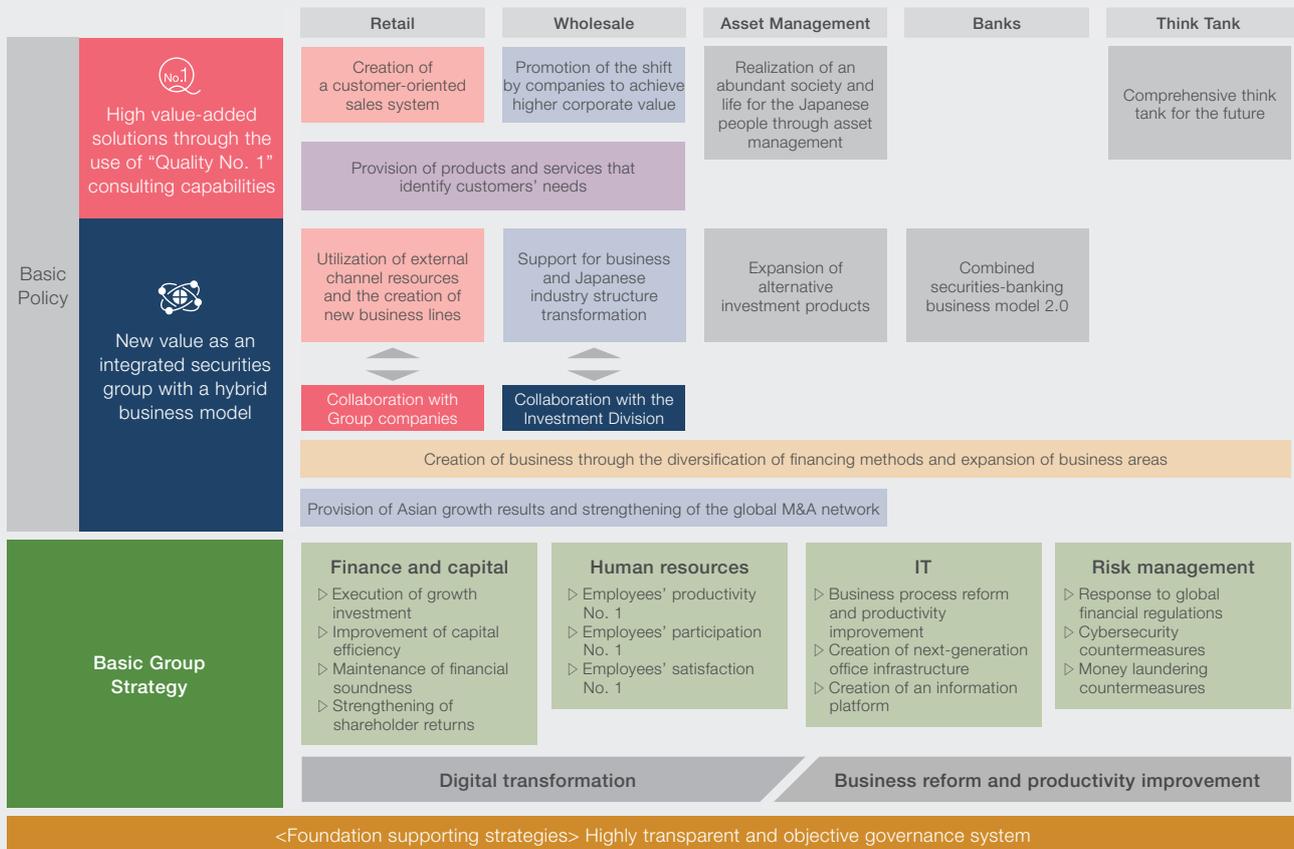
Framework of the New Medium-Term Management Plan

Under our Medium-Term Management Plan “Passion for the Best” 2020, we have identified two basic policies, namely, providing high value-added solutions through the use of “Quality No. 1” consulting capabilities, together with new value as an integrated securities group with a hybrid business model.

In the following pages, we will apply the Quality No. 1 and Hybrid Business Model marks to strategies and initiatives in line with these two basic policies.



Basic Policy and Key Themes for Each Business Line



Group Numerical Targets and FY2018 Progress

		Target (FY2020)	FY2018 Progress
Customer-oriented KPI	Customer Satisfaction	NPS® (Net Promoter Score®), etc.	NPS introduced to all branches
	AUC at Daiwa Securities	¥80 trillion or more	¥66.3 trillion (Net inflow of assets ¥1.2 trillion)
	Monitoring indicator: Work Motivation Survey		
Financial KPI	Consolidated total capital ratio	18% or higher	22.1%
	Monitoring indicator: Liquidity coverage ratio, net stable funding ratio (NSFR)		
Performance KPI	ROE	10% or higher	5.1%
	Ordinary income	¥200 billion or more	¥83.1 billion
	Monitoring indicator: Fixed cost coverage ratio, operating efficiency ratio/digitalization index, earnings of overseas divisions		

Message from the CFO



In addition to assuming the role of Chief Financial Officer in April 2019, I serve concurrently as deputy-head of Planning of the Company and deputy-head of Overseas Operations. This allows me to oversee all of the Group's financial, management and overseas strategies. Since joining Daiwa Securities Group, my responsibilities have included asset management, financing and M&A advisory services for corporate customers. Following appointments as Managing Director of the Finance Department and Managing Director of the Corporate Planning Department, I have helped spearhead efforts to formulate the Group's financial strategies and management plans. As a result of this career path, it has become abundantly clear to me that financial strategies and management plans are inextricably linked. Making the most of my experiences to date, I am committed to meeting the expectations of stakeholders by pursuing and realizing sustainable growth from both the finance and management planning perspectives.

佐藤英二

Eiji Sato

Senior Managing Director and CFO
Daiwa Securities Group Inc.

Views on Financial and Capital Strategies under “Passion for the Best” 2020

The principal purpose of Daiwa Securities Group's financial strategy is to achieve sustainable growth by earning healthy profits. To this end, it is vital that we balance investments in business growth with efforts to improve capital efficiency, maintain financial health and enhance shareholder returns.

In FY2018, earnings were impacted by a variety of factors. This included a downturn in investors' mindsets due to amounting uncertainty toward the future of the global economy from the second half. As a result, Daiwa Securities Group reported a drop in ordinary income of 46.6% compared with the previous fiscal year, to ¥83.1 billion, and profit attributable to owners of parent of ¥63.8 billion, down by 42.3% year on year on a consolidated basis. In addition, ROE came in at 5.1%, well short of the Medium-Term Management Plan target of 10%.

In FY2019, Daiwa Securities Group will conduct a fundamental review of the cost structure of its existing businesses. At the same time, we will work to reform our income/expense structure in a manner that will allow us to boldly channel management resources toward the key strategies identified under the Medium-Term Management Plan. Through these means, Daiwa Securities Group will endeavor to realize sustainable growth.



Invest in Growth

In FY2018, Daiwa Securities Group carried out a variety of growth investments. This included investments aimed at strengthening the competitiveness of existing businesses and acquisitions designed to further diversify the business portfolio. While remaining committed to an investment policy essential to growth, we conducted a consolidated total capital ratio simulation based on the current volume of risk assuming the future profits would come in at levels recorded in FY2018 and the payment of cash dividends at a dividend payout ratio of 50%. It is important to note here that this simulation is not an indication of the Company's future investment and financing plans.

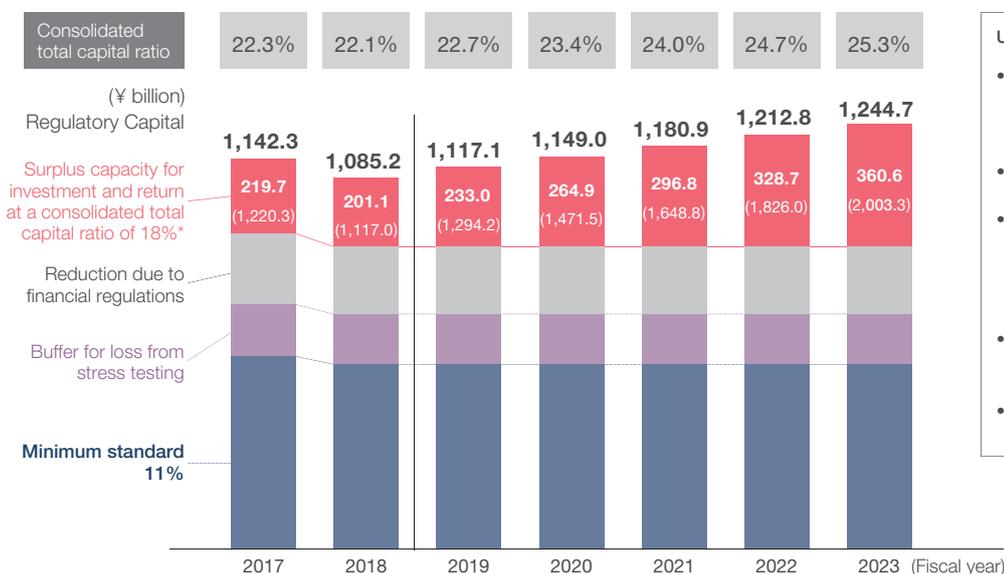
Looking at consolidated total capital ratio trends based on the simulation, levels are projected to exceed 25% in FY2023. Moreover, the amount of capital exceeding the consolidated

total capital ratio of at least 18%, the Company's financial key performance indicator (KPI), is ¥264.9 billion in FY2020 and ¥360.6 billion in FY2023, respectively.

These amounts indicate that the Company has sufficient surplus capital to undertake investments for business growth and the return of profits to shareholders including share repurchase. So long as we do not carry out an extremely large-scale growth investment, the level of our surplus capital is more than adequate.

Moving forward, the Company will ensure appropriate levels of capital while securing the resources necessary to invest in growth businesses. Working to maintain proper liquidity levels while upgrading and expanding shareholder returns, we will make every effort to enhance our corporate value on a sustainable basis.

Simulation of Surplus Capacity for Investment and Shareholder Returns



Underlying Assumptions of Simulation

- Conservative assumption for profit level in FY2019 and thereafter assumes net income on par with FY2018 (¥63.8 billion)
- Assumes a dividend payout ratio of 50% in FY2019 and thereafter
- We have used the Dec. 31, 2018 figures for regulated equity and risk assets for FY2018. Only profit has been added to equity and risk assets after that.
- The simulation does not indicate future investment and financing plans.
- The reduction due to financial regulations is assumed to be 4%.

* Numbers in parentheses show the amount of investment possible based on risk assets.

Message from the CFO

Maintain Financial Health

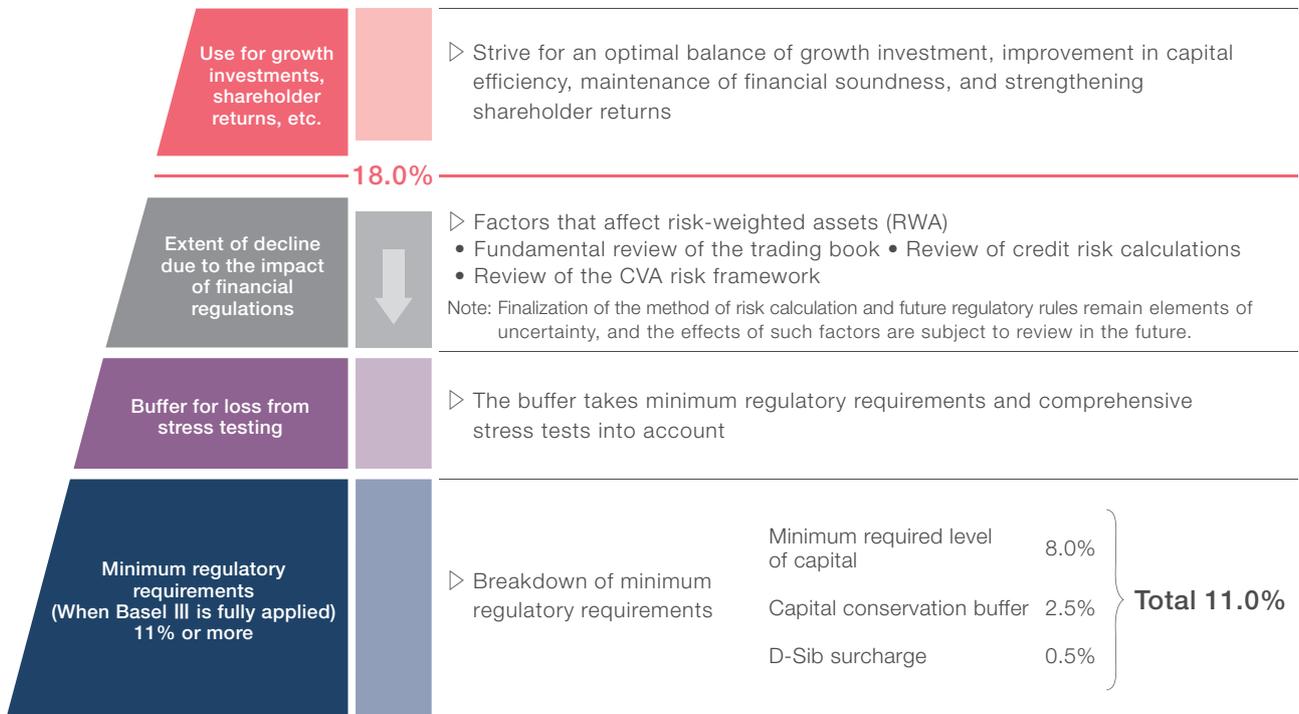
In aiming for sustainable growth, Daiwa Securities Group understands the importance of maintaining appropriate levels of capital while responding to changes in the regulatory environment and securing the resources necessary for investing in future business growth.

Recognizing the critical need for a sound financial base in order to realize sustainable profit growth through investments for growth, we have adopted the consolidated total capital ratio as a financial KPI. Coinciding with the

full-scale implementation of Basel III going forward, there is a chance that this ratio will drop a maximum of four percentage points in the future. Accordingly, we have set a minimum consolidated total capital ratio level of 18% by adding a capital buffer that can withstand a stress scenario equivalent to past financial crises. As of the end of March 2019, the Company's consolidated total capital ratio was 22.1%. We remain confident that this represents a more than sound solid capital base.

View on Financial KPI

Consolidated total capital ratio: **22.1%**



In addition, the Company has also adopted the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) as financial monitoring indicators.

With the progressive introduction of the LCR since 2015, financial institutions under Basel III are required to have enough liquidity to continue operations for at least 30 days under extremely stressful conditions. While an LCR of at least 100% is now required after complete introduction and implementation in 2019, the LCR of Daiwa Securities Group (calculated by dividing high quality liquid assets by total net cash outflows) substantially exceeded the requirement in FY2018.

As far as the NSFR is concerned, stable capital and debt (available stable funding) must exceed non-liquid assets (required stable funding). On this basis, the Company has worked diligently to further diversify its methods for securing stable funding compared with past initiatives. Although a financial stipulation scheduled for introduction in 2019, implementation has been delayed. Nevertheless, according to our current preliminary calculations, our NSFR sufficiently exceeds the required level.

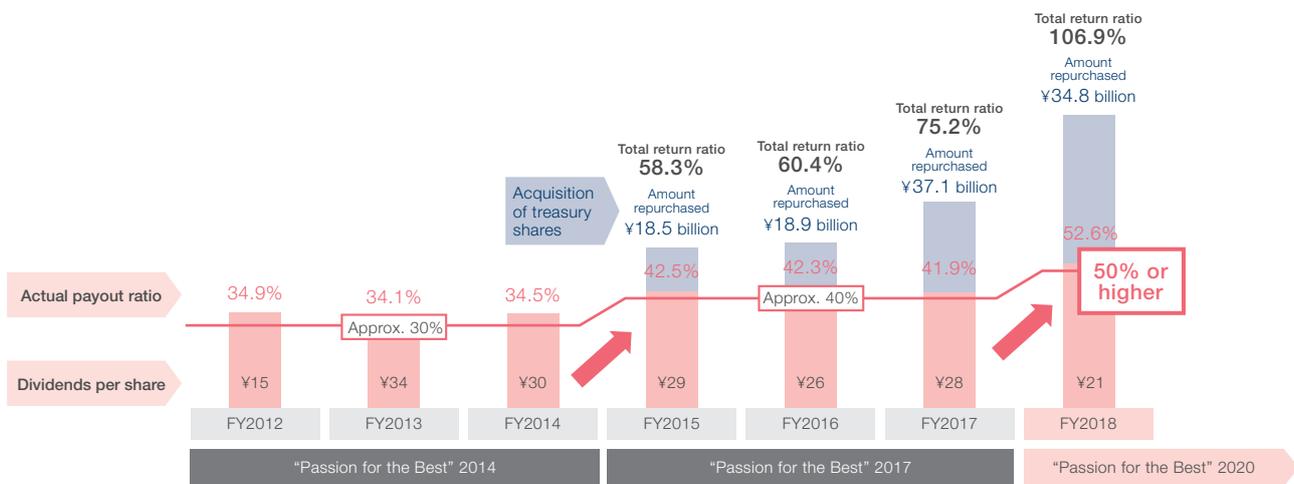
Enhance Shareholder Returns

As a means of increasing shareholder returns, from FY2018 the Company raised its dividend payout ratio level for each half as stated in its dividend payment policy from the previous approximate 40% to 50% or higher. In the case that the internal reserves necessary for future business development and growth investment have been sufficiently secured, we will actively return profits to shareholders through share buyback programs and such. These returns will be made after comprehensively taking into consideration business

conditions, our financial situation, regulatory trends and share price levels, and while monitoring our credit rating.

The Company paid a dividend of ¥21 per share in FY2018. This represented a dividend payout ratio for the year of 52.6%. In addition, following the implementation of a share buyback program worth a total of ¥34.8 billion, the total return ratio for the full fiscal year, including dividends and share buybacks, came to 106.9%.

Shareholder Returns



Credit Ratings for Daiwa Securities Group Inc. and Daiwa Securities Co. Ltd. (As of August 2, 2019)

	S&P	Moody's	Fitch	R&I	JCR
Daiwa Securities Group Inc.	BBB+ (Stable)	Baa1 (Stable)	A- (Stable)	A (Stable)	A+ (Stable)
Daiwa Securities Co. Ltd.	A- (Stable)	A3 (Stable)	A- (Stable)	A (Stable)	A+ (Stable)

Dialogue with Stakeholders

In my capacity as deputy-head of Planning of the Company, I oversee Investor Relations. In FY2018, I attended meetings and forums including briefing sessions for individual investors and interacted with a large number of investors. As CFO, I plan to further upgrade and expand this interaction with investors and analysts in FY2019. In June 2019, I had the opportunity to speak with numerous institutional investors and credit ratings agencies in the Americas and Europe, and to exchange

opinions about the Group's growth and financial strategies. A key component of my role as CFO is to ensure that this dialogue, which brings to the table requests, comments and opinions from a wide range of perspectives, is reflected in management's decision-making process. While continuing to engage in ongoing dialogue with stakeholders, I will do my utmost to further enhance the corporate value of Daiwa Securities Group.

A Dialogue on SDGs



Toko Shirakawa

Naohiro Nishiguchi

Make SDGs your own, and contribute to attaining them through business

Daiwa Securities Group positions SDGs as fundamental to management, and based on this perspective, it works to facilitate sustainable growth in society and the Group through its SDGs Promotion Committee, headed by the CEO, where experts from within and outside of the Group engage in dialogue. In May 2018, we made the Daiwa Securities Group's SDGs Declaration, and have endeavored to entrench it throughout the Group while promoting efforts to apply it to our core business. One outcome of this has been the formulation of the SDGs Promotion Action Plan in 2019 which is intended to lead to the construction of a Daiwa version of an SDG value chain based on aggregated opinions from within the Group. To hear opinions from outside the Group, we have welcomed three external members of the 2019 SDGs Promotion Committee to hear their thoughts on future efforts that are expected of the Group.

SDGs are the source of competitive capabilities

Nakata: In the past year or so since we held our first meeting of the SDGs Promotion Committee in May 2018, we have applied our energies to somehow raise awareness within the Group. First of all, in terms of recognition, all employees were aware of SDGs. However, as SDGs are a topic for companies over the long

term, each and every employee needs to have them deeply internalized, and based on this, management must be executed with an eye to the long term. Consequently, we have been asking all divisions in the Group for their ideas with regard to what can be accomplished under current business operation forecasting. In the over 4,200 opinions we received there were a multitude of ideas. In addition, imagining the year 2030 as a point of reference for the future, we asked for

volunteers to participate in a working group where they would be tasked with backcasting to think of what the Group should be doing to bring us to that future point. Over 100 people participated. A great variety of promising proposals for innovation emerged, including for business planning. This has been a year in which Daiwa Securities Group has steadily become closer to a place where people are taking on SDGs as their own responsibility.



Hiroko Kuniya

Seiji Nakata

Nishiguchi: I've had quite a bit of experience in supporting projects that spur innovation from major companies in Japan. Among those, there have been occasions where innovation is in name only and without any clear direction. It's absolutely vital, I believe, that Daiwa Securities Group has a clear objective when promoting SDGs, and to take a stand that will enhance its competitiveness.

Having worked at various overseas locations, it seems that SDGs have now become a kind of worldwide common language. That's because no matter what the country or company, there is a desire to be competitive. Being able to compete doesn't mean that you put your rivals down, but that you are providing added value to society that is more beneficial than that of competitors, and that you will be rewarded for that. Many countries and companies stimulate entrepreneurship in efforts to enhance competitive capabilities. At the very essence of entrepreneurship is the question, how to fill the gap between today as a starting point, and some point in the future, and the gaps that need to be filled are as defined with the 17 sustainable development

goals, with the associated 169 targets and 232 indicators.

As the world pursues entrepreneurship with the common language of SDGs, Daiwa Securities Group finds itself in a unique position as it holds the critical function of finance, life's blood to industry and government, and is relatable to all 17 goals.

The sustainable development goals require persistent effort over the medium- to long-term, and while it is also discussed at the United Nations, given the time needed to be effective and obtain results, long-term investment money, "patient risk money" is lacking. Daiwa Securities Group has been working to develop its "Daiwa Ecosystem," but I think that such an industry hub function is exactly what is needed. I'd like for Daiwa Securities Group to work on this initiative as it deals with your core business, namely the finance function, which is related to achieving all goals of the SDGs. Then, making the Daiwa Ecosystem even more multi-layered, I think that will raise the level of competitiveness for the company as well.

Shirakawa: Over the past two or three years, leading the charge to spread SDGs in Japan has been, of course, the Japan Securities Dealers Association and the finance industry. I feel that what managers need to do is not just say "Let's do something good" but take into consideration the balance between philosophy and economy in order to work together to change to a sustainable society.

On the other hand, with a bottom-up approach, I think what Mr. Nakata mentioned about employees taking ownership of SDGs is fantastic. In terms of retaining good human resources, there are a lot of these young people who have been active with NPOs or other endeavors when they were students, and many of them now want to be involved in social activities all the time. In the distant past when you became an office worker it was impossible to participate in those kinds of activities because time spent at work was so long and there was little or no personal time. I think it's great that more than just those activities are done outside of work, whether it be within the Group or with the core business, people have the opportunities to take their own initiative.

A Dialogue on SDGs



Toko Shirakawa

A visiting professor at Sagami Women's University and Showa Women's University, after her trading company and foreign capital securities company career, she has become active as an author and lecturer covering topics such as the declining birthrate and diversity. She is a member of the Cabinet Office's National Council for Promoting the Dynamic Engagement of All Citizens and the Council for the Realization of Work Style Reform.

I've conducted some interviews about the work style reform at Daiwa Securities Group from the perspective of job satisfaction and diversity. My belief is that diversity at a Japanese company starts with promoting the active role of women. Japanese companies are quite behind the times in global terms.

There are two fundamental problems with Japanese society. First, the ratio of female employees is itself low, and the other is that long working hours has meant that women have not been able to continue their employment long enough to reach a company's decision-making level. Such issues require both the support to put in place an environment that is easy to work in, as well as the support for activities that properly nurture and promote female employees. Despite this, even if a Japanese company says that they are supporting female employees, there are more companies than you might think that offer only one of these solutions.

In contrast to this, Daiwa Securities Group is a company that offers support for both solutions. This is fantastic. In particular, the system whereby employees depart their offices no later than 19:00 has a huge effect on the role female employees play for the very reason that it applies equally to both male and female

employees. Leaving the office by 19:00 enables employees to devote their attention to self-improvement, child rearing, and social activities.

If you think that there is still room for improvement, I think the sole topic of discussion is to really not leave anyone behind. I can commend there is a venue ready for all, even veteran employees, to play a role. I've heard that there are a lot of male employees taking childcare leave, but they could take off for longer periods, and I think it's important that they personalize their child rearing. Apparently the Group is already promoting this, so I look forward to hearing more.

Nakata: Once every three months we hold a series of discussions at the Work-life Balance Committee where we aim for a framework in which both young and old, male and female, really everybody,

can play a role. But there are still many things to do. For example, although we've made a system to balance caregiving and work, there is a range of cases so I still feel that there is room for improvement. For certain sales representative positions, we've eliminated the maximum age for employment extensions that had been set at 70 years of age, essentially doing away with the retirement age. If this spreads to divisions outside of sales, I'll consider it as I think it will lead to greater productivity throughout the Group.

Responding to global transformation, and nurturing and supporting industry

Kuniya: Mr. Nishiguchi mentioned this before. Finance is leading a transformation, and in that sense, I hope that Daiwa Securities Group leads the way to spreading sustainable finance. We are now confronted by environmental transformation on a global scale. In 2018 we were witness to another year of record-breaking CO₂ emissions, and at international global warming summit meetings, more and more we've come to hear that "we are losing the battle." Last year's Intergovernmental Panel on Climate



Hiroko Kuniya

A project professor at Keio University's Graduate School of Media and Governance. Following her career as an anchor, she is currently active as a trustee (special mission) at the Tokyo University of the Arts, a board member at the non-profit think tank, Renewable Energy Institute, and has also been appointed as a National Goodwill Ambassador for Japan by The Food and Agriculture Organization of the United Nations (FAO).

Change (IPCC) produced a special report on the impact of global warming of 1.5°C, which raised the issue that to keep the rise in temperature to within 1.5°C of that before the Industrial Revolution, CO₂ emissions will essentially need to be reduced to zero by 2050, and cut 45% by 2030.

Furthermore, while it's imperative to have our economy become recycling oriented, going forward estimates are that we will need to make annual investments on a scale of \$3.5 trillion, and that's just in the energy field. Elsewhere, the process of building a sustainable society is also changing a range of business conditions, and there are people who will be put at a disadvantage. How do we move forward on a fair, "just transition," and how do we expand sustainable finance? These are questions that are drawing enormous international attention.

On top of that, as an FAO National Goodwill Ambassador, I am seriously concerned about the decline of Japan's countryside. This impacts agriculture and food supplies as well. As a securities company, I definitely hope that you will do things like supporting small- and medium-sized companies, and contribute to regional revitalization.

It's important to use "money with purpose," that is, to make investments

that elicit a greater positive impact, while curbing the negative things as well. It may be difficult to accomplish with just a single company, so it will be essential to work in tandem with national policies and industry organizations, corporations and stakeholders, and ourselves as individuals as well. Being a leading driver of the financial industry, I'd like for Daiwa Securities Group to put itself in a position where it can lead a team effort that will guide funds in a proper direction.

Until now, some have viewed financial institutions as the cause of economic calamity, and that is a constant source of regret. However, my belief is that more and more the mission of a securities company is to use investments to bring about a win-win situation for both the economy and society. Increasingly, new principles and rules are being formulated, from the Principles for Responsible Investment (PRI), to Principles for Sustainable Insurance (PSI) and Principles for Responsible Banking (PRB), among others. I'm looking forward to these principles having a meaningful impact.

Nakata: I totally agree. Just one company will not get the job done. It will be necessary to work together with a variety of constituents. However, Japan as a whole is not yet in such a

situation. For example, there have been companies that declared their direction to eliminating coal-fired energy generation, but the truth is that if the use of that power source suddenly became forbidden, energy would be insufficient. This is why we have to increase production of alternative energies. In this way, the process will be to accept these principles, and if we go off track, business will be corrected. As Mr. Nishiguchi stated, this will likely give rise to innovation. I also think it's possible that with a boost from government policies, the various players will come together to move forward, and Japan will all at once be standing in a leading position.

Regional revitalization is a major issue for Japan. Local development projects bring about inbound-type benefits, but these tend to be transient. As a measure to achieve more sustainable solutions, Daiwa Securities Group is tackling the issue of business succession at regional corporations. Japan's regions can boast many companies with outstanding businesses, but despite this, without having a successor the decision to give up and get out is really unfortunate. Leveraging our expertise, we would like to contribute by introducing a successor, supporting with business continuity by using funds to turn things around, and increase employment as well as taking other measures.

Another area where we are applying our efforts is with the impact that Japan's declining birthrates and aging population are having on the country's agriculture. In 2018 we established Daiwa Food & Agriculture Co. Ltd., inviting as director an expert with the relevant knowledge and a network in



A Dialogue on SDGs

the sector, creating a framework in which agricultural technology would be put to use to raise efficiency and ensure stable production through the utilization of greenhouses. This business will also allow for the participation of small-scale agricultural operations. Throughout Japan there is an abundance of available farmland, which gives this business huge potential. I would like to make progress on collaboration with these local areas, working with regional universities and financial institutions to put together agricultural funds. I predict that if we could create stable cash flows this would lead to future securitization and other opportunities that would give rise to synergies with our securities business.

Shirakawa: Recently there has been an increase in people who leave Japan’s urban areas to be a successor at a company in one of the regions, then they stay on and live there. This way of moving to a region and taking over a business is generating a new style of relationship, and that is giving regions vitality. About a decade ago I wrote a book about a woman who had not planned to continue with her family business because of her gender, but by staying on she made a number of fantastic changes to the business. Regardless of lineage and gender, an increasing number of ways to have flexible business succession will, I think, facilitate revitalization in the regions.

Nakata: I’ve heard about survey results showing that slightly less than 70% of unlisted companies in Japan have responded that they “Do not have a successor.” I suppose there are many cases where management cannot by



Naohiro Nishiguchi

Executive Managing Director, Japan Innovation Network (JIN). He has also held positions at the Long-Term Credit Bank of Japan, World Bank Group, the Innovation Network Corporation of Japan, among others, and is a co-founder of JIN. He is a Senior Innovation Advisor for United Nations Development Programme (UNDP) as well as a professor at Sophia University, Tokyo.

themselves change their established sense of values, so their options vanish. Once a fund becomes involved, though, focus is placed on the continuation of a business, indeed, there’s a responsibility to focus on handing the business over to the next person. This gives people lots of room to consider their options.

Accelerating a sustainable circulation of money

Kuniya: It’s important that national government has a firm hand on the tiller in setting a course. The rate of awareness of SDGs in Japan is still at only about one in five people, and it also seems that only a small minority have any sense of urgency concerning climate change. Mr. Nakata mentioned this earlier, but things like companies not having clearly hammered out a position regarding coal-fired energy, and messages about that are muddled. In the near future, however, when there is a social tipping point, an upheaval that changes awareness throughout society, this will cause a burst of change that will accelerate in any number of fields.

Shirakawa: When the flow of money changes, then things will quickly pick up pace.

Kuniya: In addition to that, the number of companies participating in RE100*1 is gradually increasing, but I’ve heard that the supply of renewable energy is lacking, and that procurement is challenging. That makes me think that the situation needs to change through financing and other measures.

Nakata: Daiwa Energy & Infrastructure Co. Ltd. makes investments in businesses that will have enormous social impact, such as solar power generation and biomass power generation, and this is contributing to the transformation of the global energy supply structure. In a society where long-term investments of \$3.5 trillion will be required every year, just in the energy sector, I believe that a new business that can find solutions to such social issues will have a great future. On top of that, to change the flow of money, it will be important to first of all demonstrate in monetary terms the risks and impact of climate change.

We in Daiwa Securities Group have declared our acceptance of the Task

Force on Climate-related Financial Disclosures (TCFD)*2. The Group does not possess production facilities so I think our direct impact on climate change is small, however, we are concerned that as natural disasters and other problems increase there will be an impact on our customers. As Daiwa Securities Group Inc. is in an industry regulated in accordance with Basel, we are adept at risk measurement and management capabilities. Given this, I would like to first tackle quantitative measurement of the links between our business and climate change, including from the perspective of risk management. Then, through the knowledge and experience gained, cooperate in spreading this to other industries. I think that there are things we can contribute to TCFD as a securities company.

Nishiguchi: Daiwa Securities Group is already doing quite a bit within its value chain. That said, I would like to see it expand its role as a catalyst that prompts other people to accelerate their efforts to achieve SDGs.

Specifically, what I mean is an analyst function. Worldwide, trade recommendations are based on short-term results evaluations, meaning that companies that would like to invest over the medium- to long-term for the sake of sustainable growth may not be able to receive proper assessments. If Daiwa Securities analysts were to look to the long term in making proactive evaluations on the meaningful initiatives of companies, including those regional mid-level, small- and medium sized companies, then I think investors would change the way they see things as well.

Even now, ESG analysts are primarily buy-side. If anything though, they are emphasizing things from the perspective of risk. It would be good to have SDGs analysts who assess opportunities. Globally maybe there aren't any yet, or there are not enough of them. Daiwa Securities Group is qualified to take a leadership role in this area, and I definitely want them to do that. Having a cycle comprised of actions taken by entrepreneurs to solve social issues, the finance to support their

entrepreneurship, and then the analysts to evaluate them would, I think, enable the creation of a vibrant ecosystem.

Nakata: This is an extremely important point. I think "SDGs analysts" would be a logical consideration as a next step, providing we have sufficiently increased such human resources. And now more than ever we are pushing forward with efforts to nurture "SDGs human resources" who have a firm understanding of SDGs and have an impact on those around them.

With regard to our management strategy pillars of "Quality No. 1" initiatives and providing value as an "integrated securities group with a hybrid business model," we will be taking your thoughts we discussed today into account as we explore what we can do to achieve a sustainable society and growth of the Daiwa Securities Group.

*1 A global initiative that declares the realization of 100% renewable energy.

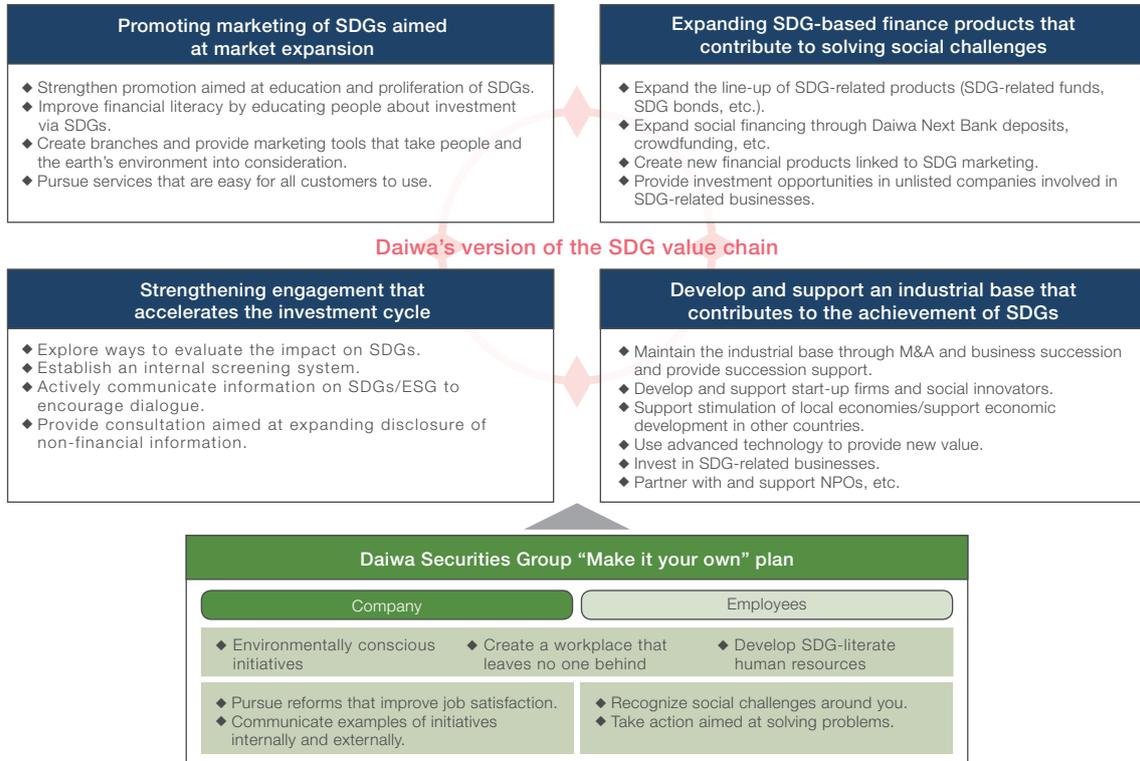
*2 Please refer to page 106.



SDGs Promotion Committee in June 2019

Passion for SDGs 2019—Action Plan Being Pursued by Daiwa Securities Group—

Building a Daiwa version of an SDG value chain that will create a sustainable capital cycle



The Group utilizes the resources in its value chain to the maximum extent possible, nurturing its human resources and putting in place a Groupwide framework from the perspective of SDGs. In this way it seeks to build a system that generates a sustainable circulation of resources.

We will also press forward on the sustainable supply of funds toward achieving SDGs and the expansion of assets under management that promotes "savings to asset building" with the momentum provided by SDGs, as well as creating shared value that works to build sustainable growth.

We will continue to encourage each and every employee to take ownership of issues and to find solutions to social problems, and to have a firm awareness of SDGs as they carry out their duties. At the same time, the Group itself will also move forward on unifying its efforts that contribute to its management strategy and the SDGs.



In the formulation of our action plan, we considered things from two different directions, namely, the SDGs Promotion Meeting and the SDGs Working Group.

The SDGs Promotion Meeting aggregates ideas and opinions from each branch and department, including from Group companies, with regard to new products and services that will contribute to achieving SDGs from the perspective of forecasting. The SDGs Working Group brought together over 100 volunteers from within the Group to offer their vision of the Group in 2030 from the perspective of backcasting. Integrating both of these, we formulated our action plan, "What the Daiwa Securities Group should do from now," leading to the construction of a Daiwa version of SDGs value chain.



SDGs Promotion Meeting



SDGs Working Group

Feature

Retail Sales Reform

Towards Creating a True Bottom-up System



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Interview with the Head of the Retail Marketing Division: Reforming retail sales to build a stronger relationship of trust with our customers

Improving our understanding and bolstering our response to customer needs by enhancing the volume of bottom-up communication

Building a stronger relationship of trust by taking a serious approach to our customers' assets

Daiwa Securities launched its transition to a bottom-up sales structure in April 2017. While our sales staff has traditionally offered customer-oriented consulting services, the organization as a whole until that point still adhered to the so-called "product out" sales system, following the established securities industry culture in which sales goals for each product were handed down from the headquarters. In order to build a truly customer-oriented sales system, I believe a business needs to offer products that meet the needs of its customers, while simultaneously caring about the customer portfolio as a whole. Based on the belief that this kind of sales system will contribute to stable and sustainable profit, Daiwa Securities is acting as an industry pioneer in making reforms in this direction.

I joined Daiwa Securities in 1988, and the subsequent rapid collapse of the bubble economy in Japan resulted in losses for a substantial number of customers who had invested in stocks. During that period, whenever I was transferred between sales branches I was pleased and honored to have been thanked by the customers I had served. I think the customers recognized our commitment to their assets, with our approach being centered on in-depth discussions and helpful solutions. Our company is not a manufacturer, and the results from a serious approach to our customers in our business can be found in a relationship built on trust and the customer's assets. This relationship of trust with our customers is fundamental to our business, and by making those relationships closer and stronger, we can be seen by our customers as a company that can be trusted and relied upon to take good care of their assets. The introduction of the Net Promoter Score (NPS) has served as one tool in deepening our relationship with these customers.



Shinsuke Niizuma

Senior Executive Managing Director
Deputy Head of Retail
Daiwa Securities Group Inc.
Senior Executive Managing Director
Head of Retail Marketing Division
Daiwa Securities Co. Ltd.

Major transition to a bottom-up system and the introduction of NPS

I spent the full year of FY2018 as the company's CCO (Chief Customer Officer) working to expand the essence of the NPS to all branches. From the beginning of FY2019, as Head of Retail Marketing Division, I have been communicating to the branches the medium- to long-term benefits of our NPS efforts, including an enhanced base and improved earnings.

Breaking down an established culture is no easy matter. However, complementing their past successful experiences with a product-out (top-down) model, branch managers will also take the initiative and think for themselves. Of course, when someone changes their mindset, it is possible that they may temporarily struggle until they get used to the new way of doing things. That said, it is important to remain patient and continue to pursue reform in order to avoid any backsliding into the old ways.

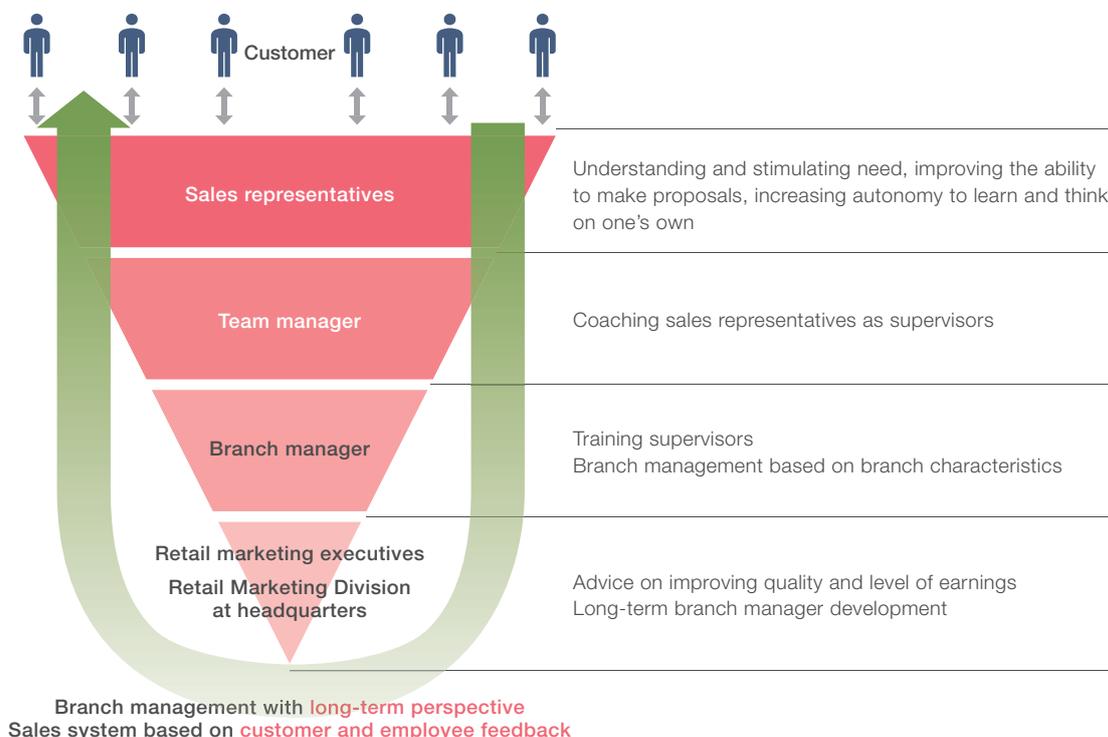
I believe that one of the keys to successful reform is the effective management of customer assets over the medium to long term. More specifically, if we can clearly understand the medium- to long-term asset management needs and concerns of a customer, we can then make a clearer forecast of our future earnings. This ability provides us with the peace of mind

of not having to worry about the ups and downs of short-term sales performance. This also means that sales branches no longer have to relentlessly pursue near-term earnings, and can focus on longer term targets and earnings. I believe the accumulation of these kinds of potential transactions could lead to greater stability in the company's earnings.

For the NPS introduction, we divided the branches into eight groups in order to limit the impact on the company as a whole. While implementation varies by branch, we have already seen success thanks to innovative ideas being implemented under the leadership of the branch managers. Moreover, thanks to these efforts and a renewed focus on the needs and concerns of a wide variety of customers, we are also seeing an increase in the solutions business, including in the fields of M&A, real estate, gifts, and inheritance.

The Daiwa Securities Group Medium-Term Management Plan sets a target for assets under custody of ¥80 trillion. In the retail division, we are focused on using NPS to strengthen our relationship of trust with our customers, with the ultimate goal of expanding the scope of assets under our custody.

Bottom-up Sales System



Interview with the Head of the Retail Marketing Division: Reforming retail sales to build a stronger relationship of trust with our customers

Increasing the volume of communication from headquarters to the sales floor, teaching employees to think for themselves

Another key to successfully reforming the sales system is improving the quality of sales, with coaching being the most important point in doing so.

In the absence of product-by-product instructions as they previously existed, there is some danger of the needs of customers being overlooked if branch managers and senior employees fail to work closely with employees in addressing how best to communicate with their customers. With this in mind, there has been a substantial increase in the volume of communication within each of the branches, as well as within each of the teams. By coaching staff members on a daily basis and sharing the details of projects, the team leaders can focus the attention of younger employees, attuning them to products and services that might meet the needs of a particular customer. The increased communication also appears to be contributing to a strong sense of unity and a more robust culture at the branches.

I worked as a branch manager at five locations, and have conducted study sessions and coached younger employees. Younger employees provide the potential for future branch growth, and accordingly should be trained and educated with the greatest care. In my experience, those in management that are able to establish a deep level of communication with their subordinates can stir overall growth that is stronger than that gained through simple instruction alone, and I believe the bottom-up system makes it easier to provide education through

close communication. It is also important to remember that a customer-oriented sales system requires daily patience, as well as the desire to think and act on your own. Under this system, it is imperative that all our employees persevere without fail and maintain all honesty in their work.

As we have hired a great number of new employees that are highly motivated to acquire knowledge in the business, so we have high hopes for growing our top-tier human resources, who we expect to be at the core of our Group in the days and years ahead.

The presence of the internal wholesaler (IW) is very important. This is a long-standing feature at Daiwa Securities, with a dozen or so outstanding representatives in the position supporting 117 branches. Serving as a connection between the headquarters and the branch offices, the IW involves providing branch office consulting, with those in the position earning the deep trust of the branch managers. The IW representatives, the CCO and I hold meetings once a month, discussing success stories and issues for the branches, exchanging opinions, and then providing feedback to the branches.

The IW position is often coveted by sales personnel and those in the job can be considered as candidates for the next branch manager position. I believe their experience in confronting and rectifying branch issues can contribute to the future growth and development of our branches moving forward.

Staying close to our customers as we continue to improve

Customer satisfaction and the NPS are still largely dependent on each customer's investment performance. Of course, when receiving a customer commission, it is never a good thing for that customer to be incurring a loss on his or her investments. With this in mind and in order for personnel to get a greater sense of responsibility for investment performance, in FY2019 we added items reflecting customer investment gains and losses as part of the branch and sales personnel evaluations.

When visiting the branches to assess the implementation of the NPS system, we were able to think about the convenience aspect of each location from the customer's point of view, and we found that there appeared to be considerable room for improvement in terms of the how the branches were operated. In FY2018, we consolidated two large locations in Nagoya, moving to spaces on the second floor or higher and thus substantially reducing real estate costs. On the other hand,

we established three new sales offices after the integration, and now cover the Nagoya region with one branch and five sales offices. With a broader operating base including new customers, lifting revenue and lower costs, earnings in the Nagoya area have shown a clear improvement.

We are expanding the number of low cost sales offices, of which there are now 43, and the significance of these locations is increasing as well. In terms of asset inflow, the net inflow per employee is far greater at a sales office than it is at a branch. Since their introduction in 2011, sales offices have not had sales targets for each product. Rather, the general idea was to specialize in new customer development and asset inflow by supplying a neighborhood location near the customers. Our effort to reform retail sales also includes transferring the successes shown in the sales offices to all our locations.

Improving the value of a traditional securities company to become the customer's first choice

Reforms in retail sales through the use of the NPS system will establish the business as a source of strength for Daiwa Securities and a factor for differentiation from other companies in the same sector. Shifting to a bottom-up sales structure focused on the customer will, even for our company, be no easy matter, mainly due to the amount of time required to properly prepare. As I mentioned earlier, destroying an established culture is a difficult task, and the commitment of the entire company is especially important to ensure that the effort is not merely transitory. The Group has gained a deep understanding of securities industry knowhow and the issues of concern to its customers over many years, and further derives its strength from the loyalty of its employees thanks to ongoing efforts to promote workstyle reforms. Above all, I believe the strength of management's commitment to reform, including that of the Group CEO, and the consistent nature of the Group's business strategy put Daiwa Securities in a class well above any of its competitors.

The needs of our customers are constantly changing. For the generation raised with the Internet, many looking to do transactions with a securities company simply go online, find a company and create an account. At present, a large percentage of our customers are over 60 years old, though it should be remembered that in about ten years, those raised with the Internet will also be reaching relatively advanced ages. Among customers over a certain age, I believe there are more that are concerned over a variety of issues that can impact their investment portfolios, including taxes and real estate issues, than are concerned only about stocks and how they are being managed.

To use inheritances as an example, it has been claimed that real estate accounts for roughly 50%–60% of inheritance assets

in Japan. With these assets subject to taxation, the more society ages, the more need there is for real estate inheritance solutions. Moreover, if you are a business owner, you need to focus not only on your own stock's valuation, but also in some cases the possibility of M&A or business succession issues. Given these concerns, the Group's strategy is based not on merely surviving on the back of brokerage income derived from traditional securities transactions, but on becoming something of a hybrid securities company that earns revenue from a variety of sources and domains. I believe the Retail Marketing Division will be able to create a wide range of revenue opportunities if it can provide superior consulting services that meet the needs of customers across the entire range of their assets, and in order to do that, it is vital to improve both the knowledge and skills of our employees in sales.

There might be similar conditions in other business domains. For example, a hotel with strong brand value increases the number of repeat customers by providing professional services and a high-quality staff. Similarly, we want to be a financial organization where customers regularly come to Daiwa Securities or to a particular salesperson for consultation. It is my belief that continued dialogue between our sales personnel and customers will result in those customers having an improved level of knowledge in financial matters, which would be of tremendous social value in Japan, where financial literacy is currently not as high as it is in Europe or the U.S.

Our efforts to reform retail sales are only at the end of the preparatory stages at present, and real reforms are likely to take some time. We aim to build customer satisfaction, including through use of the NPS, resulting in Daiwa Securities being the first choice of its customers based on it having the highest quality brand in the sector.

Future Initiatives Along the NPS Axis



Evolving a Sales Structure That Stands on Customer Satisfaction

Since April 2017, Daiwa Securities Group has raised “Quality No. 1” as one of its strategic themes for management policy, and has worked throughout the Group towards building an operations framework entirely from the perspective of the customer. Against a backdrop of the shift from savings to investments, these efforts are aimed at becoming the first choice as partner among our customers. Daiwa Securities has begun implementing some of the most progressive initiatives in the industry, including introducing a bottom-up sales system and improving customer satisfaction.

In FY2018, we placed customer-oriented KPIs at the top of the numerical targets raised in the Medium-Term Management Plan “Passion for the Best” 2020. Daiwa version of NPS, a customer satisfaction KPI designed to measure customer loyalty, and Daiwa Securities’ Assets under Custody, where deposits received serve as proof of trust among our customers, were established as specific KPIs. Daiwa version of NPS was introduced to all branches during FY2018.

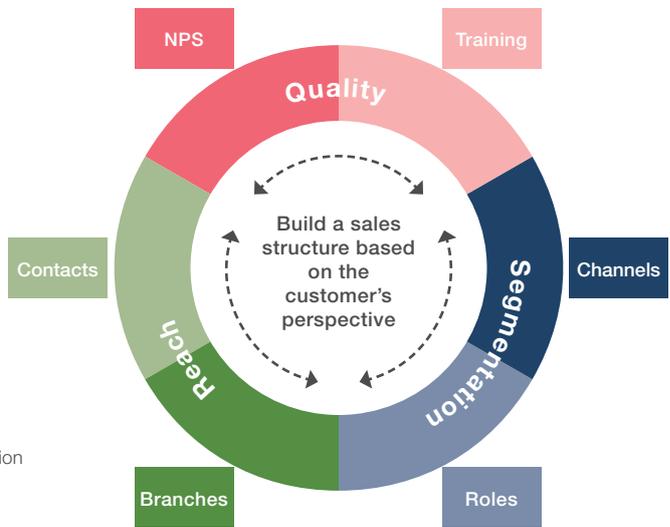
Three Pillars Retail Strategy

In order to operate from the customer’s perspective, Daiwa Securities promotes a strategy that comprehensively raises quality, expanding its reach to customers and further segmentation of channels and roles for making the best proposals to customers.

In terms of expanding our reach to customers, we are thoroughly implementing an area marketing approach by adding low-cost, small-size sales offices. In terms of channel segmentation, we are aiming to address the needs of individual customers that are increasingly older and more diverse in a more refined manner.

Along with these measures, we will pursue “Quality No. 1” and raise the quantity and quality of customer consulting services.

 Segmentation, Reach (Branch Strategy) » P. 43 Strategies by Division



Introducing Daiwa Version of NPS

Since FY2018, Daiwa Securities Group has introduced Daiwa version of NPS to all branches as an indicator that can visualize and measure customer satisfaction in a more effective, continuous manner than in the past.

In order to raise customer satisfaction, each sales branch now considers the initiatives that must be taken in response to the results of customer questionnaires and puts these into effect. The initiatives of each sales branch are supported by the NPS Promotion Office.

At the same time, in addition to raising the level of skill and techniques among our sales representatives, we are putting mechanisms into place that will encourage sales representatives to maintain a mindset whereby they truly align with the customer. The Chief Customer Officer oversees these mechanisms.

What is NPS?

NPS provides a simple questionnaire to customers asking to what degree they would recommend a company’s products and services to their own friends and colleagues, and asks customers to rate this on a scale of 0 to 10 as a means of measuring customer satisfaction. NPS is used by many global companies.

Q When asked by family or friends about the best securities company with which to open an account, how likely is it that you would recommend Daiwa Securities?

Promoter (9-10) Passive (7-8) Detractor (0-6)

Extremely likely (0-10) Not at all likely (0-10)

Percentage of promoters - Percentage of detractors = NPS

Customer questionnaire response examples



Promoters

- Representatives are always polite and introduce different products that reflect my standpoint. When I asked about tax matters, the representative introduced the appropriate department, which was very helpful.
- My impression was very positive regarding the way in which the representatives recommend products with an understanding of my investment goals and asset situation.
- The representatives also provide detailed explanations regarding risks. Although there are aspects that make me feel uncertain about asset management, the representatives listen to my opinions about these aspects and consider the best options.
- The representative provided products and information that matched my requests. Moreover, when asked about inheritance and gifts, the representative earned my trust by sparing no effort in contacting the appropriate department and producing materials.

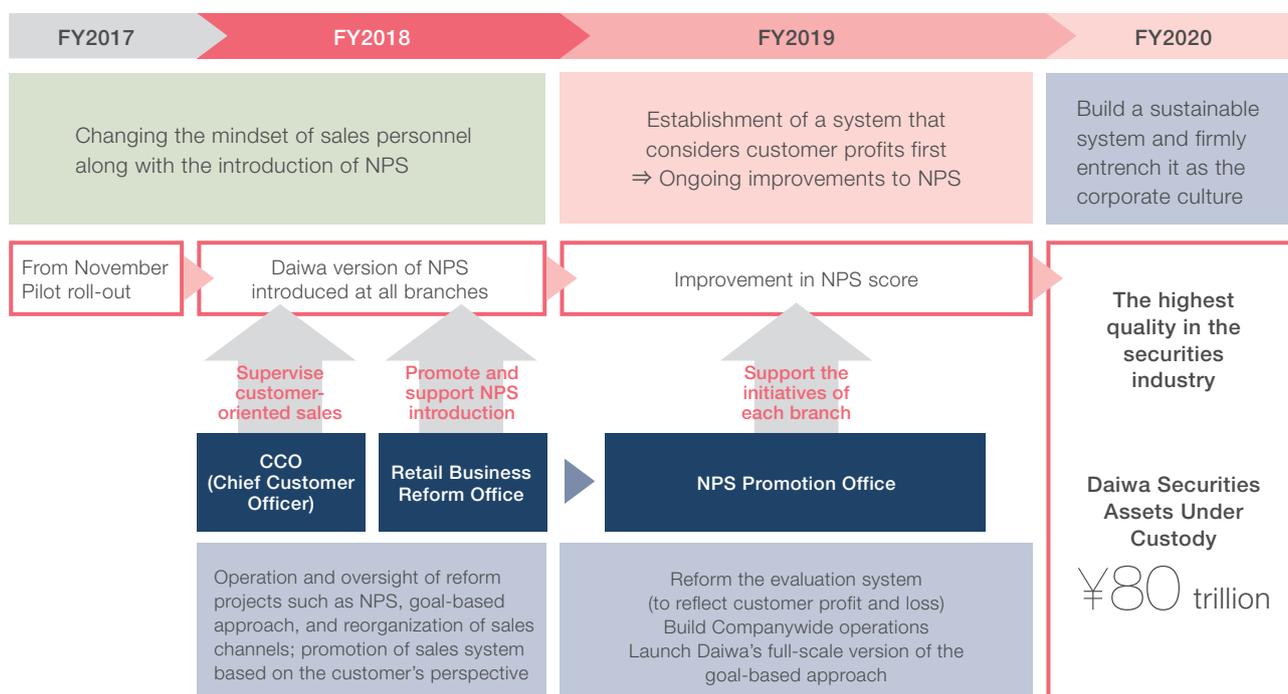


Detractors

- Fees were high and I felt that purchasing ETF and other products through online securities on my own would have been better from the perspectives of liquidity and administrative fees.
- I should have been able to ask questions and receive answers via email, so it is inconvenient that you do not offer this service.*
- Although it depends on market price conditions, my investments rarely led to gains.
- The transaction balance reports are difficult to understand. You should make these easier to understand.

* In March 2019, we changed our email usage rules. Currently, email can be used for contacting customers in many situations.

Roll-Out Phase with NPS as the Driving Force



In FY2019, Daiwa Securities will further evolve the concept and will create new systems that make every effort to maximize customer benefits. As the first step in this move, we included items related to customer investment performance within assessments on branches, and sales representatives. This move served to promote a greater level of awareness.

Through these initiatives, we are aiming to expand Assets Under Custody (AUC), which serves as proof of the trust earned from our customers, and are targeting AUC of ¥80 trillion by FY2020.

“Quality No. 1” Initiatives Implemented by Sales Branches

Kunitachi Branch Initiatives (NPS launched in May 2018)



Changes in awareness among sales representatives coincide with the introduction of Daiwa version of NPS

The Kunitachi Branch began introducing NPS in May 2018, making it part of the first group to do so. As a result of repeated trial-and-error approaches starting with the initial introduction and lasting until everyone at the branch understood and accepted the concept, an awareness of uncompromising consideration has become entrenched, thereby ensuring that today every sales representative works to deepen their relationship with our customers.

Before I became the Head of Kunitachi Branch, I was the Head of a newly opened sales office. Sales offices did not set product-specific sales targets following their establishment, so I personally felt through my experience here that it is possible to work with many customers by thoroughly facing their needs. Against the social backdrop of an aging society and declining birthrates, I recognize the importance of further expanding approaches to customers with which Daiwa Securities has not had contract with in the past. In order to address the diversifying spectrum of needs among our customers, I hope to reinforce our knowledge regarding solutions for inheritance, gifts, and real estate, not just investment products, and offer a broader selection of proposals.



Takayuki Sawada
Head of Kunitachi Branch
Daiwa Securities Co. Ltd.

Sharing challenges through sharing opinions

The Kunitachi Branch holds NPS Follow-up Meetings every week, during which all employees participate to share their opinions. We specifically discuss improvement measures for the problems we have experienced through sales activities from the uncompromising perspectives of customers. Although the details of these discussions are shared throughout the branch to make improvements, when it comes to challenges that are difficult for the branch to improve on its own, we share these with the NPS Promotion Office as comments from the frontlines. These discussions have led to vibrant communication within the branch and have better helped to share projects as part of daily sales activities than in the past.



NPS Follow-up Meeting

Following the introduction of NPS, I feel that I have become more devoted to listening to ‘customers’ concerns and problems during face-to-face meetings. There are also many elderly customers among my clients. Applying the knowledge I acquired during the process of Q-Road* and obtaining financial planner certification, I offer solutions related to inheritance and real estate, and feel fulfilled when my customers are pleased.

* See page 63



Marina Matsumoto
Assistant Manager of
Kunitachi Branch
Daiwa Securities Co. Ltd.



Mizuki Yamamachi
Assistant Manager of
Kunitachi Branch
Daiwa Securities Co. Ltd.

One of the changes that followed the introduction of NPS was how I communicate with my team manager. Along with reporting the details of face-to-face meetings with customers for the day to my team manager every day in the evening, I receive specific guidance regarding future consulting.

Although I have received stern opinions on the NPS questionnaire at times, I genuinely accept these as opportunities for addressing the customer requests that lie behind these opinions. And I repeatedly make improvements every day. Moreover, expanding the opportunities to directly speak with customers has allowed me to start hearing about various concerns of which I had not been informed before.

My goal is to become a sales representative that is loved by a broad range of customers.

Kyoto Branch Initiatives (NPS launched in October 2018)



Creating systems for greater customer satisfaction

Our first step in raising customer satisfaction is to listen closely to the voices of our customers. At our branch, in addition to investment-related preferences, we also listen to various concerns and needs regarding their lives, including inheritance, gifts, and real estate during face-to-face meetings with our customers. In this way, we have worked to embed an approach whereby we propose the best solutions from the perspective of the customer after listening to them. In order to enable our younger sales representatives with limited experience to smoothly conduct face-to-face meetings with the same level of excellence as veterans, we have undertaken bottom-up efforts throughout the entire branch, including making our own original hearing cards.

As a result of these initiatives, each sales representative now takes the initiative in considering what they can do for their customers. Our approach to sales activities has also changed to a more planned approach based on a long-term perspective, for example making face-to-face meeting appointments with customers far in advance to ensure sufficient time to prepare for meetings. As a manager, I myself work to manage the branch with an emphasis on the process of how our employees communicate with their customers.



Junichi Serizawa
Senior Managing Director
Head of Kyoto Branch
Daiwa Securities Co. Ltd.

PDCA cycle created by all branch employees

At the Kyoto Branch, we hold an NPS Strategy Meeting once per week. During these meetings, we share the details of questionnaires returned by customers among all participants of the team manager class and above to identify any problems and challenges. At the same time, members present various opinions and hold serious discussions regarding future responses and improvement initiatives from the perspective of what we need to do to raise customer satisfaction. Discussions during these meetings are led by the NPS leader. Each of the team heads reports on what they have realized through interactions with customers, at which time everyone provides opinions and proposals towards improvements. Plans and ideas for which all members accept and hold the same opinion are adopted as branch-wide initiatives and are rapidly shifted to the implementation phase. By continuously working through the improvement PDCA cycle under the leadership of the NPS Strategy Meeting, there is a feeling that we will gradually approach a greater level of customer satisfaction throughout the branch.

Moreover, the city of Kyoto, where our branch is located, is home to a concentration of some of Japan's most excellent listed companies which have long histories, and has been assessed as a leading city for the SDGs. Utilizing the characteristics of this region, going forward our branch will take the initiative in creating connections with our customers based on shared values and in hopes of contributing to innovations launched from Kyoto through frontline SDGs initiatives.



NPS Strategy Meeting



Chikako Nakata
Director of Kyoto Branch
Daiwa Securities Co. Ltd.

I do not feel that my approach to customers has drastically changed as a result of introducing NPS. However, now that there are no longer product-specific sales goals, it has become easier to make more flexible proposals that suit the goals of my customers from a medium- to long-term perspective. I endeavor to talk about many things with my customers and to hold deeper hearings. I also make regular efforts towards self-improvement in order to serve as a representative with whom my customers can consult about anything.

Message from the CCO (Chief Customer Officer)



We are creating schemes to encourage real change, raising sales excellence, and promoting service improvements to ensure that all our sales representatives understand the true meaning of customer-oriented and to evolve the bottom-up sales promotion strategy led by the sales branches that are closest to our customers.

Atsushi Mochizuki
Executive Managing Director and CCO
Daiwa Securities Co. Ltd.

Towards a higher level of sales quality

With the Compliance Department taking the lead, Daiwa Securities has worked intensely to correct sales approaches and behaviors that comply with laws, regulations, and company rules to raise the level of sales quality. Going forward, we will go beyond simply complying with laws, regulations, and company rules in working to instill the true meaning of customer-oriented. Likewise, in FY2019 we launched a new initiative towards further raising the level of sales quality as a means of encouraging dealings on a higher level and of ensuring our customers are happy in the true sense of the term. Specifically, we now identify and monitor transactions that do not violate laws, regulations, and company rules, yet may not offer the best options for our customers. At the same time, we work to improve behavior through guidance to the sales representatives involved in such transactions. Moreover, this guidance system is also applied to supervisors, and we are enhancing the self-correcting mechanism for branches by further raising awareness among supervisors so that they can properly provide guidance to sales representatives from a higher vantage point. Establishing the true meaning of customer-oriented does not rely on managing operations under a single set of rules. Instead, I feel that all sales representatives must more deeply understand their customers and fully consider the best proposals, and that branch managers and supervisors must provide support.

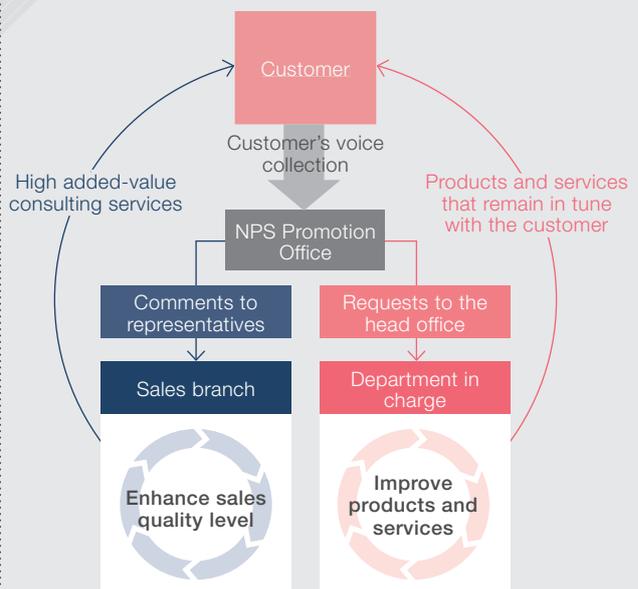
Addressing the voices of customers

Currently, we rapidly share opinions and requests received from our customers among the sales branches and head office departments, where Daiwa Securities works together to undertake improvement activities. First, each sales branch strives to provide high added value consulting services through a higher level of sales quality, which is led by the supervisor's guidance and based on the opinions of customers regarding the service provided by the representatives.

Meanwhile, the head office departments genuinely respond to customer requests and continuously investigate updates to products and services. Based on the comments we have received from customers thus far, we have worked to enable the use of email as a customer contact tool, enhance online trading convenience, and improve other services, for example. In addition, the NPS Promotion Office, which was newly established in FY2019, identifies problems at sales sites and collaborates with the head office departments to make swift improvements, thereby raising the effectiveness of Customer-Oriented Operations and striving for a greater degree of progress.

As the CCO, going forward I will investigate Daiwa Securities' sales quality and approach to service from every angle. And I will continue making every effort to realize sales reform and to establish a corporate culture that stand on the true meaning of customer-oriented.

Customer's Voice Response Framework



Strategies by Division

38	Domestic and Overseas Network
40	Retail Division
46	Wholesale Division
52	Asset Management Division
56	Investment Division
58	Other

Retail Division

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

- ▶ Number of branches and sales offices in Japan* **162**
 - ▶ Number of customer accounts with balance* **3,025** thousand
- * Figure for Daiwa Securities Co. Ltd.

Wholesale Division

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

- ▶ Offices in **21** countries and regions
- ▶ Total value of underwriting and distribution **¥1,482.3** billion (equity)
¥11.2 trillion (bond)

Asset Management Division

Investment trusts/Investment advisory services

Daiwa Asset Management Co. Ltd.

Real estate asset management

Daiwa Real Estate Asset Management Co. Ltd.
Daiwa Office Investment Corporation

- ▶ Assets under management* **¥20.2** trillion
- ▶ Assets under management of real estate AM business..... **¥907.4** billion

* Total of Daiwa Asset Management Co. Ltd. (stock investment trusts/bond investment trusts) and Daiwa SB Investments Ltd. (now Sumitomo Mitsui DS Asset Management Company, Limited, stock investment trusts / investment advisory services)

Investment Division

Daiwa Corporate Investment Co., Ltd. (DCI)
Daiwa PI Partners Co. Ltd. (PIP)
Daiwa Energy & Infrastructure Co. Ltd. (DEI)

- ▶ Assets from investment funds **¥427.4** billion from **85** funds
- ▶ Outstanding principal investment balance* **¥139.0** billion

* Principal investment balance is total of PIP and DEI

Other

Think tank/Information systems

Daiwa Institute of Research Ltd.
Daiwa Institute of Research Business Innovation Ltd.

Banking

Daiwa Next Bank, Ltd.

Daiwa Securities Business Center Co. Ltd.
Daiwa Property Co., Ltd.
Fintertech Co. Ltd.

- ▶ Balance of deposits* **¥3.6** trillion
 - ▶ Number of accounts* **1,364** thousand
- * Figure for Daiwa Next Bank Ltd.

Note: The number of domestic branches and sales offices in Japan is that planned for October 31, 2019, and the number of countries and regions in which the Group has offices is current as of August 1, 2019. Other figures are as of March 31, 2019, or from FY2018 results.

Domestic and Overseas Network

As of August 1, 2019 (Data for Japan includes plans up to October 31, 2019.)

Number of branches and sales offices in Japan

162

📍 Sales offices newly opened from April 2018



Sales offices newly opened from April 2018

2018	May	Fujigaoka Sales Office	Aichi
	Aug.	Futamata-gawa Sales Office	Kanagawa
		Kaihimmakuhari Sales Office	Chiba
		Kashii Sales Office	Fukuoka
	Dec.	Kuwana Sales Office	Mie
		Tajimi Sales Office	Gifu
		Goi Sales Office	Chiba
2019	Jan.	Kuki Sales Office	Saitama
	Aug. (Plan)	Kanazawa-bunko Sales Office	Kanagawa
		Takarazuka Sales Office	Hyogo
		Kumagaya Sales Office	Saitama
	Sep. (Plan)	Yokkaichi Sales Office	Mie
	Oct. (Plan)	Ogaki Sales Office	Gifu

Integrated branches from April 2018

2018	May	Nagoya Branch and Nagoya-ekimae Branch	Aichi
2019	Oct. (Plan)	Ikebukuro Branch and Ikebukuro-nishiguchi Branch	Tokyo
		Shinjuku Branch and SCB Branch	Tokyo
		Head Office and Hibiya Branch	Tokyo



Alliances and investments in Asia



Philippines	Development Bank of the Philippines	Mar. 1995 Nov. 2015	Joint venture established Business alliance
Taiwan	Daiwa-Cathay Capital Markets Co., Ltd.	Oct. 2001	Joint venture established
Vietnam	SSI Securities Corporation	June 2008 Apr. 2016	Capital & business alliance Increased stake and became an equity-method affiliate
Thailand	Thanachart Securities Plc.	Feb. 2013	Business alliance
Indonesia	PT. Bahana Securities	Sep. 2013	Business alliance
Malaysia	Affin Hwang Investment Bank Berhad	Dec. 2013	Business alliance
Australia and New Zealand	Australia and New Zealand Banking Group Limited	Feb. 2014	Business alliance
China	CSC Financial Co., Ltd.	Nov. 2014 Dec. 2016	Business alliance Investment
Myanmar	Myanmar Securities Exchange Centre Co., Ltd.	Feb. 2016 Mar. 2016	Securities license granted Began trading
India	Ambit Private Limited	Dec. 2016	Business alliance
Philippines	COL Financial Group, Inc.	Apr. 2017	Investment
Thailand	Aura Capital Thai Co., Ltd.	Dec. 2018	Business alliance
Hong Kong	Value Partners		Cooperation on management and sale of investment trusts
South Korea	Mirae Asset Global Investments		Cooperation on management and sale of investment trusts

Retail Division



Seiji Nakata
President and CEO
Head of Retail
Daiwa Securities Group Inc.

Main Sources of Earnings

- ▷ Commissions on products and services related to financial asset management

Key Factors Affecting Earnings

- ▷ Financial markets and economic conditions in Japan and overseas
- ▷ Product development, sales of underwriting deals and sales strategies that meet customers' needs

Engagement with Stakeholders

Customer Attributes



- ▷ Individual investors
- ▷ Corporate investors (business corporations, public corporations, local public organizations, other corporations)

Channels



- ▷ Head and branch offices, sales offices (sales representatives, client support, etc.)
- ▷ Daiwa's online trading
- ▷ Contact centers

Main Products and Services



- ▷ Equities ▷ Bonds ▷ Investment trusts
- ▷ Wrap account services ▷ Insurance
- ▷ Banking services ▷ Inheritance-related services, etc.

Social Value



- ▷ Supports asset accumulation for people
- ▷ Supports society through investment on an intermediary basis

Awareness of Environment

- ▷ Inflation being encouraged by domestic monetary policy ▷ Growing needs for asset preservation as people live longer
- ▷ Beginning of the money shift to the digital native generation, while the current crop of young people has less investment experience
- ▷ Emergence of new products and services using new technology, changes in regulations in response

Initiatives and Performance in FY2018

In FY2018, efforts were made to improve the evaluation system for sales branches based on customer satisfaction, including the introduction of the Daiwa version of NPS at all branches. We also focused on increasing higher quality, stable revenues and steadily building up profits by continuous asset inflows and the expansion of assets under custody. As a result, the Retail Division recorded net asset inflows for fiscal 2018 of ¥1,222.2 billion, the highest level since FY2007, before the implementation of electronic share certificates.

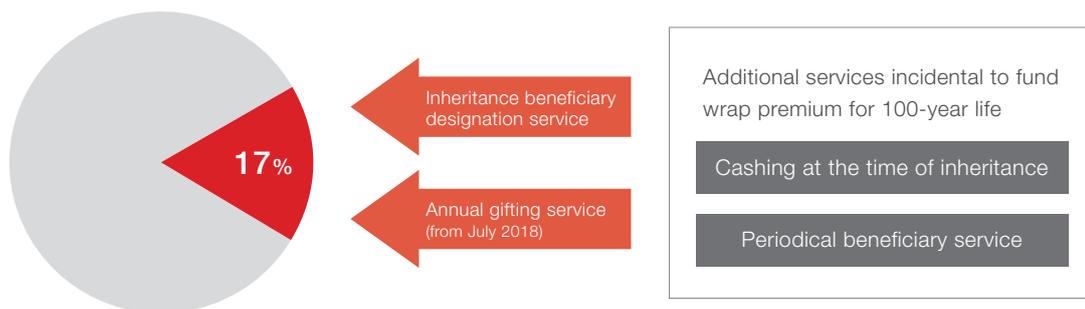
The main sources of stable revenues in the Retail Division are investment trust agency fees and investment advisory and account management fees for wrap account services.

Daiwa Securities wrap account services have enhanced attractive services and functions to meet the increasingly sophisticated needs of customers. This is especially the case with Daiwa Fund Wrap Premium, which can be contracted from ¥30 million and provides ancillary services with an eye on customers' 100-year lives, setting us apart from other companies.

While aiming for stable growth of owned assets, under Daiwa Fund Wrap Premium we started handling the Daiwa Annual Gifting Service, which enables the reliable and easy giving of inter vivos gifts to families, in July 2018. By this ability to provide optimal services to meet all customer needs, the wrap account service contracts under management balance exceeded ¥2 trillion.

The ratio of inheritance and gift-related services used in new contracts of Daiwa Fund Wrap Premium

(from July 2018 to March 2019)



Strengths

- ▷ Network of 162 sales branches/sales offices and a customer base built up over 117 years since its foundation
- ▷ Highest number of CFPs in the financial industry ▷ Ability to develop and recommend products and services in line with customer needs
- ▷ Ability to provide products such as foreign equities, IPOs, primary and secondary offerings, foreign currency and time deposits through synergies with the Wholesale Division, Daiwa Next Bank and other divisions

Business Risks

- ▷ Risk of major decline in earnings due to weak demand for securities investment from customers owing to market slump, or investors becoming less inclined to own overall risk assets
- ▷ Risk of the necessity of fixed costs, such as real estate-related expenses, personnel expenses, or depreciation on systems investments, for branches, sales representatives, online trading systems, etc.

Action Plan for FY2019

1. Build a sales structure grounded in customer satisfaction
2. Provide service solutions for customer attributes that match the customer's various needs
3. Sustainable expansion of the revenue base
4. Expand the business by utilizing external channels and resources

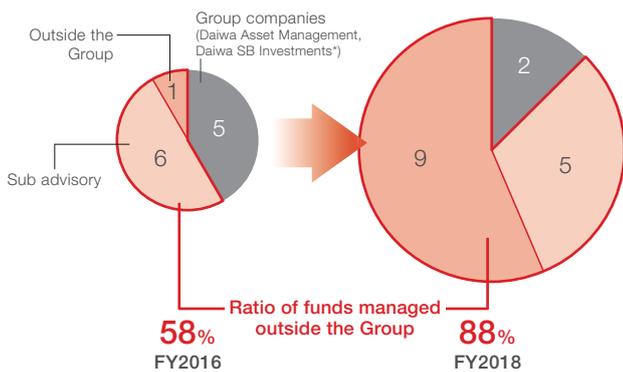
Retail Division

With regard to the selection of investment trust products, regardless of whether they are inside or outside the Group, we select and sell products that are considered the most attractive to customers. In FY2018, of the 16 investment trusts that were newly lined up for customers, nine were products from completely outside Daiwa Securities Group and 14 investment trusts were set up under the sub-advisory method*.

In July 2018, amid growing market uncertainty, we began handling the Goldman Sachs Bond / Global Diversified Fund, the first investment trust in Japan to secure yen-denominated principal upon redemption.

* A method under which the asset management company sets up an investment trust and entrusts sub-advisors to select investment securities and order the selling/buying of securities. When adopting this sub-advisory method, the asset management company can offer various investment methods with considerable success and specialized experiences in unique markets worldwide to customers through the investment trust.

Composition Ratio of New Lineup Funds' Adoption



* Now Sumitomo Mitsui DS Asset Management Company, Limited

Retail Division Strategy

No.1 Three Pillars Retail Strategy

From FY2018, the Retail Division promoted strategies in an integrated manner from three perspectives, namely quality, segmentation and reach: the ongoing improvement of quality based on the Daiwa version of NPS; channel segmentation according to customer segmentation; and a branch strategy based on sales office expansion through thorough area marketing. The retail business still has enormous growth potential, and we aim to grow as a more sustainable core business by further evolving the customer-oriented sales system based on NPS. Improving NPS requires us to drastically improve the quality and quantity of communication with our customers. Both the thorough area marketing, due to increasing the number of sales offices that are small, low-cost, branch offices and the channel segmentation to cater in a fine-tuned manner to the needs of individuals, who are aging and diversifying, are positioned as complementary strategies to improve NPS and from that realize dramatic expansion of asset inflows.

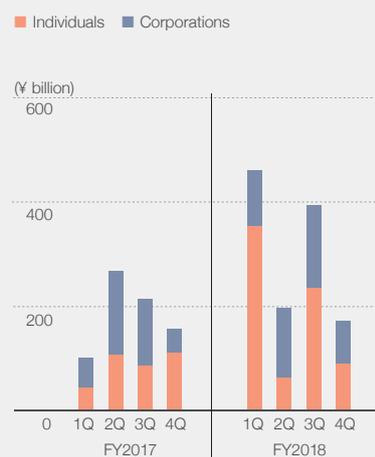
Quality

For more details please see the Feature: Retail Sales Reform on P. 27.

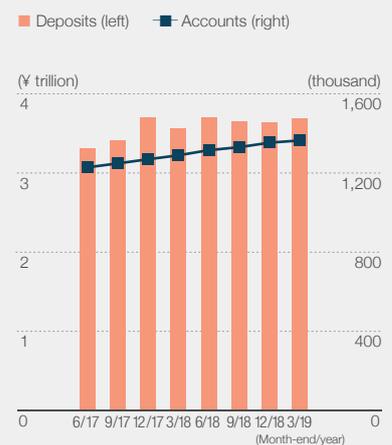
Sales and Distribution Amount by Product (Daiwa Securities)



Net Inflow of Assets (Daiwa Securities' Retail Division)



[Reference] Balance of Deposits and Number of Accounts at Daiwa Next Bank



Segmentation

Daiwa Securities began segmentation according to customer attributes and life stages in October 2017. We have completed the assignment to all branches of Inheritance Consultants specializing in inheritance-related work to respond to the different concerns and needs of each customer. At the end of FY2018, the number of branches with a resident Anshin Planner, who mainly handles elderly customers, stood at 41 but the number was increased to 70 in April 2019. The number of branches where an Anshin Planner is in residence will be gradually expanded, and their assignment to all branches will be completed in FY2019. As of April 2019, 123 Financial Consultants, who are mainly engaged in consulting with asset-building customers, had been assigned to 72 branches.

We will continue to respond to the diverse needs of all our customer bases, while providing careful consulting and more accurate proposals.

Segmentation (from October 2017)

Affluent	Wealth Consultant	Scheduled for introduction in all branches by April 2020
Elderly customers	Anshin Planner	No. of personnel 123 people The number of branches 70 branches
Asset-builders	Financial Consultants	No. of personnel 123 people The number of branches 72 branches
	Client Support*	

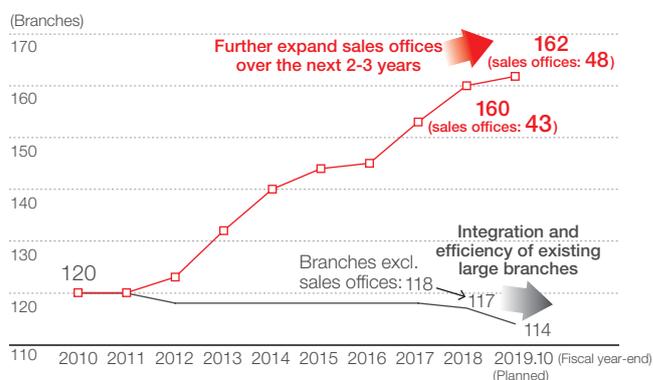
* Branch customer support

Reach (branch strategy)

Under the branch strategy, to expand the points of contact with customers and accurately capture diversifying needs, the number of branches has been expanded by opening small, low-cost sales offices without back office functions. In fiscal 2018, we opened eight new sales offices. By increasing the number of sales offices over the next two to three years, we will efficiently expand points of contact with customers that had proven difficult to reach in the past. At the same time, we will promote the efficiency of and cost reductions at existing stores from the following three viewpoints:

- Integration and consolidation of large existing branches adjacent to each other in major cities
- Review roles of branch functions on first floor, increase branches that have relocated from street-level floor to upper floor
- Consolidation of middle/back functions of relatively close branches and sales offices

Number of Branches and Sales Offices



Operational Data

	Billions of yen (Except as otherwise specified)				
	FY2014	FY2015	FY2016	FY2017	FY2018
Daiwa Securities					
Customer assets*	54,678	51,000	53,678	68,100	66,325
Equities	32,574	30,119	32,971	46,310	43,814
Bonds	12,248	11,854	12,065	13,045	14,193
Investment trusts	8,590	7,764	7,500	7,573	7,206
Others	1,265	1,262	1,140	1,170	1,111
Sales of core products					
Stock investment trusts	2,236	2,317	1,811	2,215	1,513
Foreign bonds and others	1,306	1,243	922	982	885
Net inflow of retail assets	1,067	662	299	739	1,222
Individuals	707	335	145	347	740
Unlisted corporations, etc.	359	327	154	392	481
Remaining customer cash management service (CMS) accounts* (thousands)	2,910	2,973	2,974	2,989	3,025
Online trading accounts* (thousands)	2,904	3,040	3,127	3,214	3,320

* As of the end of the fiscal year; includes the Wholesale Division

Retail Division

Initiatives for SDGs



Responses to Social Issues through Solutions Business

**Establishment of business succession funds**

The average age of small and medium-sized enterprise (SME) owners is in their late 60s, and a lack of successors is becoming a major problem. Based on a Ministry of Economy, Trade and Industry announcement, by around 2025 the owners of SMEs and smaller businesses who are over 70 years old, the average retirement age, will number approximately 2.45 million, of which half, 1.27 million, will have no successor. The figure is equivalent to about 30% of all Japanese companies, and if the current situation is neglected, and the number of SMEs that cease business rapidly increases, the possibility is being shown that a cumulative total of about 6.5 million jobs and about ¥22 trillion of GDP may be lost over the 10 years. Business succession issue is thus one of the major social challenges that Japan is facing.

In October 2018, Daiwa Securities Group decided to establish the Daiwa ACA Business Succession Fund to expand the provision of solutions in the business succession field.

In addition to current solutions such as M&A advisory and asset succession consulting provided by Daiwa Securities in the business succession field, the newly established fund can be added to customer companies' transferee candidates and will improve the ability to make proposals aimed at solving customers' problems.



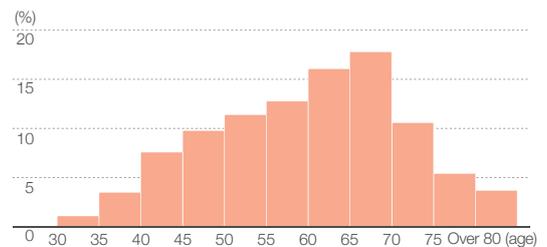
http://www.daiwa-grp.jp/data/attach/2642_141_en20181029f.pdf
(Press release dated October 29, 2018)

Establishment of Business Succession Fund

- In the business succession field, in addition to M&A and asset succession consulting, it is possible to propose a business succession fund
- Supporting a wide range of business succession by targeting relatively small- and medium-sized enterprises even among SMEs, regardless of the industry

SME Owner Age Distribution (2015 Survey)

Average age of SME owners is late 60s, rapid increase in business succession needs expected over next 10 years.



Source: Compiled by Daiwa Securities Group from The Small and Medium Enterprise Agency SME White Paper (2016 edition)



Provision of Social Contribution Opportunities through Product Sales

SDGs Bonds (Impact Investment Bonds)

The use of funds from Impact Investment Bonds is limited to the purposes of resolving social issues, such as poverty and environmental problems. Through bond sales, we help customers in their efforts to connect funds directly to activities that have a social impact.

From March 2008 to July 2019, Daiwa Securities sold a cumulative total of ¥706.1 billion of Impact Investment Bonds to individual investors. This amount represents approximately 50% of Impact Investment Bonds sold in the Japanese market during the same period.

Main SDGs Bonds (Impact Investment Bonds) Sales

Issue Period	Issuer	Type	Sales amount (estimate, billions of yen)
FY2018	Mitsui O.S.K. Lines	Green Bonds	3.0
	Tokyo Metropolitan Government	Green Bonds	2.0
	Odakyu Electric Railway	Green Bonds	1.1
	Export-Import Bank of Korea	Green Bonds	5.1
FY2019	GLP J-REIT	Green Bonds	3.0
	Mitsui O.S.K. Lines	Sustainability Bonds	6.0

ESG investment through investment trust funds

Daiwa Securities sells investment trusts that meet the needs of customers interested in a variety of social issues and ESG investments. Examples of investment trusts are the Daiwa Women Supporter Fund (nicknamed Tsubaki [Camellia]) and the Social Issue Solution Support Fund (nicknamed Egao no Kakehashi), both established and managed by Daiwa Asset Management, and the World Impact Investment Fund (nicknamed Better World) established and managed by Sumitomo Mitsui DS Asset Management.

 SDGs Data Book P. 23–24

Daiwa Social Contribution Wrap

Daiwa Securities began handling its Daiwa Social Contribution Wrap services in June 2015. Under this service, while managing their assets with a fund wrap, customers make donations to selected organizations in accordance with their investment results. The Company also donates part of its fund wrap fees received from customers to the same organizations. This is a service that allows customers to effortlessly perform social contribution activities while managing their assets.

 https://www.daiwa.jp/products/fund_wrap/donation.html (In Japanese only)

Contribution to local communities

Daiwa Securities believes that broadening its interactions with local residents at each sales branch will lead to sustainable business. Each sales branch conducts a variety of activities, not only sales activities but also to contribute to local communities and interact with local residents. Specifically, conducted at each sales branch are monthly seminars on investment and economic trends in which anyone can participate, support for school education with the cooperation of employees, support for and cooperation with local festivals and events, and volunteers to collect books that people have finished reading. In-house commendations are given to employees who volunteer and contribute to society at an outstanding level.

Note: Daiwa Securities Group as a whole carries out a variety of contribution activities to local communities, such as subsidies through foundations and NPOs, disaster support, and initiatives at overseas bases.

 SDGs Data Book P. 68–74

No.1 Financial Literacy Education Initiatives

Daiwa Securities Group disseminates information that can be used to learn about, for example, investment, asset formation and money life plans, so that everyone can have an opportunity to engage in asset formation through investment.

SODATTE

Daiwa Securities opened SODATTE, an information website for child rearing and money, in April 2016 for the child-rearing generation. With three years having passed since its opening, it has grown to be a website visited by many fans, with 220 columns and more than 600,000 monthly page views on average.

The website sets up six categories, including Money Lesson, Family Finances, and Education Funds, and disseminates columns that provide tips to the child-rearing generation. By disseminating information useful for childcare and money from various angles, with the aim of making asset formation more familiar, we are providing easy-to-understand information for beginners of investment.



<https://www.daiwa.jp/sodatte/> (In Japanese only)

Okane-no-Mikata

We launched *okane-no-mikata*, a website for junior and senior high school students to learn about finance and the economy, in March 2016, following the start of the Junior NISA program. As a way to help with independent research projects during the summer holidays, we provide financial and economic learning opportunities through website content such as *jiyu-kenkyu-no-mikata*.



<http://edu.daiwa.jp/> (In Japanese only)

Wholesale Division



Toshihiro Matsui
Deputy President and COO
Head of Wholesale
Daiwa Securities Group Inc.

GM: Global Markets GIB: Global Investment Banking

Main Sources of Earnings

- GM** ▷ Trading commissions from the buying and selling of marketable securities for institutional investors, trading income
- GIB** ▷ Underwriting commissions from underwriting business, M&A commissions from M&A advisory services

Key Factors Affecting Earnings

- GM** ▷ Fluctuations on financial markets and changes in customers' trading behavior, in reaction to international geopolitical risk and economic conditions
- GIB** ▷ Economic conditions inside and outside Japan that affect customer decisions regarding fund raising methods and demand for M&A ▷ Whether Daiwa Securities can seize corporate demand and be assigned to deals

Engagement with Stakeholders

Customer Attributes



- ▷ Institutional investors in Japan and overseas
▷ Corporations ▷ Financial institutions
▷ Public entities

Channels



- GM** ▷ Sales ▷ Analysts ▷ Dealers
GIB ▷ Corporate client sales (RM and sector coverage) ▷ Institutional sales (brokerage)

Main Products and Services



- GM** ▷ Equities ▷ Bonds and foreign exchange
▷ Derivatives
GIB ▷ Primary and secondary equity underwriting
▷ Bond underwriting ▷ M&A advisory services ▷ Consulting for share listings

Social Value



- GM** ▷ Ensure healthy markets ▷ Provide global investment opportunities to investors in Japan and overseas
GIB ▷ Support industrial development ▷ Identify and support new growing industries ▷ Assist raising funds for public projects with high social significance, such as Impact Investments

Awareness of Environment

- GM** ▷ Ongoing recovery in world economy ▷ Greater uncertainties in outlook for world economy due to trends in monetary and trade policies in each country ▷ Increase in geopolitical risk around the world ▷ Tighter regulations and changes in competitive landscape as companies enter from other sectors ▷ Increase in ESG investing and dialogue with issuers due to greater emphasis on responsible investing among institutional investors
- GIB** ▷ Changes in industrial structures due to technological innovation ▷ Increase of support for development of venture companies
▷ British exit from the EU ▷ Relaxation of restrictions on foreign investment in China's financial markets

Initiatives and Performance in FY2018

The Wholesale Division covers Global Markets and Global Investment Banking.

The Global Markets business provides sales and trading services of equities and bonds as well as of foreign exchange and derivative products, mainly for institutional investors and corporations, while providing financial products and sales support to the Retail Division. In FY2018, although the Nikkei Stock Average reached its highest price in 27 years, earnings declined because it was a year of violent fluctuations, such as the adjustments made toward the end of December 2018 against a backdrop of concerns about U.S.-China trade friction and a global economic slowdown. In contrast, continuing our focus on equities-related business from the previous fiscal year, the timely provision of products that respond to changes in customer needs and market environment contributed to profits due to collaboration between the Retail Division and Wholesale Division. Having been successful in the development of young people, external recruitment and in overall improvements, we captured first place in the overall ranking by company in the Nikkei Veritas Analyst Rankings for the first time in 10 years.

Global Investment Banking conducts business in, for example, marketable securities underwriting and M&A advisory services.

In underwriting deals for Japanese companies, in addition to serving as joint global coordinator for the equity offering in Renesas Electronics and the Mercari IPO^{*1}, we served as the lead manager for the SoftBank IPO. We also served as lead manager and Green Bond Structuring Agent^{*2} for the green bonds, Japan's first publicly offered hybrid bonds^{*3} qualified as green bonds, issued by Tokyo Tatemono.

In M&A advisory services, Daiwa Securities served as advisor to Idemitsu Kosan in a business integration project between Idemitsu Kosan and Showa Shell Sekiyu. Daiwa Securities also participated in many M&A deals through collaborations of Group companies. These included our three bases in Japan, the United States and Europe (Daiwa Securities, DC Americas and DC Europe) working together and Daiwa Securities serving as advisor to Taisho Pharmaceutical when that company made UPSA—a French pharmaceutical manufacturing and sales company owned by Bristol-Myers Squibb—a wholly owned subsidiary and acquired related business assets.

Furthermore, we acquired Montalbán Atlas Capital in Spain to strengthen our M&A advisory business globally, particularly in Europe.



*1 Initial Public Offering: The offer and sale of an initial issuance of shares to the general public

*2 Agent supporting the issuance of green bonds through the establishment of a Green Bond framework and advice on gain of Second-Party Opinion

*3 Publicly offered subordinated bonds

Strengths

- GM** ▷ Ability to provide products and information across Japan and overseas utilizing the network of overseas bases
 ▷ Robust and advanced execution platform for equities and bonds ▷ Analyst coverage of major Japanese companies
 ▷ World-leading equity research
- GIB** ▷ Sales network in Japan and overseas ▷ Utilize personnel with experience of the secondary market ▷ Cross-border M&A network
 ▷ RM structure that covers all listed companies and unlisted companies in Japan

Business Risks

- GM** ▷ In trading services, the risk earnings will deteriorate owing to weaker transaction demand from customers due to market trends or changes in taxation and accounting systems; the risk of losses materializing as a result of sudden, large-scale changes in market conditions that are detrimental to the market value of positions held by dealers; and the risk of losses materializing from an inability to sell in reaction to changes in market conditions due to the holding of low-liquidity positions ▷ In brokerage services, the risk of a significant decline in earnings if a slump in market conditions weakens demand for securities investment at customers, leading to risk-averse investment behavior on Japan's securities markets and investors who are more reluctant to own risk assets ▷ System investment risk on large-scale trading systems, risk of system failure
- GIB** ▷ In underwriting and M&A advisory services for corporate customer needs on the financial and management strategy fronts, the risk of sudden changes in transaction scale and volume due to securities market conditions ▷ In underwriting deals, the risk of losses on underwritten securities held, caused by a fall in market prices in the event that the securities cannot be smoothly sold to investors for reasons such as a decline in the market

Action Plan for FY2019

- Promote the company's shift to higher added value
- Provide products and services that capture customer needs
- Support changes in business structure and in Japan's industrial structure
- Provide pan-Asian business support as a regional Asian broker

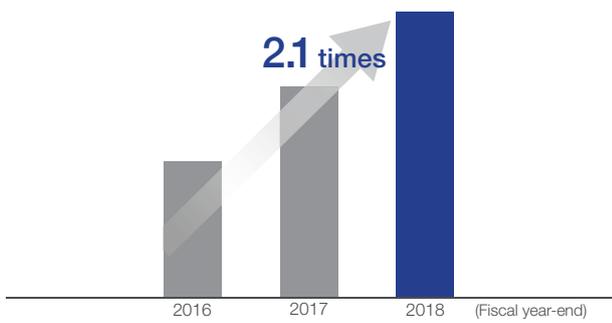
Wholesale Division

Wholesale Division Strategies

No.1 Providing products and services having identified customer needs

One focus area in Global Markets is the strengthening of sales support for foreign equities and bonds. Out of the current Japanese individual financial assets, foreign currency-denominated assets account for only 2.5%, and thus it can be said that there is a lot of room for future expansion. With regard to foreign equity and foreign bonds, we will promote the provision of easy-to-understand information while focusing on providing diversified investment opportunities for the formation of richer assets for customers through proactive proposals for products denominated in foreign currencies.

Foreign Equity AUC*



*Assets under custody

No.1 Evolution of IPO platforms

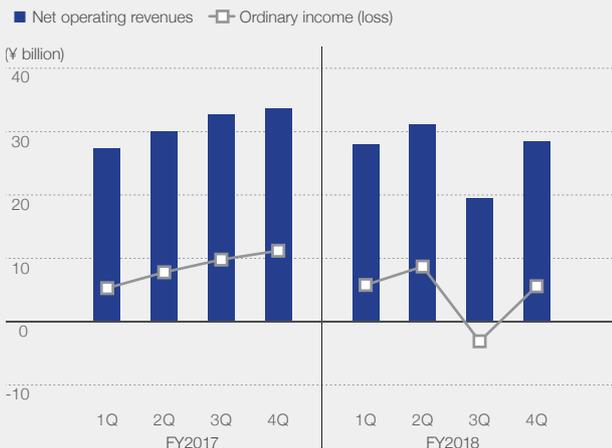
Having served as book runner for several large underwriting projects, including the Mercari and SoftBank IPOs, Daiwa Securities won second place for both POs and IPOs in the FY2018 league tables.

Particularly with regard to IPOs, we have been able to advance the establishment of the Daiwa IPO Platform, a robust system that can maintain a structurally competitive advantage. The underlying pipeline status is extremely good, and we will work to capture more IPO deal mandates.

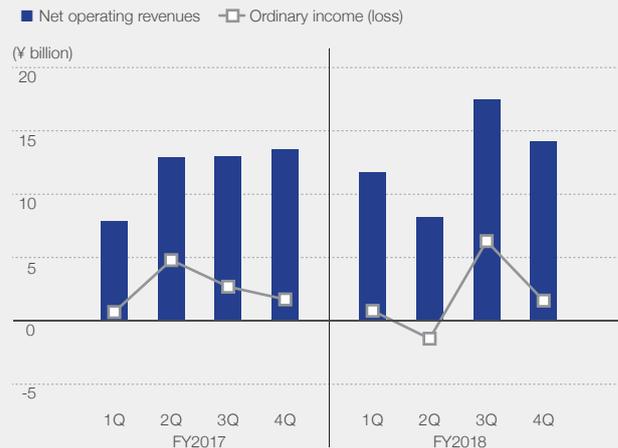
Core Competence of Daiwa IPO Platform

<p>Sourcing Capability (Deal-finding skill)</p> <ul style="list-style-type: none"> Utilize Japanese venture capital Strengthen relationships and partner with external venture capital firms (DG LAB FUND, WiL, etc.) and universities. Cooperate with Daiwa PI Partners and Daiwa Corporate Investment 	<p>Quality of Human Resources</p> <ul style="list-style-type: none"> Continuous reinforcement of personnel Strengthen the coverage of unicorn IPO companies
<p>Networking Skills</p>	<p>Execution and Marketing Skills</p> <ul style="list-style-type: none"> Knowledge and experience backing our extensive track record Solid sales base in Japan and overseas

Quarterly Earnings Trends Global Markets



Global Investment Banking



Further strengthening of global M&A network

As an integrated securities Group, Daiwa Securities is working to further strengthen its global M&A network to propose solutions to client companies.

In December 2018, the Group acquired Montalbán Atlas Capital through DC Advisory Europe. From April 2019, we will use the brand in a globally integrated manner as DC Advisory and will promote the consolidated management of M&A business.

Revenues related with M&A increased steadily, and in FY2018 the temporary cost burden associated with the acquisition of two companies acquired in the United States (Sagent Advisors and Signal Hill, both of which were integrated into DC Americas) had a significant impact on earnings. They are, however, expected to steadily increase profits in the years to come.

In the FY2018 mid-cap advisory ranking (excluding accounting-related firms), the Daiwa Securities Group was ranked eighth with 120 projects in the global M&A market. Going forward, we will target inclusion in the top tier in the global mid-cap M&A market by continuing our strengthening measures, including increasing the number of personnel in the M&A business and considering further acquisitions.



Stable overseas business contribution to profits

From around 2011, as the European debt crisis deepened, global financial regulations tightened and maintaining the structural balance between income and expenditure became more exacting, the Daiwa Securities Group either reduced or withdrew from unprofitable overseas divisions and bases and put reductions of personnel into effect. In the two years up until the end of FY2012, the Group implemented cost reduction measures overseas, mainly in Europe and Asia, totaling approximately ¥38 billion*; those measures included reducing personnel by 800 people, which represented more than 30% of the peak number. On the other hand, while curbing costs, we had been working to expand our alliance network with leading Asian financial institutions from the perspective of supplementing services provided in Japan and expanding profits over the medium to long term.

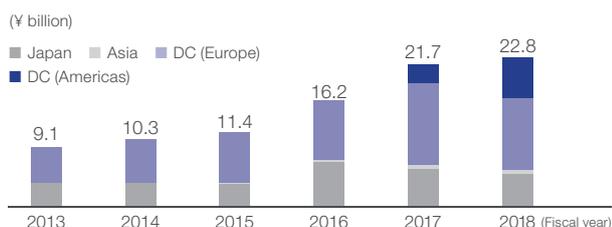
On account of the major restructuring phase completed at that time, the Group's overseas business has become an efficient management system, leading to a surplus for the 12 consecutive quarters and three consecutive years since FY2016. From FY2017 onward, we have been investing in a global M&A network as an area in which we can expect significant growth even overseas.

In November 2018, we agreed to establish a 51%-owned joint venture securities company in China, where the capital markets are expected to expand, with the Beijing State-owned Capital Operation and Management Center, wholly owned by the Beijing city government, that focuses on management and restructuring of state-owned enterprises.

We will continue to maintain and strengthen this muscular earnings structure and strengthen our global M&A network, thereby expanding its profit contribution to the Group.

* Europe: ¥13.5 billion, Asia: ¥22.0 billion, Americas ¥2.5 billion
 ▶▶ Page 39: Domestic and Overseas Networks

M&A-related Revenues



Overseas Ordinary Income (Loss)



Wholesale Division

Initiatives for SDGs



Global Investment Banking

No.1 Underwriting of SDGs Bonds*1, including Green Bonds

Since the Daiwa Securities Group launched sales of vaccine bonds to individual investors in 2008, the domestic ESG/SRI bond market, including Green Bonds, has been developed mainly with individual investors. In addition, the issuance of green bonds, mainly overseas, jumped sharply after the International Capital Market Association established the Green Bonds Principles in 2014. The Japanese government thereafter launched its support, with the Ministry of the Environment in Japan formulating in March 2017 its Green Bonds Guidelines, 2017 and proposing a variety of related measures. This contributed to enhanced green bond interest not only by individual investors, but also institutional investors in Japan.

Active since 2008 in developing the ESG/SRI bond markets in Japan and overseas as a means to promote Impact Investment that contributes to solving environmental and social issues, the Group is promoting the full-scale spread of SDGs bonds, including Green Bonds, in Japan and overseas. Examples include serving on the committee developing the Ministry of the Environment's Green Bond Guidelines, 2017 and participating in the International Capital Market Association's working group on Green Bond Principles.

In FY2018, the Group built up a track record of serving as lead manager in some landmark underwriting projects. In addition to the first Green Bonds aimed at individual investors from a domestic business corporation, Mitsui O.S.K. Lines, the world's first green CB*2 from Sumitomo Forestry, and Japan's first publicly offered hybrid bonds*3 qualified as Green Bonds, issued by Tokyo Tatemono, these included Social Samurai Bonds*4 from BPCE, an overseas issuer, and Development Bank of Japan Sustainability Bonds*5 on the Euro market.

The issuance of SDGs bonds entails additional costs and procedures for the issuer, including selection of the use of funds and the reporting of results, and given the additional burdens on the investor, including in regard to establishing new investment standards, there remain a number of challenges to overcome before these bonds become more prevalent. The Group is committed to ongoing educational activities aimed at deepening knowledge in this area among investors and issuers, leveraging its leading position in the industry in impact investment bonds while simultaneously contributing to an expansion in the market by providing reliable solutions to both investors and issuers.

Main SDGs Bonds Underwriting from FY2018 Onward

Period	Issuer	Notes	Issue Amount
FY2018	Mitsui O.S.K. Lines	Green Bonds (Including first domestic Green Bonds for individual investors from a business corporation)	Total ¥10.0 billion
	Sumitomo Forestry	Green CB (world first)	¥10.0 billion
	Sumitomo Mitsui Trust Bank	Green Bonds	500 million euros
	Development Bank of Japan	Sustainability Bonds	700 million euros
	Daio Paper	Green Bonds	Total ¥20.0 billion
	Daiwa Securities Group	Green Bonds	¥10.0 billion
	Japan International Cooperation Agency	Social Bonds	Total ¥40.0 billion
	Japan Housing Finance Agency	Green Bonds	¥10.0 billion
	BPCE	Social Bonds	¥50.0 billion
	Export-Import Bank of Korea	Green Bonds	¥5.1 billion*6
	Tokyo Tatemono	Japan's first publicly offered hybrid bonds qualified as Green Bonds	¥50.0 billion
FY2019	Toyota Finance	Green Bonds	¥60.0 billion
	ORIX JREIT	Green Bonds	¥7.0 billion
	Mitsui O.S.K. Lines	Sustainability Bonds (Including first domestic Sustainability Bonds for individual investors from a business corporation)	Total ¥20.0 billion

*1 In April 2019, the Japan Securities Dealers Association published its Guidebook on Financial Products Contributing to the SDGs, in which SDGs Bonds is used as a standardized term for bonds that will be allocated to businesses whose fundraising will contribute to the SDGs.

*2 Convertible Bond: A convertible bond with stock acquisition rights

*3 Publicly offered hybrid bonds: Publicly offered subordinated bonds

*4 Social Bond: Bonds allocated to businesses to assist in social projects the fundraising for which will contribute to resolving social issues

*5 Sustainability Bond: Bonds allocated to businesses whose fundraising will assist in both green and social projects

*6 Sales by Daiwa Securities (estimate)

No.1 Daiwa Innovation Network

The Group is strengthening its efforts toward open innovation.

As an example, we are making greater use of the Daiwa Innovation Network (DIN), a business matching event between large companies and venture companies, to discover and foster new industries. In FY2018, the number of participants was 1.5 times more than the average of the events held between FY2014 and FY2017. Furthermore, the DIN on the theme of FinTech held in January 2019 attracted a record number of more than 200 participants.



DIN Summit	Networking event for the heads of start-ups
DIN Premium	Matching of start-ups with individual companies
DIN	Matching of start-ups with listed companies

Global Markets

No.1 Equity Research Department / Establishment of ESG Research Group

In response to growing institutional investor demand for ESG investments (investing with non-financial information such as the environment, society and governance), Daiwa Securities Equity Research Department newly established an ESG Research Group specializing in ESG research functions in May 2019. Conducting research into domestic and foreign investment environments and investment strategies related to the ESG aspects of stocks and bonds, the ESG Research Group is contributing to the realization of a sustainable society and the provision of long-term returns for customers through its report distribution, investor visits, seminars, collaborations with overseas branches and other activities.



No.1 Holding of Daiwa Investment Conference (DIC)

Leveraging each of its networks, in Global Markets and Global Investment Banking, Daiwa Securities Wholesale Division holds IR conferences in Tokyo (DIC Tokyo), one of the largest conferences of its kind in the world, as well as in Hong Kong, New York, San Francisco, Chicago, and London. The conferences provide forums for institutional investors from around the world and many companies to meet face to face. The flagship DIC Tokyo was held for the 13th time in March 2019. By promoting dialogue between investors and companies, Daiwa Securities is helping to improve the soundness of capital markets.



No.1 Holding of Daiwa Capital Markets Conference (DCMC)

An international financial and economic conference involving domestic and foreign bond market participants, DCMC is held annually. Every year, there are many sessions that focus on the international situation and monetary policy, and in FY2018 a panel discussion entitled SDGs x Finance was held to meet the interests in SDGs from domestic and foreign SDG investors and issuers. Well-known issuers, including the World Bank, participated in this session, which received high praise from those who attended.

Asset Management Division



Koichi Matsushita
Deputy President
Head of Asset Management
Daiwa Securities Group Inc.

AM: Asset Management

Main Sources of Earnings

AM ▷ Commissions for structuring and managing investment trusts, and for investment advisory operations (a set percentage of the balance of assets under management, or performance-based compensation)

Real Estate AM ▷ Real estate investment income

Key Factors Affecting Earnings

AM ▷ Changes in demand from customers for investment trusts and investment advisory services depending on market conditions
▷ Investment performance of funds relative to market conditions, appeal of products which capture customers' interest

Real Estate AM ▷ Trends in the domestic real estate market and demand for office space

Engagement with Stakeholders

Customer Attributes



- ▷ Individual investors ▷ Institutional investors
- ▷ Financial institutions ▷ Government agencies

Channels



- ▷ Distribution companies including Daiwa Securities (securities companies, registered financial institutions), etc.

Main Products and Services



- ▷ Various investment trust products (structuring and managing) ▷ Investment advisory services
- ▷ Support for customers and distribution companies

Social Value



- ▷ Fulfillment of stewardship duties
- ▷ Helping people accumulate assets
- ▷ Proactive use of ESG information in investment decisions

Awareness of Environment

- ▷ Mergers and restructuring among major asset management firms around the world ▷ Use of AI technology in investment processes
- ▷ Increasing prominence of ESG investment and fiduciary duty amid spread of Principles for Responsible Investment (PRI)
- ▷ Investment difficulties caused by low interest rates, diversification of investor needs ▷ Growing needs for asset accumulation on own initiative

Initiatives and Performance in FY2018

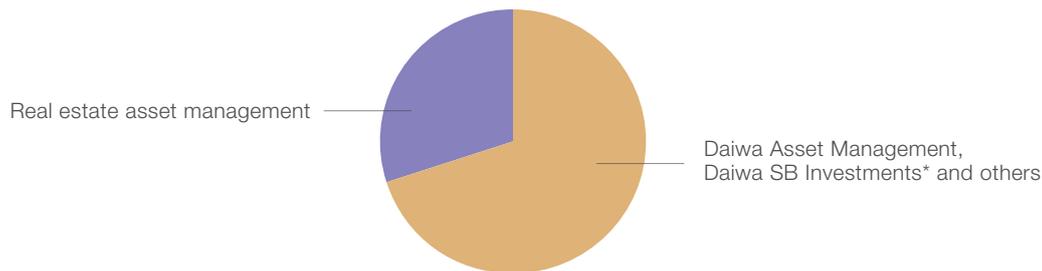
Daiwa Asset Management Co. Ltd. and Daiwa SB Investments Ltd.* worked to increase the amount of assets under management by offering products through a broad selection range of sales channels and strengthening their management capabilities.

In the case of Daiwa Asset Management, sales of the World Fintech Innovation Fund were strong, attracting an inflow of ¥104.6 billion. In addition, due to the inflow of funds to ETFs, the total increase in investment inflow into publicly offered equity investment trusts overall in FY2018 was ¥939.8 billion, and the net asset balance at the end of the fiscal year was ¥14,616.2 billion.

Daiwa SB Investments made efforts to improve its management skills in investment advisory operations for domestic and overseas pension funds. Having merged with Sumitomo Mitsui Asset Management to become an asset management company that provides the highest quality asset management performance and services, Daiwa SB Investments became Sumitomo Mitsui DS Asset Management Company on April 1, 2019.

In the real estate asset management field, Daiwa Real Estate Asset Management and Mi-Casa Asset Management merged in October 2018 to stabilize the operational base and further improve competitiveness by concentrating Group management resources. Having worked to improve portfolio yields by acquiring new properties and replacing assets as well as improve the value of existing properties, the size of assets under management at the end of FY2018 was ¥907.4 billion.

Breakdown of ordinary income for FY2018



* Now Sumitomo Mitsui DS Asset Management Company, Limited

Strengths

- ▷ Product development capabilities to match diverse customer needs
- ▷ Marketing capabilities and support structure for sales network inside and outside the Group
- ▷ Top-class balance of net assets in investment trusts in Japan
- ▷ Research and management capability backed by many years of experience and track record

Business Risks

- AM** ▷ Risk of a drop in earnings from a decline in assets under management due to a decrease in the appraised value of assets under management as a result of market fluctuations, or due to an increase in cancellations as a result of the change in asset management behavior of customers or as a result of the Group's investments underperforming in comparison to competitors
- Real Estate AM** ▷ Risk of weaker earnings due to valuation losses or inability to receive rental and divesture income at anticipated levels and times, owing to fluctuations in real estate market conditions, changes in fund procurement interest rates, or various other circumstances affecting real estate investments

Action Plan for FY2019

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

Asset Management Division

Wholesale Division Strategies

No.1 Pursuing customer profits by strengthening and improving management capabilities

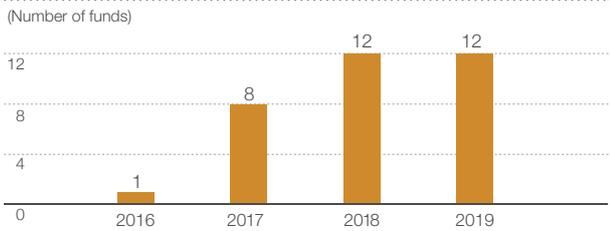
Aiming to be the asset management company that is most trusted and chosen by customers, Daiwa Asset Management conducts its business operations with customer profits foremost in mind.

In FY2018, the company implemented a number of initiatives designed to improve its management performance. These initiatives included: continuous improvement of its management structure and processes; the identifying of medium- to long-term growth share issues, including venture companies; improve the performance of analyst recommendations; the active utilization of AI and other new technologies for fund management; and the strengthening of its global management structure.

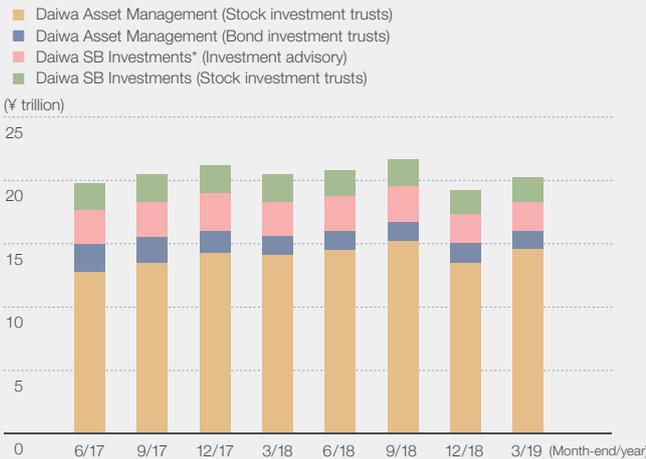
In terms of its product development, Daiwa Asset Management worked to strengthen its lineup by expanding its SDG-related issue funds, the Gerontology Fund for senior citizens and the iFree Series for the asset-building generation.

As a result of continuous efforts to pursue high-quality operational results, at the R&I Fund Award 2019, six funds won the First Prize, and six funds won the Second Prize. In the years to come, we will work to further improve product development and management capabilities while contributing to our customers' asset-building activities.

R&I Fund Awards Won



Balance of Major Assets under Management at the Asset Management Division



* Now Sumitomo Mitsui DS Asset Management Company, Limited

Expansion of real estate asset management

As a new value in its asset management, the Daiwa Securities Group is promoting the expansion of its alternative investment products with real estate asset management business as the central thrust. The already undertaken diversification of the REIT portfolio has been accompanied by a steady increase in the balance of assets under management, which exceeded ¥900 billion as of the end of March 2019 with the ¥1 trillion milestone in sight.

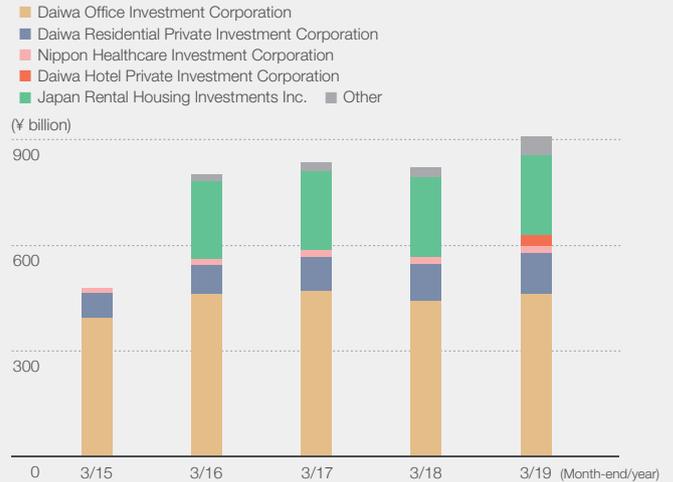
In FY2018, Daiwa Real Estate Asset Management absorbed and merged with Mi-Casa Asset Management Inc. to further improve the stability of its asset management base and strengthen its competitiveness. In June 2018, Daiwa Hotel Private Investment Corporation, a private REIT, was newly formed, resulting in a steady increase in assets under management due to property acquisitions.

Looking ahead, we are also considering the forming of products geared toward overseas real estate that can be expected to generate stable cash flow. We will also develop new fund procurement methods, such as securitization and crowdfunding, to improve the efficiency of our business portfolio.

Expansion of Real Estate Asset Management

Office	Year	Company
Housing	2009	Daiwa Office Investment Corporation
	2012	Daiwa Residential Private Investment Corporation
	2014	Japan Rental Housing Investments Inc.
	2018	Samty Residential Investment Corporation
Healthcare	2014	Nippon Healthcare Investment Corporation
Infrastructure and energy	2015	Private offering logistics fund
	2016	IDI infrastructures
Hotels	2018	Daiwa Hotel Private Investment Corporation

Assets under Management of Real Estate AM Business



Initiatives for SDGs



Initiatives by Daiwa Asset Management

Responsible investment initiatives

Daiwa Asset Management announced its adoption of the Japanese version of the Stewardship Code in May 2014 and has been actively working to fulfill its stewardship responsibility. It has been striving to improve its initiatives, renewing the announcement of its adoption in November 2017 following the revision of the Code in May 2017.

In January 2017, the company set up the Stewardship Supervisory Committee, which is designed to manage conflicts of interest faced in fulfilling its stewardship responsibility. The committee supervises the company's overall stewardship activities and is responsible for making reports to the board of directors and issuing recommendations to improve stewardship activities as necessary. The committee is composed of outside directors and the compliance officer, who takes charge of overseeing the management of conflicts of interest, thereby securing independence from management and the execution of business with respect to stewardship activities.

In October 2018, a Stewardship & ESG Section was newly established within the Investment Planning Department to provide specific details and the stance of the company's ESG initiatives in an easy-to-understand manner.

Daiwa Asset Management stewardship activities
<https://www.daiwa-am.co.jp/english/corporation/stewardship.html>

SDGs Data Book P.13–14

Development of ESG-related investment trust funds

As a signatory to the United Nations Principles for Responsible Investment (PRI) and the Principles for Financial Action for the 21st Century, Daiwa Asset Management has been assigning personnel within its Fund Management Division and systematically promoting ESG investment initiatives. The company makes active use of ESG information not only for investment decisions in the overall active management of stocks, but also even in passive investment operations for listing ETFs linked to indices that utilize ESG evaluations on the Tokyo Stock Exchange.

- ▷ Daiwa Eco Fund
- ▷ Women Supporter Fund (nicknamed Tsubaki [Camellia])
- ▷ Social Challenges Fund (nicknamed Egao no Kakehashi)
- ▷ Daiwa/BlackRock Green New Energy Fund
- ▷ Daiwa Japan Supporter Vol. 3
- ▷ DC · Daiwa SRI Fund
- ▷ Six Asset Balanced Fund
- ▷ World 6 Assets Equal Allocation Fund
- ▷ Tsumitate Tsubaki
- ▷ Japan Human and Physical Investment Index
- ▷ Daiwa ETF FTSE Blossom Japan Index
- ▷ Daiwa ETF MSCI Japan ESG Select Leaders Index
- ▷ Daiwa ETF MSCI Japan Empowering Women Index (WIN)
- ▷ "Shigagin" SRI Three-Asset Balance Open

Balance of assets under management as of March 31, 2019:
¥117.7 billion

Fund management structure, etc.
<https://www.daiwa-am.co.jp/english/approach/philosophy.html>

SDGs Data Book P.23–24

Initiatives to expand the investor base

To support the first steps in investment for asset-forming people in creating forward-looking assets, Daiwa Asset Management provides them free of charge with information that is more accessible and easy to understand. Through these initiatives, we believe that contributing to the expansion of our investor base and the improvement of investor asset management knowledge are linked to the sustainability of the Group's business.

INVEST TIMES (established November 2018)



<https://investimes.jp/>
(In Japanese only)
<https://www.daiwa-am.co.jp/company/press-release/20190111NEW.pdf>
(In Japanese only)

iFree Touch (start of services June 2019)



<https://www.ifreeapp.jp/>
(In Japanese only)
https://www.daiwa-am.co.jp/company/press-release/20190612_01.html
(In Japanese only)



Initiatives in real estate asset management

Nippon Healthcare Investment Corporation

Nippon Healthcare Investment Corporation listed on the REIT section of the Tokyo Stock Exchange in November 2014 as Japan's first REIT specializing in healthcare facilities.

While providing residents with fee-based private nursing homes, elderly housing with supportive services and others, the mechanism of healthcare REITs is such that it also leases business assets to operators and receives rent from the operators who are the lessees. Therefore, the healthcare facilities owned by healthcare REITs have the feature of being management-type facilities.

Investment Division

Investing in a wide range of assets, the Investment Division of the Daiwa Securities Group encompasses primarily three companies: Daiwa Corporate Investment Co., Ltd., which invests in venture companies through funds; Daiwa PI Partners Co. Ltd., which uses the Group's own capital to invest in loans, real estate and private equity; and Daiwa Energy & Infrastructure Co. Ltd., which invests in energy, infrastructure and resources.



Action Plan for FY2019

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

Initiatives and Performance in FY2018

Daiwa Corporate Investment Co., Ltd.

Since its establishment in 1982, Daiwa Corporate Investment (DCI) has developed venture investments and buyout investments as a PE investment company and been contributing to the growth and stock listings of many companies.

In recent years, the investment business world has witnessed accelerating internationalization, a revolution in technologies—including in AI, IoT and in the drug discovery life sciences—to resolve social issues at home and abroad, and attempts being made to overcome those issues through global collaboration. In FY2018, to accelerate the creation of a venture ecosystem (creation of new industries by venture companies, cycle of economic revitalization), DCI established several investment funds, including the DCI Venture Support Fund (total commitment of ¥10.2 billion). We are also working on cooperation and collaboration with existing funds as well as Asian regional companies including in China, Vietnam and Taiwan.

In our investment activities, in which we focus on IT and life sciences, we actively promoted investments in venture companies with strong potential for success in Japan and overseas (42 companies, ¥7.8 billion). DCI supplies risk money to fields, businesses and companies where growth is expected while continuing to make efforts to contribute to the realization and development of a vibrant and sustainable economic society through the growth of its portfolio companies.

These activities contribute to the SDGs set forth by the Group and will continue to actively develop business in the future.

Daiwa PI Partners Co. Ltd.

Daiwa PI Partners (DPI) invests in loans and real estate as well as private equity that are mainly geared toward Japanese and Asian companies.

Loan investments focus mainly on purchasing loan portfolios from financial institutions and providing debt-collection services. In addition, DPI also offers a variety of debt finance schemes tailored to various needs, including the provision of new loans using real estate as collateral in Japan and development projects in the United Kingdom and Australia. Having commenced real estate investments in FY2018, DCI has made investments in two properties. Private equity investments were made in one company in Japan and five companies in Asia, primarily Myanmar.

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

Daiwa Energy & Infrastructure Co. Ltd.

Having succeeded to DPI's energy investment business, Daiwa Energy & Infrastructure (DEI) commenced operations in October 2018. In addition to renewable energy investments, the company invests in infrastructure and resources.

In terms of energy investment, we are investing in the development of solar and biomass power generation facilities as well as geothermal power plants. As new fields, we invested in aircraft leasing in infrastructure investment and, in investment in resources, invested in a Swedish plant engineering company that possesses production technologies for biomass fuels.

Through its investments, DEI will focus its efforts on achieving the SDGs, including "ensure access to affordable, reliable, sustainable and modern energy for all," "build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation", and "take urgent action to combat climate change and its impacts".

Initiatives for SDGs



Daiwa Energy & Infrastructure Co. Ltd.



Having established a new company, Daiwa Energy & Infrastructure Co. Ltd. (DEI) in July 2018, the Daiwa Securities Group transferred the general energy investment functions that had been carried out at Daiwa PI Partners. Previously, we invested mainly in solar power in the field of renewable energy in Japan, but now we are expanding our areas of investment to overseas renewable energy and infrastructure fields.

In FY2018, we started a joint project with Biomass Fuel Co., Ltd., a capital and business partner, to construct a wood pellet manufacturing plant with a production capacity of approximately 200,000 tons per year in Vietnam. In FY2019, we decided to invest*1 in Swimsol GmbH, an Austrian company that develops offshore photovoltaic power generation business in the Maldives, and in Electricity North West Limited*2, which operates a power distribution business in the United Kingdom.

The Daiwa Securities Group will continue to promote investment and financing in the fields of renewable energy, infrastructure and resources through DEI.

*1 http://www.daiwa-grp.jp/data/attach/2830_060_en20190614a.pdf (Press release June 14, 2019)

*2 http://www.daiwa-grp.jp/data/attach/2855_076_en20190730a.pdf (Press release July 30, 2019)



The SolarSea® floating, offshore photovoltaic power system from Swimsol GmbH

SDGs Data Book P. 33



Structure of Innovation Growth Fund

In March 2019, Daiwa Capital Holdings Co., Ltd., a subsidiary of Daiwa Securities Group Inc., established a joint venture, Innovation Growth Ventures Co., Ltd. (IGV), in collaboration with Sony Corporation for the purpose of forming investment funds targeting venture companies in the industrial field, an area in which high growth can be expected in the coming years. Having completed the first offering (first closing) of investment interests in its Innovation Growth Fund I L.P. investment fund, IGV started the management of the fund in July 2019.

We believe that the integration of Sony's insight of cutting-edge technologies and Daiwa Securities Group's comprehensive expertise in finance will lead to the creation of a new kind of venture capital business, while providing the spark for new trends in the venture fund ecosystem.

http://www.daiwa-grp.jp/data/attach/2918_068_en20190703a.pdf (Press release July 3, 2019)



Establishment of DAIWA Myanmar Growth Fund

Since June 2017, Daiwa PI Partners (DPI) has been promoting private equity investments in companies that conduct business in Myanmar, the so-called "last frontier of Asia." So far, DPI has invested in a total of five projects in Myanmar, including FRONTiiR, OWAY, and Royal Golden Owls (RGO).

It is expected that a host of promising investment opportunities in Myanmar will remain for years to come. Thus, in July 2019, the DAIWA Myanmar Growth Fund was established to invest mainly in unlisted companies operating in Myanmar, where further benefit from economic growth in Asia is expected, with DPI and Daiwa Corporate Investment as joint general partners and Taiyo Life Insurance Company as a limited partner.

There are many start-up companies in Myanmar with latent growth potential. We believe that we can promote corporate growth by providing these companies with growth capital and at the same time contribute to improving the social infrastructure and living standards of the people in Myanmar.

http://www.daiwa-grp.jp/data/attach/2848_070_en190711a.pdf (Press release July 12, 2019)

Other

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

Daiwa Institute of Research Group

Action Plan for FY2019

1. Contribute to the strengthening of the business by collaborating with the Group as the think tank of the hybrid securities group
2. Provide visionary, economic and financial information that guide customers in uncertain future led by accelerating digitalization.
3. Provide solutions that contribute to the competitiveness of customers' businesses
4. Expand the business through the creation of "new value" by utilizing advanced technology

Initiatives and Performance in FY2018

The research division of the Daiwa Institute of Research Ltd. (DIR) contributed toward raising the profile of Daiwa Securities Group. Providing policy advice to the councils and committees of government agencies, DIR co-sponsored seminars with overseas research institutions and undertook wide-ranging activities, based on its surveys in the economic and financial fields, about economic trends in Japan and overseas. With regard to the consulting business, DIR engaged in projects that were specific to think tanks. In addition to focusing on projects for Daiwa Securities Group companies and other companies in Japan, DIR undertook overseas projects from countries throughout Asia, with a focus on Myanmar.

In the DIR Group's IT systems business, we support the Daiwa Securities Group's new service provision from a systems perspective, while also further raising cost efficiency by expanding measures to improve the productivity of development and management operations. Moreover, we have driven new customer development in order to further expand the customer base. In the field of advanced technology, we have been actively applying advanced technology to real business situations, for example by utilizing AI for business improvement solutions and supporting advanced IT implementation projects for overseas securities companies.

Daiwa Next Bank

Action Plan for FY2019

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

Initiatives and Performance in FY2018

As the banking subsidiary of Daiwa Securities Group, Daiwa Next Bank's mission is to deliver products and services that meet the asset formation needs of our customers amid the trending shift "from savings to asset formation." In cooperation with Daiwa Securities, which serves as the banking agent, Daiwa Next Bank introduced many promotional offers in FY2018, as in the previous year. As of the end of FY2018, the bank has 1.36 million accounts, and the balance of total deposits (including CDs) reached ¥3,678.9 billion.*

Since November 2017, Daiwa Next Bank has been offering "Eraberu Yokin," a service that delivers advantages beyond just interest rates to our customers. In the case of one *Eraberu Yokin* service, "Ouen Time Deposits," which incorporate the joy of supporting somebody, the balance at the end of February 2019 exceeded ¥10 billion due to contributions from corporate customers. *Ouen Time Deposits* serve as one of the initiatives through which the Daiwa Securities Group business is meeting the SDGs adopted by the United Nations. With respect to *Ouen Time Deposits*, Daiwa Next Bank will extend its lineup for customers to support on an ongoing basis.

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

* For details on the number of deposit accounts and the total account balance, please refer to page 42.

Initiatives for SDGs



Daiwa Next Bank

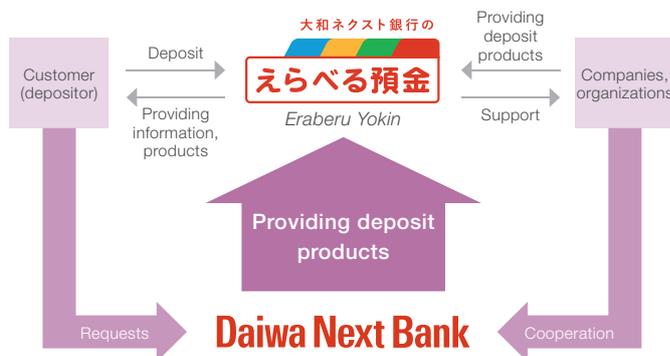
Eraberu Yokin

In November 2017 Daiwa Next Bank launched *Eraberu Yokin* (a deposit account that provides value in ways other than traditional interest rates), which was co-created with customers, companies, and organizations. This product consists of three types of fixed-term deposit account where (1) depositors can receive presents from the bank's various partner companies (Present Time Deposits), (2) select and support groups such as non-profit organizations that provide social services through donations that cover the interest gap between time deposits and normal deposits, as well as an additional grant from Daiwa Next Bank (*Ouen* Time Deposits), and (3) depositors can be excited by predicting index and foreign exchange rate trends to receive a prize (*Kensho* Time Deposits).

As of July 2019, the balance of *Erabu Yokin* deposits stood at around ¥21.5 billion, of which *Ouen* Time Deposits totaled approximately ¥9.0 billion. There are 13 organizations that depositors could support through *Ouen* Time Deposits, and the total amount of donations so far has reached approximately ¥6.15 million.

<https://www.bank-daiwa.co.jp/saving/eraberu/> (In Japanese only)

Eraberu Yokin Platform



No.1 Daiwa Institute of Research Holdings

In April 2019, the Research Division of DIR established an SDGs Consulting Office in its Financial Research Department to strengthen the system for conducting research and information dissemination with regard to the SDGs. From May 2019, an introductory section, SDGs and Finance, will be set up on the DIR Group website to explain to the general public the role that finance is playing toward the achievement of the SDGs.

<https://www.dir.co.jp/report/research/introduction/financial/sdgs/index.html> (In Japanese only)



ORIX Living Corporation* becomes subsidiary

* Changed company name to Good Time Living in August 2019



The “aging society” is an important social issue to be addressed as, in Japan, the late-elderly population aged 75 and above is expected to have reached 20 million during the first half of the 2020s. A raft of measures is being promoted to realize high-quality medical and nursing care services for the elderly.

In March 2019, the Daiwa Securities Group decided to acquire all issued shares of ORIX Living Corporation, which operates fee-based nursing homes, and make the company a subsidiary. Established in 2005, ORIX Living manages and develops facilities and residences for elderly people. As of March 31, 2019, the company manages 32 facilities within the metropolitan areas surrounding Tokyo and Osaka, where an increased population of elderly people is expected.

By welcoming ORIX Living, which has been working on improving functionality in the daily life of each guest or nursing care supporting self-reliant life, the Group will be implementing initiatives aligned with “the achievement of health and longevity,” which the Japanese government appoints as one of the highest priority issues, and the third SDG goal “healthy lives and well-being for all.” By increasing contact and providing new solutions for elderly people and their families, the Group can also expect a ripple effect on its businesses.

In addition, ORIX Living is actively utilizing IT, having for example introduced nursing care robots and information and communications technology (ICT) equipment. In March 2017, the company received an award for excellence in the Next-Generation Nursing Care commendation project for the introduction of nursing care robots sponsored by the Ministry of Health, Labour and Welfare and the Association for Technical Aids, Inc. By promoting improvements in the added value of long-term care services and in the working environment in the long-term care industry, we will continue to make efforts to contribute to the eighth SDG: “decent work and economic growth.”





Daiwa Food & Agriculture Co. Ltd.



It is currently estimated that the number of undernourished people in the world today comes to approximately 815 million (based on FAO, 2016), and solving starvation through the enhancement of food productivity and distribution has literally become a challenge of global proportions. In Japan, which has a low level of food self-sufficiency compared with other countries, the aging of the agricultural labor force and the problem of a lack of successors due to the apparent decrease of entrants in the sector, have cast major doubts on the future of the country's agriculture and food environment.

In November 2018, the Daiwa Securities Group utilized its resources (including its risk money provision and intermediary functions as well as its extensive networks of domestic and foreign companies and individual customers) and established Daiwa Food & Agriculture Co. Ltd. (DFA) with the aim of creating new agriculture and food business.

In April 2019, having acquired plastic greenhouse facilities for baby leaf cultivation in Kikuchi-gun, Kumamoto Prefecture, DFA newly entered the agricultural production business. Collaborating in the venture are the Kajitsudo Group, which possesses cutting-edge baby leaf cultivation know-how and a sales track record, and SenSprout Inc., which supports solutions for improved work efficiency by utilizing agricultural sensors.

Planning to provide risk money in agricultural production facilities that utilize advanced technologies, DFA will generate new business by, for example, engaging in large-scale and efficient production. At the same time, DFA will contribute to solving the social problems facing the food and agriculture sectors in Japan.



High-performance plastic greenhouse solution installed by the Kajitsudo Group and SenSprout Inc. (Kikuchi-gun, Kumamoto Prefecture)

 http://www.daiwa-grp.jp/data/attach/2640_139_en20181029d.pdf (Press release October 29, 2018)

 SDGs Data Book P. 34



Fintertech



Fintertech was established in April 2018 with the aim of flexibly providing, through a variety of channels using advanced technologies and digital media, a wide array of goods and services to meet the ever-diversifying needs of digital native customers.

Recently, advances have been made in financial and non-financial integration, and business areas of next-generation finance are expanding due to new market entries from venture companies and other industries. In this area, Fintertech will combine the know-how of securities and finance business cultivated by the Daiwa Securities Group with cutting-edge technologies to create new forms of financial services in collaboration with external companies. Fintertech also aims to develop not only the financial industry but also society as a whole, especially through updates to next-generation finance using blockchain technology.

In FY2018, Fintertech participated in the second phase of a project to examine the utilization of blockchain / distributed ledger technology in the securities post-trade process.*¹ A total of 27 institutional investors, financial institutions and system companies attended that phase of the Project.

In November 2018, Fintertech invested in eCloud, established by XTech, which operates a startup studio, for the purpose of entering into equity investment crowdfunding.*² Through eCloud, we will contribute to the creation and expansion of new channels for fundraising by startup companies, and the creation of an environment where individual investors can easily become shareholders of unlisted startup companies via the Internet.

*¹ http://www.daiwa-grp.jp/data/attach/2737_017_en20190219a.pdf (Press release February 19, 2019)

*² https://fintertech.jp/news/20181121_press_ecloud/ (Press release November 21, 2018) (In Japanese only)

 **Fintertech**



Daiwa ACA HealthCare



The healthcare field is beset with a mountain of social issues, such as the rapid expansion of medical and nursing care demand and the need to reduce medical costs.

In October 2018, the Daiwa Securities Group therefore made into a subsidiary ACA HealthCare Inc. which has specialized investment know-how in the medical and nursing care business and changed its name to Daiwa ACA HealthCare Inc. (DAHC). DAHC will work for full-scale business development in the healthcare field in Japan and overseas, primarily in other Asian countries.

Supporting the medical and nursing care business through these investments, DAHC will contribute to the improvement of medical care and welfare.

 http://www.daiwa-grp.jp/data/attach/2643_143_en20181031a.pdf (Press release October 29, 2018)

Daiwa Securities Group's Human Resources Strategy

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Daiwa Securities Group's Human Resources Strategy

Message from the Head of Human Resources



Kana Shirakawa

Executive Managing Director
Head of Human Resources and Chief Health Officer (CHO)
Daiwa Securities Group Inc.

Increase corporate value by realizing Job Satisfaction Reforms

“Placing importance on personnel” is one of the Corporate Principles held by the Daiwa Securities Group, which state that “the source of the Group’s competitiveness lies in the capabilities of its employees. The Group will promote the creativity of employees by offering them a challenging and self-directed working environment that encourages their abilities and appropriately rewards their contributions.”

Innovative ideas and greater customer satisfaction can only be realized when employees are highly motivated. Therefore, the Group implements various strategies towards maximizing the “productivity,” “participation,” and “job satisfaction” of our employees.

We are particularly focused on moving forward with the era-leading Work Style Reforms we have advanced thus far, but are also undertaking the challenge of operations with high added value and promoting Job Satisfaction Reforms through contributions to our customers and society. At the same time, we are working to establish the best work environment for enabling each employee to feel satisfaction and joy in their work, and face challenges while exhibiting their full potential.

We also recognize that the ability of our employees to continue working vigorously, actively, and productively over the long term is a critical element for the expansion of the Group. Likewise, we will strategically tackle employee health and productivity management from a management perspective. Going forward, we will continue to enhance the environment that better raises the job satisfaction of all employees, from new graduate hires to veterans, and that enables all employees to fully exhibit their abilities.

Quality No. 1

Employees' productivity

No. 1

- ▷ We will develop human resources who are able to provide solutions that add high value through Quality No. 1 with a high-level of integrity and expertise
- ▷ We will engage in the improvement of productivity through increased work efficiency, and establish an environment that generates time for creating innovative results

Productivity
KPI

- CFP and securities analysts
- Holders of high-level qualifications
- Global personnel and IT personnel
- Work efficiency index

Employees' participation

No. 1

- ▷ Development of professional human resources with the proper knowledge, skill and techniques, and mindset
- ▷ Establishment of an environment where employees can continue to work vibrantly from junior personnel to veterans

Participation
KPI

- Progress of Q-Road and DBP*1
- Targets related to encouraging women to succeed*2
- State of self-improvement by veteran employees*3

Employees' job satisfaction

No. 1

- ▷ Establishment of the best workplace environment enabling each employee to feel satisfaction and joy in their work, and face challenges while exhibiting their full potential
- ▷ Realization of a high level of work-life balance to enable participation by diverse human resources

Job
Satisfaction
KPI

- Work Motivation Survey

*1 Daiwa Basic Program

*2 Percentage of women in management positions, percentage of women hired, percentage of women receiving training, percentage of men taking childcare leave, percentage of people taking annual leave

*3 Number of recipients of ASP (Advanced Skill-building Program) lectures

Education and Training

The Daiwa Securities Group aims to emerge as a genuine professional organization in which individuals come to enjoy their jobs and continue to challenge difficult objectives. In order to become professionals, our employees are required to ceaselessly strive towards the careers for which they aspire in addition to putting effort into the aspects required of their current positions. As the training framework for this, we offer programs designed to support each employee in taking the initiative to build their careers. Specifically, the Group offers mandatory programs that are clearly defined and implemented as part of work and elective programs that help employees acquire the necessary pieces for their futures.



Mandatory programs

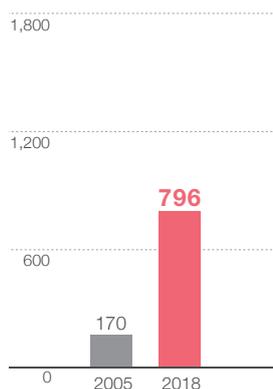
The Group offers various training programs necessary for our employees to acquire the essential aspects for their current positions in accordance with their specific duties. As part of training for new graduate hires, the Group defines the first two years after entering the company as the period of basic education for becoming a professional. During this period, new hires participate in the Daiwa Basic Program, which we have greatly expanded in terms of content since FY2015. This program includes a set of predefined items and benchmarks that must be mastered, and trains new graduate hires by combining group training, OJT, e-learning, and support for acquiring qualifications in an organic manner. Moreover, in FY2017 we introduced the Q-Road training program for employees in their third to fifth years of employment. This program has evolved to enhance the knowledge, skills and techniques, and mindsets required to achieve the industry's highest quality, and specifies high-level goals to be achieved by the fifth year of employment, thereby encouraging the growth of employees.

Elective programs

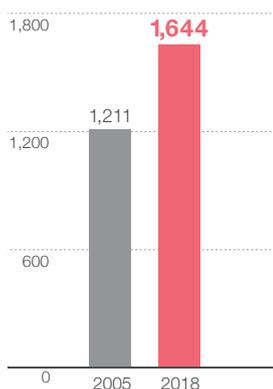
Daiwa Securities Group provides Skill Training as an opportunity to acquire the skills and expertise required for employees to enhance the skills and techniques that they themselves desire to strengthen.

The Group also offers business skill and expertise learning opportunities including more than 300 e-learning and voluntary training courses, assistance for more than 70 certification fees, the Daiwa Leadership Program, the Online University, and the Intensive TOEIC® Score Improvement Program. In this way, all employees can choose and attend programs related to aspects required for their future careers.

CFP Employees



CMA* Employees



* Chartered Member of the Securities Analysts Association of Japan

Skill Training

- Biannual large-scale voluntary training
- Participants can select from and attend approximately 30 courses (intensive training, e-learning)

Examples: Presentation making, logical thinking, design thinking, inheritance and business succession, investment analysis, financial modeling, etc.

Daiwa Securities Group's Human Resources Strategy

Encouraging Women to Succeed

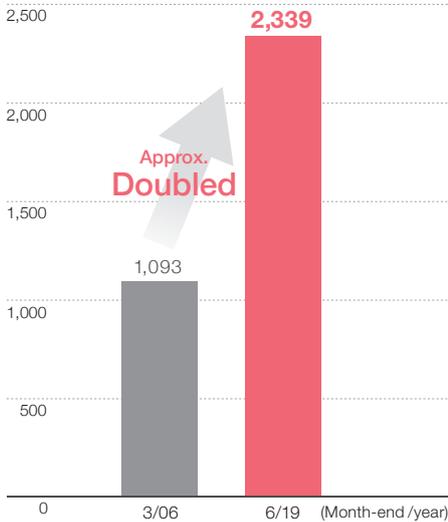
Daiwa Securities Group proactively appoints talented human resources regardless of gender. We are encouraging women employees by introducing thriving female employees in internal publications, in order to increase the number of women who are appointed to management positions. A career consultation service has been set up on the Group's internal initiatives for Work Life Balance website. Female executives as well as heads of each department, office, and branch give advice on the concerns and inquiries of female employees.

There are a total of nine women in top management positions across the Group, including four female executives (director and corporate executive officer) at Daiwa Securities Group Inc. The number of women in management positions has increased every year, totaling 490 women at Group companies as of March 31, 2019. The ratio of women in management positions has risen from 2.2% (at the end of FY2004) to 10.5% for the Group, and from 2.3% to 12.9% for Daiwa Securities.

Targets through FY2020 (Daiwa Securities)

- ▷ Ratio of women in management positions **Over 15%, more than five times the ratio reported in FY2005**
- ▷ Ratio of women among new graduate recruits **Stable at 50%**
- ▷ Ratio of women participating in training programs **50%**
- ▷ Annual leave utilization rate **Over 70%**
- ▷ Ratio of men utilizing childcare leave **100%**

Pre-management Female Employees (Daiwa Securities)



Women in Management Positions (Daiwa Securities)



Participating in the 30% Club Japan

The Chairman of the Board and the President and CEO of Daiwa Securities Group Inc. participate as members in the 30% Club Japan, which was launched in Japan during May 2019. The 30% Club Japan aims to increase the ratio of women holding top positions among companies in Japan, and has raised the goal of achieving 30% for the ratio of women on the boards of directors among the companies that comprise TOPIX100 by 2030. The Group will further accelerate initiatives for developing female leaders that will drive Japan's financial industry.

Supporting career advancement among employees

By increasing the number of role models, we are making it easier for the Group's female staff to envision their career path. In this context, there has been a sharp increase in female employees aspiring to advance their careers by switching to career-track and regional career-track positions in recent years. To date, more than 1,300 female employees have converted to career-track positions. In 2015, we expanded those eligible for the Professional Return Plan (a system for rehiring employees who left for reasons of childcare or nursing care, for example, at the same level of compensation as when they left). The number of employees using this system has also increased, which has helped us secure talented human resources that support operations. Moreover, the Group launched a career support training program for women (Daiwa Woman's Forum) in FY2014, and began a training program for women in management positions (Daiwa Woman's Management Forum) in FY2018 as a means of helping to build a network among women.

T O P I C

Establishing a Baby Salon at the Training Center

During the first half of 2018, we decided to locate a Baby Salon at the Tama Training Center to provide an environment that allows employees currently raising children to more easily participate in training. By enabling employees to entrust their preschool age children to the Baby Salon during training periods and to stay overnight with their children in the same room when necessary, we have taken into consideration the ability of employees, regardless of gender, to participate in training free from worry.



User Comment



After engaging in both work and childcare, I came to acquire a greater awareness of improving my skills and self-improvement for the purpose of working more efficiently. Until recently I had attended only e-learning courses, but with the opening of the Baby Salon I am now able to participate in more training programs. The Baby Salon takes the safety of my children into consideration, which allows me to focus on my training with peace of mind.

Daiwa ELLE Plan

The Group has introduced the Daiwa ELLE Plan as a means of providing comprehensive support for everything from medical examinations to pregnancy and birth, vacations, raising health literacy, consultation services, and balancing work and fertility treatment.

	20s	30s	40s	50s	60s
Medical examinations	• Breast cancer, cervical cancer screening cost assistance (under 35)		• Thorough medical examination (cancer screening) employees aged 35 years or older Note: Options for the milestone ages of 50 and 55		
Pregnancy, birth, childcare	• Maternity health management		• Childcare leave		
Vacations	• ELLE leave (menstruation-related health issues, fertility treatments, menopause-related health issues) • Annual paid leave • Annual leave by the hour • Life support paid leave • Work leave				
Raising health literacy	• Distribution of female-related health information • Doctor and public health nurse led health-related training (new employee training, etc.) • Education for all managers regarding the health of employees as a means of enhancing team strength • KA · RA · DA Iki Iki Project, Mental and Physical Beauty –Health Seminar for Working Women–				
Consultation service	• Gynecology Consultation by General Health Development Centers		• Telephone consultation services for mental health		
Support for balancing work and treatment	• Support for balancing work and fertility treatments • ELLE leave • Work-from-home system • Life support paid leave • Special fertility treatment cost assistance program • Mutual Aid Society medical expense loans • Training for managers and health literacy courses for women • Consultation services				

Daiwa Securities Group's Human Resources Strategy

Initiatives for Quality No. 1 Human Resources Development

Supporting the participation of veteran employees

Since FY2015, the Group has offered ASP (Advanced Skill-building Program), a training program designed to continuously enhance the skill level of employees aged 45 and over. Moreover, we introduced the License Certification System, which provides favorable treatment to employees continuously engaged in enhancing their skills. Over the three years since these programs were introduced, approximately 1,800 employees, 60% of employees aged 45 and over, have participated in the more than 20,000 seminars offered by these programs.

We also eliminated the maximum employment age for sales representatives, thereby establishing a system that enables these employees to participate according to their own life plans.

Supporting the participation of employees with disabilities

Employees with disabilities participate in a wide range of jobs, including those at the Group's head offices, sales locations, and contact centers. We started recruiting new graduates with disabilities as regular employees (general office staff) in FY2008, and in FY2011 broadened the scheme to the career-track employee, regional career-track employee, and employee for customer services. Once people with disabilities are hired, we provide support for their career advancement, for example, creating opportunities for them to enter the career-track and regional career-track employment opportunities. In FY2018, we introduced the Daiwa LEAP Plan to enable greater participation among those with disabilities. The Daiwa LEAP Plan provides comprehensive support through an out-patient leave system, employment support cost assistance, and the introduction of support tools that correspond to specific disabilities. In this way, the program is designed to establish a pleasant working environment that draws out the potential of employees while considering their individual situations.

Moreover, the Group participates as a member in Accessibility Consortium of Enterprises (ACE). ACE was founded for the purpose of establishing models for disabled persons who can contribute to corporate growth and of broadcasting the human resources desired by companies to society. As of September 2018, 33 companies, many of which are major corporations, are members of ACE. ACE provides awareness raising activities to related parties, develops role models, and makes recommendations to managers and society by organizing seminars, holding workshops, and publishing learning tools for the heads of human resource departments and employees with disabilities.



Systems for supporting balance

In recent years, we have also focused on support for employees' efforts to balance work and nursing care, and have expanded a variety of support programs. For example, we have allowed employees to divide their nursing care leave into up to four periods while extending the total length of such leave from one year (365 days) to three years (1,095 days). We have also introduced Nursing Care Concierge Service, established a work-from-home system, as well as life support paid leave, and started offering an e-learning course supporting initiatives for balancing work and nursing care. Similarly, we have also established a new nursing care travel home expense allowance. Moreover, all departments, offices, and sales branches of Daiwa Securities hold a study meeting on how to respond to the aging society and balance work and nursing care. We are thus working to increase employees' awareness and foster an environment that facilitates the utilization of these support programs.

Student loan repayment support system

Currently, approximately one third of university and graduate students in Japan rely on student loans, making the burden of repayment a challenge for society. In August 2018, the Group introduced a system that provides employees holding student loan repayment obligations with repayment monies in the form of interest-free loans. This system is designed to reduce the burden of interest on our employees, as well as to curtail the burden of loan repayments on new graduate hires by deferring repayment until the sixth year of employment.

Global human resources development

The Daiwa Securities Group has enhanced the following systems for the purpose of developing human resources that can excel globally.

- ▷ International MBA Study Abroad Program
- ▷ Global Trainee Course*1
- ▷ Global Expert Course*2
- ▷ International Business School Attendance

*1 This system provides opportunities for young employees with a high level of potential to undertake the challenge of business outside of Japan, thereby developing human resources with a global perspective

*2 This system provides opportunities for young employees with sufficient domestic experience and expertise to experience working outside of Japan, thereby developing the next-generation of global leaders

Initiatives for health support

Appointing a CHO (Chief Health Officer)

We started our initiatives to improve employees' health in earnest in 2008, when specific health checkups and specific counseling guidance were initiated at worksites, through close collaboration between the Human Resources Department, Health Insurance Society, and industrial as well as occupational health staff. In 2015, to further reinforce the Group's structure to promote health management, we appointed a Chief Health Officer (CHO) and established the Health Management Promotion Section within the Human Resources Department. Organized by the CHO, Health Management Promotion Meetings are held each quarter and attended by the directors of each Group company. Industrial and occupational health staff, members from the Health Insurance Society and employees union, as well as outside experts participate in these meetings, which conduct meetings to verify and share health management initiatives.

Supporting a balance between work and cancer treatment

In October 2017, the Group introduced the employment support plan as a means of further improving an environment in which employees suffering from cancer can continue to work with peace of mind while receiving treatment. We are also undertaking awareness raising activities throughout the Group because balancing work and cancer treatment requires the understanding of surroundings.

KA・RA・DA Iki Iki Project –Healthy Lifestyle–

Since 2016, we have conducted this project which provides points to those who participate in health promotion events and other activities geared towards raising health awareness among employees. Employees can then exchange these points for donations to social contribution activities or health-related goods.

External Evaluations

Until now, Daiwa Securities Group has worked to create an environment in which all employees can succeed, particularly young employees, female employees, and veteran employees, and has actively improved various programs and made investments in human resource development. As a result of these activities, for five consecutive years we have received the honor of being listed as a Health & Productivity Stock and a Nadeshiko Brand Stock, both organized jointly by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange. Of all of the companies listed on the Tokyo Stock Exchange, only three have successfully received both honors five years in a row.

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

Selected five years running



Ministry of Economy, Trade and Industry / Tokyo Stock Exchange

Health and Productivity Stock Selection

Selected four years running / selected three years running



Ministry of Economy, Trade and Industry / Tokyo Stock Exchange

Certified as a Family-Friendly Employer (Platinum Kurumin)



Ministry of Health, Labour and Welfare

Tomonin Mark for Promoting the Creation of a Work Environment That Balances Work and Family Care



仕事と介護の両立に取り組んでいます

Ministry of Health, Labour and Welfare

Governance Strategy

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Corporate Governance Dialogue

Corporate governance that realizes sustainable growth

Yoshiyuki Izawa

Chairman & CEO
Representative Director
BlackRock Japan Co., Ltd.



Takashi Hibino

Chairman of the Board
Daiwa Securities Group Inc.

Upgrades of the corporate governance systems of Japanese companies have been advancing rapidly in recent years in terms of aspects of format. In the years to come, however, a more effective system will be needed to enable sustainable corporate growth. Amid changes in the business environment, including vibrant ESG investment and the advent of a longevity society in Japan, Mr. Yoshiyuki Izawa, Chairman and CEO of BlackRock Japan Co., Ltd., and Mr. Takashi Hibino, Chairman of the Company, exchanged views on Daiwa Securities Group needed in the new era.

Evolution of corporate governance in Japanese companies

Izawa: Looking back on the corporate governance reforms of Japanese companies in recent years, there is no doubt that they have achieved great results. The introduction of outside directors has also become standard practice, and it is also superb that awareness of the importance of dialogue with shareholders is advancing.

However, whereas in the United States the main focus of corporate governance is on how to prevent management from going in the wrong direction, the corporate governance of Japanese companies emphasizes how to improve low profitability. As the social systems and industrial structures that surround companies are different, I do not think that just applying the methods

taken by Western companies to Japanese companies would work.

In recent years, the balance sheets of Japanese companies have been undergoing optimization, and in the past 10 years or so, globalization has also progressed in earnest. ROE levels have also been improving compared with before. In terms of profitability alone, however, it is also true that the level is still lower if compared with Western companies. It might well be that how to restructure unprofitable businesses in particular will be an issue for Japanese companies in the years ahead.

As an investor with a long-term investment horizon, BlackRock expects long-term company growth. Based on this premise, we continue to hold dialogues with the companies in which we invest, particularly with their top management. The content of those dialogues is not just a discussion of form, such as the number of outside directors, but we endeavor to have more

dialogue with substance. The dialogues might cover business strategies' background, differentiating factors and, "how effectively the board of directors is functioning" with regard to governance. Regarding the exercise of proxy votes, we have a companywide basic policy, but based on the information obtained through dialogues and other means, we judge by examining the individual circumstances of each company and each agenda item.

Hibino: Even though it has been led by the government, Japan's corporate governance reforms have progressed in unison and at speed since the establishment of the Corporate Governance Code in 2015. Now is the stage to adjust the format, and I think that from now we are entering the phase when calls will be made for real value.

As you mentioned, Mr. Izawa, the purpose of the Corporate Governance



Corporate Governance Dialogue



We ask companies to clarify their purpose and reaffirm their social role for long-term improvement in corporate value.

Yoshiyuki Izawa

Code being introduced in Japan was to realize economic growth by improving corporate earnings. As a mechanism to promote sustainable growth, I believe it is important for each company to pursue “its-own-style” system in line with the history and actual situation of each company.

As a response to scandals and management crises in the late 1990s, Daiwa Securities Group shifted to a holding company structure, as the first listed Japanese company, in 1999. In 2004, we quickly moved to become a company with a three statutory committees system and since then have been carrying out continuous corporate governance reforms and worked to establish a highly transparent and objective governance system that meets international standards. In addition, from the substantive aspect, we have worked on improving the formulation process of our medium-term management plans, by reflecting the Board of Directors’ discussions and opinions of outside directors in the plans.



Yoshiyuki Izawa

Chairman & CEO
Representative Director
BlackRock Japan Co., Ltd.

Mr. Izawa has been in his current position since 2015.

Prior to BlackRock, he served as Executive Vice President for Mitsui & Co., Ltd. After, he became President & CEO of Japan Post Bank Ltd.

Izawa: With regard to the corporate governance of Daiwa Securities Group, what I would like to request, Mr. Hibino, is to select suitable outside directors to make the board of directors truly function and to check whether it has a high level of discussion. In the finance industry, expertise in regulation and compliance is also required, so it may be difficult to select outside directors, but we often tell companies in the manufacturing industry to appoint as many outside directors with company management background as possible. Of the 18 BlackRock directors at our headquarters in the United States, 15 are independent outside directors; diverse in terms of gender and nationality, they are basically corporate executives. At Board of Directors’ meetings, which are held once every one or two months, intense discussions go on for a long time and even last several days combined with committee meetings.

Hibino: The expertise of the six outside directors on our Board of Directors is wide ranging, and we can be proud of its good balance, but selecting suitable outside directors is always challenging due to a limited pool of candidates. Since the finance industry is a regulated industry, a regulatory agency is working as a checking function. Also, amid more stringent Basel regulations, it is unlikely that we would take any excessive risks. What we expect from our outside directors is that they check that our strategies are not deviating from a broad perspective and get suggestions from a medium- and long-term, multifaceted perspective. Of course, there are lively debates at board meetings, and we also hold off-site meetings. Hearing your thoughts, I once again

feel the importance of the outside directors fully understanding their companies and engaging in serious debate at board of directors’ meetings on that basis.

Importance of ESG*

Hibino: Holding \$6.5 trillion in assets under management around the world, BlackRock manages a substantial sum even in Japan, and it can be said to be supporting the growth of Japanese companies over the long term. There are many companies that aim for long-term growth in Japan, so I think that they have strong affinity with BlackRock’s strategy. In fact, the letter sent by BlackRock CEO Larry Fink once a year to investee CEOs is very encouraging for many business executives of Japanese companies including us.

Izawa: Letters from Larry Fink sum up four points that we are continuously getting across to the companies in which we invest. Firstly, that companies act with a focus on purpose. Although this was translated into corporate philosophy in Japanese, this corporate philosophy is to reaffirm the social role in order to realize long-term increases in corporate value. The second point was a request for companies to make investments on an ongoing basis. Capital investment, R&D investment, and an area in which we want companies to be particularly active, investment in human resources. The third point requested that companies clarify the role of their boards of directors and make them, including outside directors, function. The fourth point is the importance of ESG. I think many corporate managers feel that when a company operates looking ahead five or 10 years,

it cannot survive without E and S. We are convinced that ESG-oriented companies will develop both quantitatively and qualitatively over the long term and improve financial stability and management quality. Therefore, in our dialogues with companies, the status of and their ways of viewing ESG are discussed with the same level of importance as the business strategies of those companies.

Hibino: In Japan, ESG awareness has grown rapidly, and the outstanding balance of ESG investment has increased to \$2 trillion in 2018. The awareness of climate change issues is rising all over the world, for example the unprecedented heat waves and high temperatures that have been observed in Europe this year, which are posing problems related to human life, and the major wildfires in California last year. The relationship between ESG investment and operational performance has not yet been clearly shown because the data is not yet developed. In the years to come, however, corporate disclosure will progress, and data and research will be accumulated, such as the TCFD initiatives in Japan that are starting to make specific moves.

* ESG: Environment, Social and Governance

Contribution to well-being improvement

Izawa: BlackRock conducted a survey* of the relationship between wealth and well-being of 27,000 individuals worldwide, including 1,000 Japanese. Well-being is a measure that aims to “enrich your life.” The survey uses the term “financial health” in contrast to physical health, but in Japan the percentage of people who

feel good at financial health is lower than globally, although the percentage of respondents who say that financial health affects well-being is higher than globally.

Many people in Japan are worried about life after retirement, as are people in the United States, but in Japan the level of understanding of the money needed after retirement and the level of satisfaction with their investments are relatively low. As causes for this, we analyze that, in Japan, money is excessively seen from a short-term perspective, against the backdrop that people think they might not be able to find an investment advisor.

I would like Japanese financial institutions to become advisors who can consult more closely with individual investors who have such concerns and support investors in setting long-term goals with peace of mind. Daiwa Securities Group's management goal is the satisfaction of individual investors. While promoting this goal more strongly, I hope that you will become a leader in the structural reform of the Japanese financial industry by instilling a goal-based approach and establishing consulting services.

Hibino: At the present time, there are growing concerns among young people with regard to funds for retirement, and awareness of the importance of early efforts in asset building is expanding. Daiwa Securities

has promoted the expansion of consulting services based on a goal-based approach and placed Daiwa NPS at the center of management to ensure thorough customer-oriented business operations. To achieve sustainable growth, it is essential to do good business. I would like to focus on supporting the realization of well-being so that it can serve as a model for other companies.

* BlackRock's 6th Annual Global Investor Pulse Survey Study on the Relationship Between Wealth and Well-Being
<https://www.blackrock.com/corporate/insights/investor-pulse>



To achieve sustainable growth,
it is essential to do good business.

Takashi Hibino 

Directors (Members of the Board)

Toshihiro Matsui

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

1985 Joined Daiwa Securities Co. Ltd.

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

Chairman of the Board

Takashi Hibino

Chairman of the Board
Chairman,
Daiwa Securities Co. Ltd.

1979 Joined Daiwa Securities Co. Ltd.

He served successively as the Head of Products, Overseas, Corporate Planning and Personnel and thereby has broad experience related to the business of the whole Daiwa Securities Group. Also, he served as the Representative Corporate Executive Officer, President and CEO of the Company from 2011 to 2017 and has broad experience and insights as a manager.

Seiji Nakata

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

1983 Joined Daiwa Securities Co. Ltd.

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



Masahisa Nakagawa

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

1987 Joined Daiwa Securities Co. Ltd.

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

Keiko Tashiro

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

1986 Joined Daiwa Securities Co. Ltd.

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

Kazuo Takahashi

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

1982 Joined Daiwa Securities Co. Ltd.

He served successively as the Head of the Shimonoseki Branch of Daiwa Securities Co. Ltd, Managing Director of Corporate Institution Sales Dept. and Financial Corporate Institution Dept. of Daiwa Securities SMBC Co. Ltd. Since his inauguration as Senior Managing Director of Daiwa Securities SMBC Co. Ltd. in 2007, he served successively as the Head of Corporate Institution Sales and Head of Financial Corporate Institution of Daiwa Securities SMBC Co. Ltd. and also Head of Corporate Institution of Daiwa Securities Co. Ltd. He now serves as the Corporate Executive Officer, Deputy President and Deputy Head of Wholesale of the Company. He has broad experience and knowledge in Corporate Institution and also experience in Retail.

Mikita Komatsu

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

1985 Joined Daiwa Securities Co. Ltd.

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

Eriko Kawai

Outside Director

She has held positions such as the Pension Fund Administrator of BIS and OECD, etc. The Company has drawn on her ample expertise and insight related to corporate management accumulated throughout her career. She has been a director for one year.

Tadashi Onodera

Outside Director

He has held positions such as the President of KDDI Corporation, etc. and currently is the Advisor of KDDI Corporation. The Company has drawn on his wealth of corporate management experience and insight nurtured throughout his career. He has been a director for five years.

Ikuo Nishikawa

Outside Director

He has served as Representative Partner of Century Audit Corporation and Chairman of Accounting Standards Board of Japan. The Company has drawn on his expertise and experience nurtured throughout his career in providing management advice. He has been a director for three years.



Sachiko Hanaoka

Director

1990 Joined Daiwa Securities Co. Ltd. After serving in the Research and Product Divisions, she served successively as the Managing Director of the Products Planning Dept., the Education and Training Dept., and the Investment Strategy Dept. of Daiwa Securities Co. Ltd. Throughout her broad accumulated experience in the Research Division, she has developed a strong analytical ability and broad knowledge in business accounting and broad accumulated experience in management.

Hiroataka Takeuchi

Outside Director

He has served as Professor of the Faculty of Commerce and Management at Hitotsubashi University and is currently Professor at Harvard Business School. The Company has drawn on his expertise and experience nurtured throughout his career in providing management advice. He has been a director for three years.

Michiaki Ogasawara

Outside Director

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

Katsuyuki Nishikawa

Outside Director

Prior to his current position as an attorney-at-law, he was the Vice-Minister of Justice, and served as the Superintending Prosecutor of the Tokyo High Public Prosecutors Office and the Prosecutor General. The Company has drawn on his wealth of experience and expertise on legal and compliance issues nurtured throughout his career, and at the Company's 2019 General Meeting of Shareholders he was newly appointed as an outside director.

Messages from Outside Directors



Tadashi Onodera
Outside Director

Daiwa Securities Group has now completed the first year of its Medium-Term Management Plan. While we were not satisfied with the performance KPI results, I see that we are making steady progress on the basic strategy of the Plan, namely, on “Quality No. 1” initiatives and providing value as an “integrated securities group with a hybrid business model.”

The basic strategy is intended to ensure our corporate principles of “building trust,” “placing importance on personnel,” and “contributing to society,” and the anticipated result that binds these together, which is “maintaining healthy earnings results.” Daiwa Securities Group is undertaking vigorous efforts to expand business areas. As an outside director, together with my support for the expansion of such business areas, I will strive to contribute from the perspective of corporate governance as well.



Michiaki Ogasawara
Outside Director

The rapid advance of technology is a backdrop to the evolving competitive environment in the financial sector. Given this, how the Company can adapt itself to the change is now being questioned. I believe our efforts at “Quality No. 1” activities and to be an “integrated securities group with a hybrid business model” espoused in the Medium-Term Management Plan, and all the other various initiatives currently being made to increase management efficiency, demonstrate the Company’s powerful commitment to dealing with such change.

I would like to contribute to building a proper corporate governance system, in order that these endeavors continue to be undertaken in all aspects of corporate activities, and so that, as a result, they are truly linked to elevating corporate value.



Hirotaka Takeuchi
Outside Director

Daiwa Securities Group is pursuing “Quality No. 1” as one of its basic strategies. In the midst of an AI era and Big Data, which are garnering so much attention, daring to put together a strategy based on “quality” holds enormous significance.

As the other pillar of its basic strategy, pursuing efforts to become an “integrated securities group with a hybrid business model,” the Group has expanded its business domain by aggressively establishing new companies, and undertaking M&A as well as business alliances. I hope to contribute by making unique proposals in connection with the basic strategy and helping with its implementation so that the Group can take an even greater leap forward in the world.

1989 Director of DDI Corporation (currently known as KDDI Corporation)
1995 Associate Senior Vice President, Director of the above company
1997 Representative Director and Deputy President of the above company
2001 Representative Director and President of KDDI Corporation
2005 Representative Director, President, Chairman of the Board of the above company
2010 Chairman of the Board, Representative Director of the Board of the above company
2014 Member of the Board of the Company (to date)
2015 Chairman of the Board of KDDI Corporation
2018 Member of the Board and Advisor of KDDI Corporation
Advisor of KDDI Corporation (to date)

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

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



Ikuo Nishikawa
Outside Director

Daiwa Securities Group is developing a framework for sales that lives up to what we call "customer-oriented management." Under a severe market environment in FY2018 the Group's profits declined, but with the future effect of the newly developed framework, I will monitor management activities so that this will be a company that consistently secures stable profits. With regard to corporate investing activities, I would like that such gains be based on the premise that they possess social value and are environmentally friendly. In addition, I look forward to the creation of a business environment where diverse employees each have high motivation and that enables them to take on challenges.



Eriko Kawai
Outside Director

As a tool that facilitates long-term investment, and enables individual asset building in consideration of customer needs and risks so that people can live a prosperous 100-year life, I intend to support the Daiwa version of NPS to help ensure it prevails in the future. Making SDGs the foundation of management demonstrates the role Daiwa Securities Group must play in making contributions to society. In the coming era, a corporate mission that entails solely the pursuit of profit will not be acceptable. As an outside director, I would like to utilize my experience in internationally diversified asset management. As a woman with a career built up outside of Japan, I also hope to support efforts aimed at increasing the corporate value of the Group.



Katsuyuki Nishikawa
Outside Director

In the first year of the current Medium-Term Management Plan, Daiwa Securities Group has formed a foundation upon which the Daiwa version of NPS has been introduced to all branches as a way to numerically visualize the degree of customer satisfaction. Moreover, by establishing new companies as well as engaging in M&A activities and collaborating to expand its business areas and develop a hybrid business model, the Group has continued its initiatives to steadily respond to social transformation by gaining a precise understanding of diversifying customer needs. We have now entered "Reiwa," the new era of Japan where it will be necessary to respond astutely and flexibly to the various changes that society is expected to experience.

Going forward, the source of Daiwa Securities Group's sustained growth will be the trust it earns from customers, financial and capital markets, and from society as a whole. As an outside director, I will utilize my experience in legal affairs and compliance, and hope to contribute to the building of even further trust by achieving robust corporate governance.

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

1981 Entered Nomura Research Institute, Ltd.
1985 Management Consultant of McKinsey & Company, Inc.
1986 Fund Manager of Mercury Asset Management/SG Warburg plc
1995 CIO of Yamaichi Regent ABC Polska, Head of Investment
1998 Pension Funds Administrator of Bank for International Settlements (BIS)
2004 Senior Pension Funds Administrator of Organization for Economic Cooperation and Development (OECD)
2008 Representative of Kawai Global Intelligence
2012 Professor of Institute for the Promotion of Excellence in Higher Education, Kyoto University
2013 Professor of Institute for Liberal Arts and Sciences, Kyoto University
2014 Professor of Graduate School of Advanced Integrated Studies in Human Survivability, Kyoto University (to date)
2018 Outside Director (Member of the Board), Daiwa Securities Group Inc. (to date)

1979 Prosecutor of Osaka District Public Prosecutors Office
2008 Director-General of the Rehabilitation Bureau of the Ministry of Justice
Director-General of the Immigration Bureau of the Ministry of Justice
2009 Director-General of the Criminal Affairs Bureau of the Ministry of Justice
2011 Vice-Minister of the Ministry of Justice
2014 Superintending Prosecutor of the Sapporo High Public Prosecutors Office
2015 Superintending Prosecutor of the Tokyo High Public Prosecutors Office
2016 Prosecutor General
2018 Retired as Prosecutor General
Attorney at law (to date)
2019 Outside Director (Member of the Board), Daiwa Securities Group Inc. (to date)

Corporate Executive Officers



Seiji Nakata*

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



Toshihiro Matsui*

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



Kazuo Takahashi*

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



Keiko Tashiro*

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



Koichi Matsushita

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



Yoriyuki Kusaki

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



Mikita Komatsu*

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



Masahisa Nakagawa*

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



Shinsuke Niizuma

Senior Executive Managing Director
Deputy Head of Retail
Senior Executive Managing Director,
Daiwa Securities Co. Ltd.



Akihiko Ogino

Senior Executive Managing Director
Head of Planning and Legal and
Executive Head of Human Resources
Senior Executive Managing Director,
Daiwa Securities Co. Ltd.



Junichi Arihara

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



Yoshifumi Otsuka

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



Kana Shirakawa

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



Eiji Sato

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



Takashi Hibino*

Chairman of the Board
Chairman,
Daiwa Securities Co. Ltd.

* Holds the position of Director on a concurrent basis.

Nominating Committee Report



Tadashi Onodera

Outside Director

Chairman of Nominating Committee

One of the Nominating Committee's major roles is to ensure transparency in the process of appointing directors. In addition to appointing a suitable person, when appointing directors we strive to ensure the transparency of the selection process through the clarification of the reasons for the appointment, interviews between candidates and outside directors in the Nominating Committee as well as through discussions at Nominating Committee meetings.

The Nominating Committee of Daiwa Securities Group Inc. consists of five outside directors, including the chairman, and two internal directors. Giving consideration for corporate governance, the Committee's tasks include examining the basic concepts with regard to the composition of the Board of Directors and the nomination of director candidates as well as discussing the selection of director candidates.

The meetings of the Nominating Committee are held once or more a year. In FY2018, there were five meetings in total.

In order to nominate directors from multiple points of view, the specialized expertise of outside directors is taken into consideration.

Policies for the selection of candidates to serve as directors are described below.

Policies for Selection of Candidates to Serve as Directors

- ▷ Able to exert maximum effort to realize Daiwa Securities Group's Corporate Principles
- ▷ Have a high sense of ethics and morals and take the initiative to set a good example
- ▷ Have experience in the course of business or have expert knowledge in law, accounting, or management, etc.

In addition to the requirements above, outside directors must also fulfill the requirements for independence listed below.

Policies for Selection of Outside Directors

- ▷ Should have no work experience as an executive director, corporate executive officer, executive officer, or any other person equivalent to these or an employee of Daiwa Securities Group
- ▷ Should not be a director, corporate executive officer, manager or employee of a company whose major shareholder is the Group or which is a main business partner of the Group
- ▷ Have no matter which impairs independence in order to perform the duties as a director.

Composition of Board of Directors

- ▷ In principle, two or more persons, and equal to or more than one third of the Board of Directors, shall be elected as independent outside directors
- ▷ Ensure the balance of knowledge, experience and ability, and diversity of the Board of Directors overall

The reasons for appointing individual directors are listed in the Corporate Governance Report.

http://www.daiwa-grp.jp/english/corporate/corporate_02.html

FY2019 Committee Members (Committee Attendance Status in FY2018)

Outside Director	Tadashi Onodera (Chairman)	(5 / 5)	Outside Director	Hiroataka Takeuchi	(4 / 5)
	Takashi Hibino	(5 / 5)	Outside Director	Eriko Kawai	(4 / 4)*
	Seiji Nakata	(5 / 5)	Outside Director	Katsuyuki Nishikawa	Newly appointed
Outside Director	Michiaki Ogasawara	(4 / 5)			

* Attendance status given is that for Nominating Committee meetings held since appointment as a director of the Company in June 2018.

Audit Committee Report



Ikuo Nishikawa
Outside Director
Chairman of Audit Committee

Making sure that Daiwa Securities Group is remaining in compliance and surely conducting management in accordance with governance are the roles of the Audit Committee. To fulfill those roles, four outside directors, including the Audit Committee chairman, will conduct intensive discussions with a full-time internal member, hold interviews with personnel from each department, conduct site inspections and verify the appropriateness of decision-making processes and disclosure.

The Audit Committee of Daiwa Securities Group Inc. consists of five directors who are not serving concurrently as corporate executive officers; four directors, including the chairman, are outside directors, and the other is a full-time internal director. Complying with the audit standards of the Audit Committee formulated by the Audit Committee, the Audit Committee conducts audits of the execution of duties by directors and corporate executive officers, audits of business reports and financial statements, produces audit reports, and decides on the content of proposals related to the appointment and dismissal of accounting auditors to be submitted to shareholders' meetings.

In addition to the members of the Audit Committee attending meetings of the Board of Directors, Audit Committee members selected by the Audit Committee (hereinafter referred to as "the selected Audit Committee members") attend important meetings, such as the Executive Management Committee, and listen to reports from officers and employees. By ensuring that selected Audit Committee members provide information to other Audit Committee members, the Audit Committee is striving to improve the environment for effective audits. In addition, the Audit Committee's Office is serving as a dedicated department to assist the work of the Audit Committee.

As a general rule, the Audit Committee convenes once a month. Convened on 12 occasions in FY2018, the Audit Committee carried out audits with the following as priority issues:

- ① Efforts to improve customer satisfaction by providing Quality No. 1 added value
- ② Initiatives towards combining traditional securities business and diversified business portfolio
- ③ The effectiveness of the internal controls and the risk management system in each of the Group companies.

The Audit Committee regularly receives reports from the Company's Internal Audit Department on the status of the Group's internal audits, and the selected Audit Committee members attend Group Internal Audit Committee meetings and express opinions as necessary. The Audit Committee is able to entrust investigations to the Internal Audit Department as necessary.

The Audit Committee holds regular meetings with accounting auditors. In addition to receiving reports on the audit plan and the status and results of audits from accounting auditors, the Audit Committee evaluates the independence and quality control systems of accounting auditors. In addition, the selected Audit Committee members interview accounting auditors as necessary.

The Audit Committee receives periodic reports from the Compliance Department, the Finance Department, the Risk Management Department, the General Affairs Department and other departments that have jurisdiction over the internal control function. Also, the selected Audit Committee members attend meetings of the Executive Management Committee, the Group Risk Management Committee and other meetings, collect extensive information, and audit the status of execution of duties by directors and corporate executive officers.

FY2019 Committee Members (Committee Attendance Status in FY2018)

Outside Director	Ikuo Nishikawa (Chairman)	(12 / 12)	Outside Director	Eriko Kawai	(10 / 10)*
	Sachiko Hanaoka	Newly appointed	Outside Director	Katsuyuki Nishikawa	Newly appointed
Outside Director	Michiaki Ogasawara	(11 / 12)			

* Attendance status given is that for Audit Committee meetings held since appointment as a director of the Company in June 2018.

FY2018 Priority Issues and Specific Audit Points

<p>Efforts to improve customer satisfaction by providing Quality No. 1 added value</p>	<p>Initiatives towards combining traditional securities business and diversified business portfolio</p>	<p>The effectiveness of the internal controls and the risk management system in each of the Group companies.</p>
<ul style="list-style-type: none"> • Various Retail Business measures relating to building a customer-oriented sales system (changes in sales staff awareness and behavior, status of NPS initiatives at each sales branch, results and issues arising from introduction of NPS) 	<ul style="list-style-type: none"> • Status of collaboration with Group companies and external companies, such as the creation of new businesses • Business execution status, such as the real estate asset management business and private equity investment business (current issues, future plans, etc.) 	<ul style="list-style-type: none"> • Efforts to improve employee satisfaction and productivity based on changes in the external environment, such as work style reforms and progress in digital transformation • Initiatives for measures to counter money laundering

Main Audit Activities

<p>Attend important meetings and view important documents</p>	<p>Attendance at important meetings by full-time audit committee members/inspection of approval documents</p>
<p>Listening to reports from management and each department</p>	<p>Management audit interviews with the Chairman, President, corporate executive officers, etc. / Listening to reports from the relevant executives and each department of Daiwa Securities / Listening to reports from overseas subsidiaries, visiting to inspect their offices / Exchanging opinions with corporate auditors from major Group companies and attendance at their important meetings by the Committee member serving also as subsidiary corporate auditor</p>
<p>Collaboration with internal control departments and accounting auditors</p>	<p>Consent to internal audit policy and audit plan, listening to reports of audit results / Listening to reports from accounting auditors, and evaluations of accounting auditors (quality control systems, confirmation of independence, etc.)</p>
<p>Reporting to Board of Directors</p>	<p>Preparation of audit reports / Report of job execution status</p>



An inspection visit by Audit Committee members of the Global Markets Division at Daiwa Securities (July 2018)

Compensation Committee Report



Hirotaka Takeuchi

Outside Director

Chairman of Compensation Committee

The role of the Compensation Committee is to create a compensation system commensurate with responsibilities and to motivate executives. As a stock-linked remuneration for executives, we decided to allocate Restricted Stock compensation in order to increase the incentives for improving medium- to long-term performance. In the years to come, we will strive to ensure the transparency and objectivity of the executive compensation decision process.

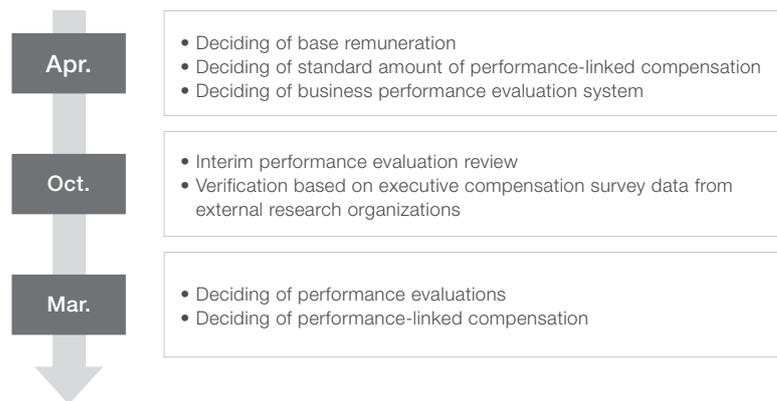
The Compensation Committee of Daiwa Securities Group Inc. consists of three outside directors, including the chairman, and two internal directors, who decide the director remuneration policy and the individual compensation for directors and corporate executive officers.

When determining the amount of compensation, we ensure that transparency is based on indicators determined in advance by the Compensation Committee, which comprises a majority of outside directors. The Compensation Committee is to convene at least once a year.

In FY2018, the Compensation Committee convened five times. The Committee discussed issues related to the director remuneration policy and decided upon individual remuneration as well as the incentive plan of the Group to ensure the enhancement of consolidated earnings.

The specialized expertise of the outside directors is taken into consideration so that the Compensation Committee can plan, operate, and verify a rational remuneration system. Compensation Committee chairman, Hirotaka Takeuchi, has gained extensive knowledge of management strategies and compensation systems throughout his career.

FY2018 activities of the Compensation Committee related to determining the amount of compensation for directors and corporate executive officers



Note: In addition to the above, the Compensation Committee holds meetings on an as required basis.

FY2019 Committee Members (Committee Attendance Status in FY2018)

Outside Director	Hirotaka Takeuchi (Chairman)	(5 / 5)	Outside Director	Tadashi Onodera	(4 / 5)
	Takashi Hibino	(4 / 5)	Outside Director	Ikuo Nishikawa	(5 / 5)
	Seiji Nakata	(5 / 5)			

Executive Compensation

Daiwa Securities Group recognizes that one of the most important underlying factors for enhancing corporate governance is ensuring the transparency of director and corporate executive officer compensation-based incentive controls and of the method for determining director and corporate executive officer compensation. In FY2018, the Group introduced a Restricted Stock Compensation Plan that enhances the incentive among directors and corporate executive officers to increase medium- to long-term corporate value.

Policies for determination of remuneration of directors and corporate executive officers

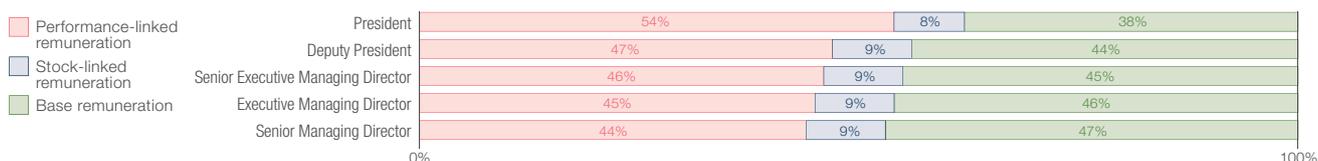
Compensation for directors and corporate executive officers is determined based on the following fundamental policies.

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

Compensation for directors and corporate executive officers is composed of base remuneration, performance-linked remuneration, and stock-linked remuneration.

Base remuneration	▷ A fixed amount calculated based on his/her position, duties and role.
Performance-linked remuneration	▷ Determined depending on the level of individual contribution, based on consolidated ROE and consolidated ordinary income, which are settled as Performance KPIs of the Medium-Term Management Plan, while also comprehensively taking into account achievement status of the managerial goals set in the Medium-Term Management Plan, and the like. ▷ Does not apply to directors who do not serve as corporate executive officers.
Stock-linked remuneration	▷ To increase the link between remuneration and shareholders' value, granted by the Company as Restricted Stock, etc., the value of which corresponds to a certain percentage of base remuneration. ▷ Does not apply to outside directors.

Ratio of performance-linked remuneration and other



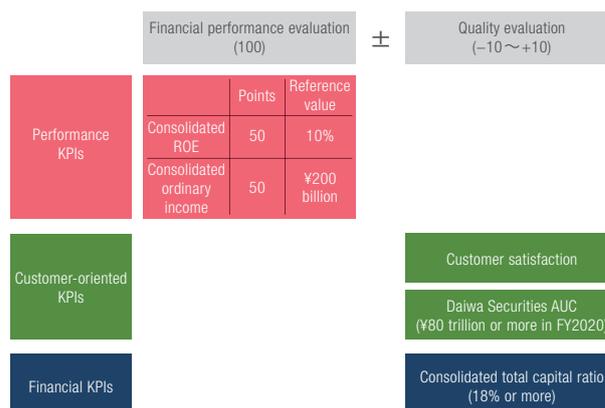
Note: Above figures are the ratio when Performance KPIs of the Medium-Term Management Plan are achieved.

Indicators for performance-linked remuneration, reasons for choosing the indicators, and how to determine performance-linked remuneration

The Company sets Performance KPIs, Customer-oriented KPIs, and Financial KPIs, which are settled as the Group numerical goal in Medium-Term Management Plan "Passion for the Best" 2020, as indicators to calculate performance-linked remuneration.

Performance evaluation reflects financial performance evaluation based on Performance KPIs, and quality evaluation that comprehensively evaluates Customer-oriented KPIs and Financial KPIs. Financial performance evaluation and quality evaluation are determined by the Compensation Committee.

Performance-linked remuneration is calculated by multiplying the reference value determined for each position and performance evaluation. Performance evaluation applies the same calculation formula to all positions.



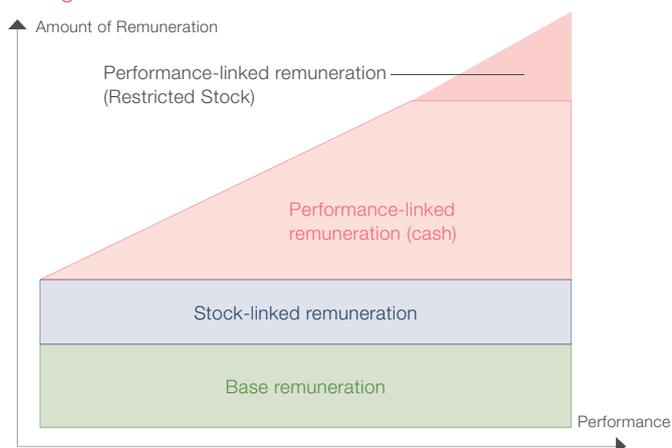
Executive Compensation

Reference value and results of indicators for performance-linked remuneration in FY2018

Financial performance evaluation for FY2018 year is as follows

	Reference value	Results
Consolidated ROE	10%	5.1%
Consolidated ordinary income	¥200 billion	¥83.1 billion

Image of remuneration



In order to create the system where incentives for sustainable growth work better, if performance-linked remuneration exceeds a certain limit, the exceeded amount would be provided by Restricted Stock.

Restricted Stock Compensation Plan

Daiwa Securities Group Inc. introduced the Restricted Stock Compensation Plan to increase incentives for the Company and its subsidiaries' directors, corporate executive officers, and executive officers, etc., to enhance performance in the medium and long term and strengthen values shared among the Eligible Officers, etc. and shareholders.

Stock Remuneration I	It is intended to provide restricted stock to an amount that equals the fixed ratio of the base remuneration, and to function effectively as an incentive for long-term performance improvement, restriction will be released when he/she resigns his/her position as director, officers etc., of the Company and its subsidiaries and affiliates.
Stock Remuneration II	A fixed limit is set for performance-linked remuneration, which is provided by cash based on performance, and if the amount exceeds the limit, part of the remuneration will be replaced by restricted stock. The restriction period is three years, and it will function as a substantial fee deferment when Performance-linked remuneration exceeds a certain limit.

Compensation by Type of Officer, Remuneration, and Number of Eligible Officers

Type of officer	Total compensation, etc. (millions of yen)	Value of compensation, etc., by type (millions of yen)				Recipients (persons)
		Base remuneration	Restricted Stock	Performance-linked remuneration	Retirement bonus	
Directors	38	32	6	—	—	2
Corporate executive officers	1,081	538	180	363	—	15
Outside directors	121	121	—	—	—	7

Notes: 1 Seven directors also served as corporate executive officers; their total compensation is included in the corporate executive officers category.
2 Performance-linked remuneration does not include the amount granted as Restricted Stock.

Total Consolidated Compensation, etc., by Officer

Name	Total consolidated compensation, etc. (millions of yen)	Type of officer	Company name	Value of consolidated compensation, etc., by type (millions of yen)			
				Base remuneration	Restricted Stock	Performance-linked remuneration	Retirement bonus
Takashi Hibino	197	Corporate executive officer	The Company	69	23	57	—
			Daiwa Securities	46	—	—	—
Seiji Nakata	223	Corporate executive officer	The Company	69	23	83	—
			Daiwa Securities	46	—	—	—
Toshihiro Matsui	155	Corporate executive officer	The Company	61	17	51	—
			Daiwa Securities	25	—	—	—
Kazuo Takahashi	115	Corporate executive officer	The Company	20	13	—	—
			Daiwa Securities	46	—	34	—
Koichi Matsushita	115	Corporate executive officer	The Company	20	13	—	—
			Daiwa Securities	46	—	34	—

Notes: 1 The persons, each of whose total remuneration, etc., paid is equal to or more than 100 million yen, are listed above.
2 Type of officer refers to the officer categories used by the Company
3 Officers serving as both directors and corporate executive officers are listed as corporate executive officers in the type of officer column.
4 Performance-linked remuneration does not include the amount granted as Restricted Stock.

Corporate Governance System

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

Basic Stance on Corporate Governance

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

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

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

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

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

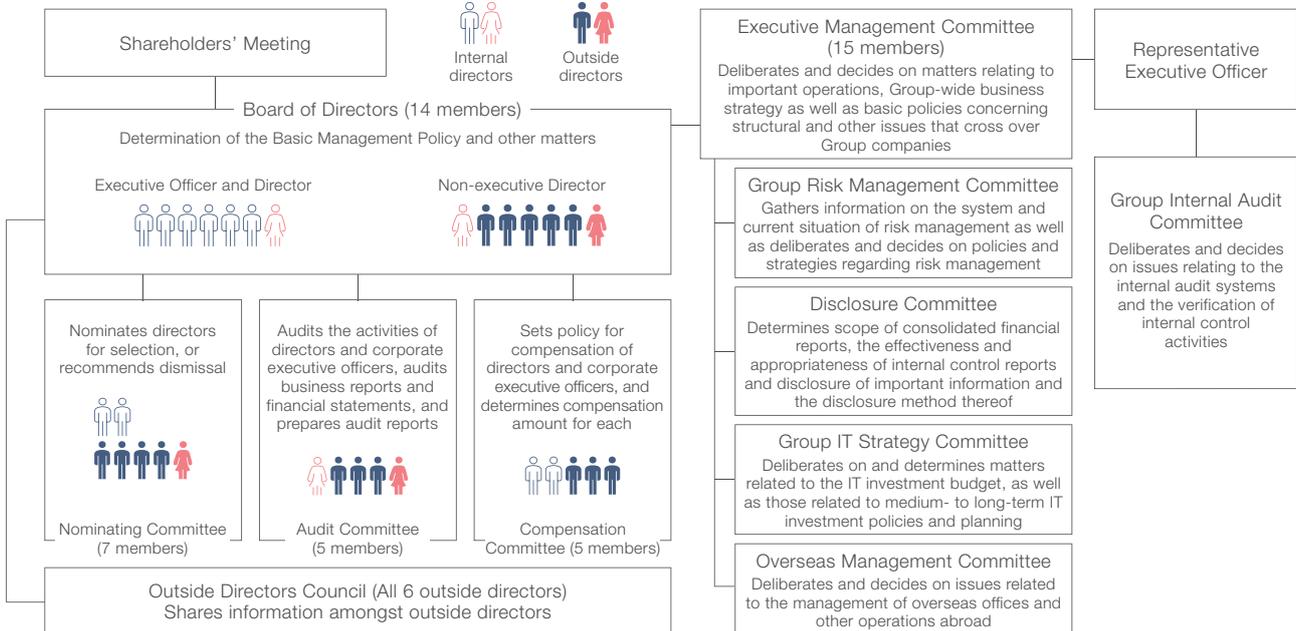
The corporate governance structure consists of the Board of Directors and the three committees (Nominating Committee, Audit Committee and Compensation Committee) as supervisory functions. Business execution functions are embodied in the Executive Management Committee and its subcommittees comprising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

History of Daiwa's Corporate Governance

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

Corporate Governance System

Corporate Governance System at Daiwa Securities Group



Status of Attendance of Board of Directors' Meetings in FY2018

Takashi Hibino	10 / 10	Mikita Komatsu	10 / 10	Outside Director	Hiroataka Takeuchi	9 / 10	
Seiji Nakata	10 / 10	Masahisa Nakagawa	Newly appointed	Outside Director	Ikuo Nishikawa	10 / 10	
Toshihiro Matsui	10 / 10	Sachiko Hanaoka	Newly appointed	Outside Director	Eriko Kawai	8 / 8*	
Kazuo Takahashi	10 / 10	Outside Director	Tadashi Onodera	9 / 10	Outside Director	Katsuyuki Nishikawa	Newly appointed
Keiko Tashiro	10 / 10	Outside Director	Michiaki Ogasawara	9 / 10			

*Attendance at the Board of Directors meetings since being appointed in June 2018

Evaluating the Effectiveness of the Board of Directors

Daiwa Securities Group Inc. aims to achieve a highly transparent and objective governance structure in international terms, and was one of the first companies in Japan to introduce a holding company structure and adopt a Three Committees System. Ongoing actions are being taken to pursue and evolve the governance structure so that it ideally suits the Company based not only on international standards, but also on the social environment surrounding the Company and the stage of the growth.

Likewise, the issues required for the greater effectiveness of the Board of Directors have been identified, and effectiveness evaluations of the Board of Directors have been conducted since FY2014 for the purpose of making such improvements. For the FY2018 evaluation, the Company undertook a survey for all of the Directors about the role, duty, structure, management methods and the status of discussion of the Board of Directors. Based on the results of the survey, specialized agencies implemented the interview for them, and the Company analyzed and evaluated the results of those interviews. The results of the evaluation were reported to the Board of Directors and discussed by the directors in order to implement a PDCA cycle. The Company endeavors to maintain and enhance the effectiveness of the Board of Directors using this PDCA cycle.

■ Addressing the opinions of the FY2017 evaluation

In response to the primary opinions from the FY2017 evaluations, many improvements were made and measures taken, including those listed below, in working to enhance effectiveness.

- ① Sharing of institutional investor requests
 - Before FY2017, the status of discussions was reported to some internal directors after overseas IR activities. In FY2018, the status of discussions and requests from analysts and investors was reported at the Board of Directors meetings.
- ② Discussions on potential future risks
 - Executive training included lectures from outside experts on recent developments in FinTech.
 - We initiated exchanges of opinions with outside directors on the subject of business continuity plans, making full use of their expertise in disaster prevention and response.
- ③ Medium-term and annual plan monitoring
 - We reported on quarterly KPI achievements by division in accordance with the Group numerical targets established in the Medium-Term Management Plan every six months when the Action Plan is announced.
- ④ Organizing successor plans
 - The status of successor development efforts was reported to the Board of Directors.
- ⑤ Clarification of issues in the meeting materials
 - Alongside a reduction in document volume and clarification of key issues, we made additional improvements through the attachment of supplementary information.

■ Overview of the results of the effectiveness of the Board of Directors for FY2018

In the FY2018 evaluation, the Company confirmed that the role, duty, structure, management methods and the status of discussion of the Board of Directors are sufficient for the Board of Directors to perform its function, and that the effectiveness of the Board of Directors has been ensured.

There were requests from directors for more frequent reports on the sharing of requests by institutional investors, as well as deeper discussions on potential future risks. The directors also expressed a variety of opinions on efforts to further utilize the Board of Directors, including in the supervision of group companies, as well as in regard to Group efforts for SDGs.

The Company will continuously endeavor to enhance the effectiveness of the Board of the Directors to earn the trust of various stakeholders and improve the corporate value sustainably.

Status on Stockholdings

■ Criteria and approach for the classification of investment shares

Daiwa Securities Group Inc. classifies investment stocks held with the objective of receiving profit through stock price fluctuations or dividends as stocks held purely for investment purposes.

However, the Company is a holding company, established for the purpose of holding and managing group companies, and maintains shares of companies with the aim of expanding its securities-related business through the maintenance and strengthening of the relationship between Daiwa Securities Group and the companies that issued those shares. All stocks held by the Company are investment stocks held for purposes other than pure investment.

The status of the Company for which held shares accounted for the largest portion of investment stock on the balance sheets of the Company and its consolidated subsidiaries is as follows.

■ Investment stocks held for purposes other than purely investment purposes

a. Verification by the Board of Directors, etc., regarding the suitability of holding individual stocks, the method for determining the rationality of holdings stocks and the company's holding policy

The Company has established qualitative and quantitative standards for the holding of listed shares for purposes other than pure investment purposes (strategic shareholdings). The Company will hold the strategic shareholding shares only when they determine that such shareholding is of significance. Furthermore, the Company regularly verifies the significance of such shareholding under qualitative and quantitative standards and will sell shares which are determined to be insignificant, factoring in the impact on the market and other matters which should be taken into consideration.

In verifying the significance of the shareholding, the Company checks whether a given shareholding contributes to the enhancement of medium- to long-term corporate value of the Company group on a quantitative basis from the viewpoint of economic rationality (i.e., whether the returns from the shares such as revenues related to client companies or dividend income exceed the standard capital cost) and from a qualitative basis in line with the objectives for the shareholding (e.g., potential for growth and enhancement of business relationships, etc.). Moreover, the Board of Directors regularly verifies the significance of each of the listed strategic shareholdings.

The results of the verification at the end of December 2018 are as follows:

Around 70% of the strategic shareholdings of listed companies exceeded the target value of the quantitative standards. For the other approximately 30% of strategic shareholdings, which were below the target value, the Company will verify qualitative aspects of the shareholding such as maintenance and enhancement of future business relationships with these companies and aim to improve the profitability of the shareholding. However, if the profitability of the shareholding does not improve in a certain period, the Company will consider selling such shares.

b. Number of companies and amount booked on the balance sheet of which shares are held

	Unlisted stocks	Stocks other than unlisted stocks
Number of companies	119	126
Amount on the balance sheet (millions of yen)	19,007	109,709

(Companies for which shares were added in FY2018)

	Unlisted stocks	Stocks other than unlisted stocks
Number of companies	5	3
Total amount acquired as added shares (millions of yen)	2,720	4,667

	Unlisted stocks	Stocks other than unlisted stocks
Reasons for adding shares	Focusing on expanding its securities business, and acquiring shares in four new companies with the goal of collaborating with and bolstering its relationship with new business partners. The Company also acquired additional shares in an existing business partner with the goal of maintaining and strengthening its strong relations with the firm.	Focusing on expanding its securities business, and acquiring shares in two new companies with the goal of collaborating with and bolstering its relationship with new business partners. The Company also acquired additional shares in an existing business partner with the goal of maintaining and strengthening its currently strong relations with a partner in the securities-related sector.

(Companies for which shares were reduced in FY2018)

	Unlisted stocks	Stocks other than unlisted stocks
Number of companies	5	16
Total amount sold as decreased shares (millions of yen)	256	7,583

Internal Audit

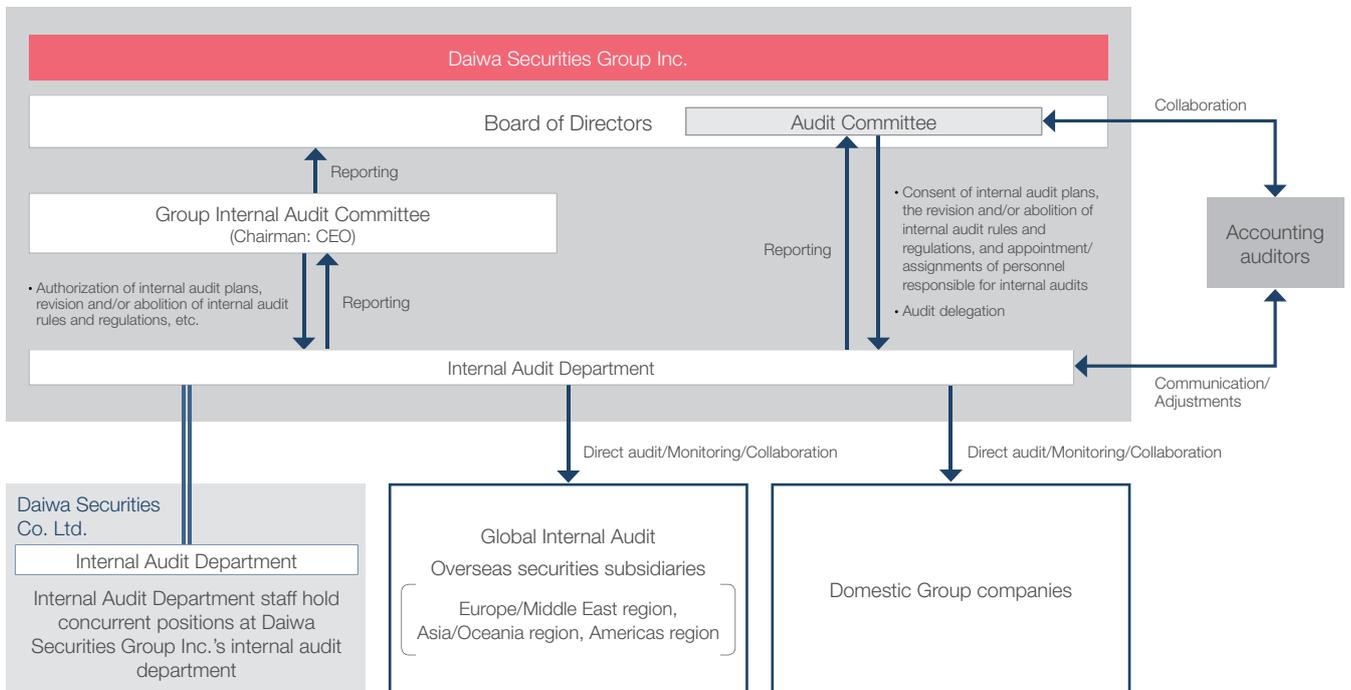
In recognition that management is responsible for maintaining an internal control system to ensure the sound and appropriate execution of business, the Group, under the main initiative of Daiwa Securities Group Inc., has established a system for managing the Group's major business risks. Through this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

The Internal Audit Department verifies the internal control system. This department sits independently from all other departments, reports to a dedicated corporate executive officer, and ensures internal audits to act as an important function of raising Group value through the creation of a sound and efficient internal control system. It seeks to raise corporate value by effectively conducting internal audits, and primarily implements risk-based internal audits.

The Group's business activities to which the Internal Audit Department pays special attention

- ▷ Internal control systems at Daiwa Securities Co. Ltd. and overseas offices as a global financial instruments business operator
- ▷ Internal control systems at Daiwa Next Bank, Ltd. as a bank
- ▷ Status of businesses that involve the Group's collaboration
- ▷ Status of control over Group companies by the holding company

Internal Auditing System Diagram of Daiwa Securities Group



Authorization of Plans and Reporting of Results

The authorization of internal audit plans and reporting of audit results are undertaken by the Group Internal Audit Committee. Internal audit plans are authorized by the Audit Committee or an appointed Audit Committee member who has received the prerequisite authority from the Audit Committee. The results of audits are also reported to the Audit Committee.

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

Internal/External Group Cooperation and System Enhancements

The Internal Audit Department collaborates with the internal auditing departments of domestic and overseas Group companies through periodic meetings, monitoring, and audit activities. The Internal Audit Department maintains communications with the Audit Committee and accounting auditor, making any necessary adjustments to ensure that audits are performed efficiently, and receives audit requests from the Audit Committee.

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

We will evolve the Group's audit systems to address environmental changes.

In order to meet the expectations of its various stakeholders, Daiwa Securities Group must evolve by appropriately managing risks that are constantly changing along with the external environment and by seizing business opportunities based on a solid corporate governance framework.

The approach to risk management that has become mainstream in Japan and overseas involves the Three Lines of Defense: (1) On-site business execution (First Defensive Line), (2) departments that oversee compliance and risk management (Second Defensive Line), and (3) departments that verify and evaluate risk management systems used in the first two lines (Third Defensive Line). The roles of each of these must be fulfilled.

At the Group, responsibility for the Third Defensive Line is assumed by internal auditing departments, which have been established at Daiwa Securities Group Inc. and other key domestic and overseas Group companies. Internal auditing departments play an indispensable role in enabling Group companies to contribute to society and achieve sustainable growth by verifying and evaluating risk management systems as well as offering proposals and advice for improving them.

Aiming to help improve Daiwa Securities Group's corporate value, the Internal Audit Department identifies and analyzes Group company business risks in Japan and abroad through continuous monitoring as well as playing an updating role in internal audit



Yoshifumi Otsuka

Executive Managing Director
Head of Internal Audit
Daiwa Securities Group Inc.

planning each fiscal year. In addition, the Internal Audit Department jointly conducts audits and shares its expertise within the Group while increasing corporate value through the Group-wide improvement of the quality of audits, which includes using external resources as needed. In addition, Group internal auditing departments are working to hone their specialized capabilities to an even greater degree.

To meet the expectations of the Group's stakeholders in the years ahead, internal auditing departments will continue to transform themselves in order to support the sustainable growth of the Group.

Building a Balanced Business Management System on Management Strategy, Financial Strategy and Risk Control

■ Risk Appetite Framework

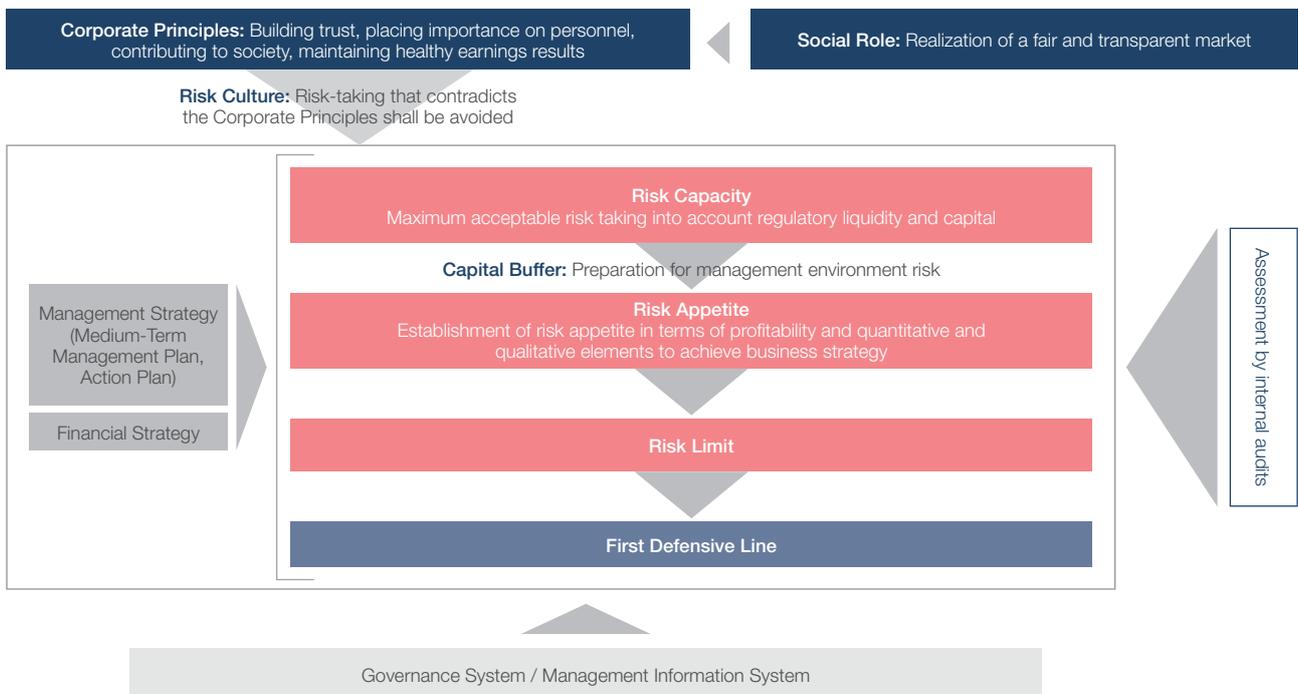
As financial regulations have tightened around the world since the global financial crisis of 2008, international financial institutions are increasingly required to exhibit sufficient soundness to operate their functions as financial intermediaries during times of stress in economies and markets. In addition, the Group is required to appropriately evaluate various risks as usual, and ensure it has sufficient liquidity and equity capital commensurate with these risks in order to be adequately prepared during times of stress.

Under this environment, the Group has introduced a risk appetite framework (RAF) for the purpose of strengthening risk governance at the management level. The Group has documented this framework in its Risk Appetite Statement, which the Board of Directors has deliberated and decided on, and is working to spread this Group-wide while raising the level of its management system.

RAF Overview

1. Define the types and total amount of risk that must be purposefully accepted to achieve the Group's business strategies and ensure awareness of these are shared throughout the Group.
2. Select risk appetite indicators from the perspective of liquidity and capital, and establish the benchmarks for risks to be undertaken.
3. Set risk limits to comply with risk appetite. Risk limits shall be managed and monitored.

RAF Concept Chart

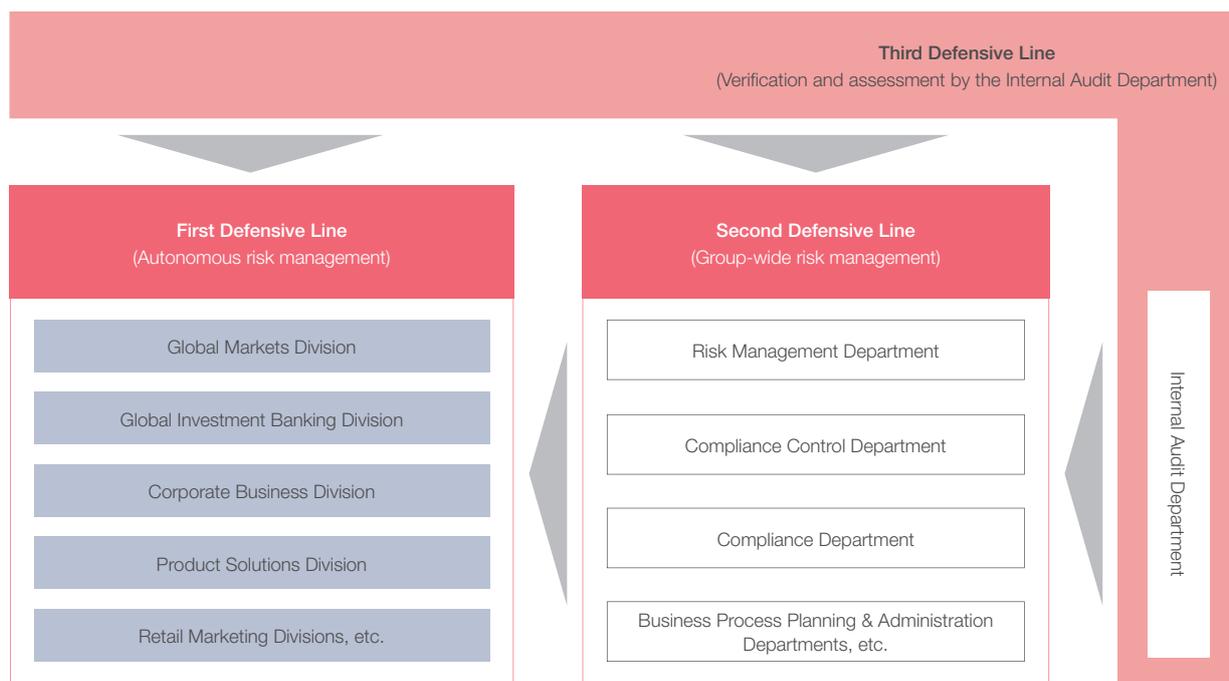


■ RAF Management Structure

In the Risk Appetite Statement, the Board of Directors deliberates and makes decisions on such matters as the quantitative risk appetite index mainly related to liquidity and shareholders' equity. This statement is reviewed twice per year. The RAF has been formulated in cooperation with top management, including the CEO, COO, CFO, CRO and CDO.

The First Defensive Line is front offices, where various operational risks are identified and managed autonomously. The Second Defensive Line is the Group-wide risk management, which is conducted mainly by the risk management department and compliance department. Internal auditing department constitute the Third Defensive Line by verifying and evaluating whether or not the other two lines of defense are functioning effectively.

RAF-related audits of the Board of Directors and management business execution are conducted by the Audit Committee.

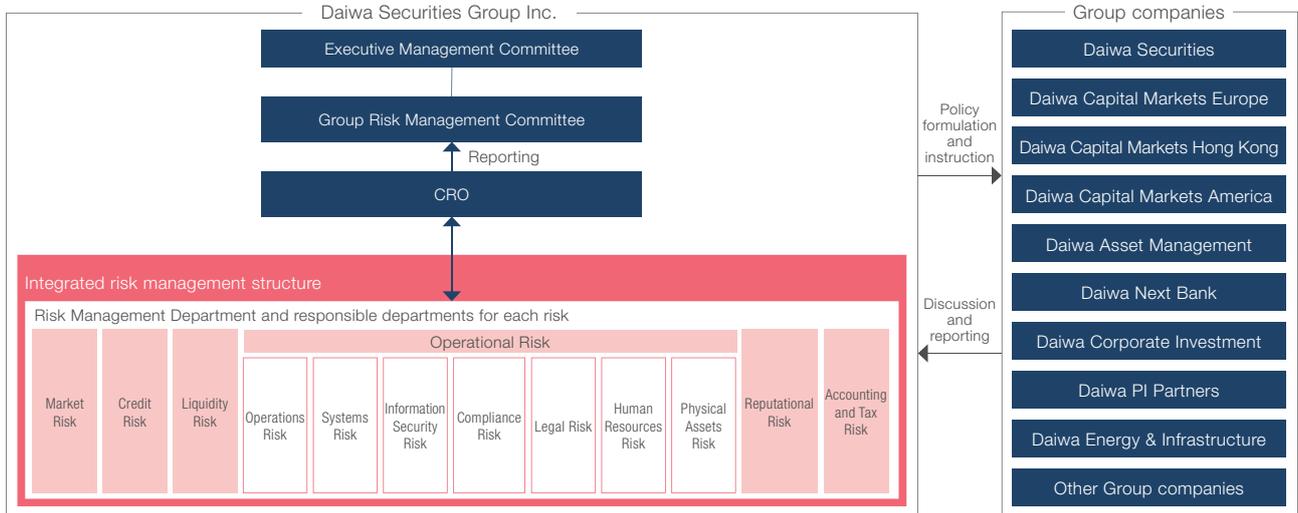


Risk Management

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

Risk Management System

Risk Management System



Based on its RAF, the Board of Directors of Daiwa Securities Group Inc. has approved the Rules for Risk Management. The rules define basic policies related to risk management, the types of risks that need to be managed, and the responsible executives and departments for each major risk. In order to establish an effective risk governance system, we have created a Guideline for Three Lines of Defense and maintain a comprehensive structure for risk management.

Basic policies as defined by the Rules for Risk Management at Daiwa Securities Group

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

Each of the Group companies conducts risk management that responds to the risk profile and size of each business in accordance with the abovementioned basic policies. The Risk Management Department and responsible departments for each risk within Daiwa Securities Group Inc. monitor Group companies, and report the risk exposures and issues concerning the risk management system to the Group Risk Management Committee. This is a sub-committee of the Executive Management Committee of Daiwa Securities Group Inc., and it undertakes discussions and makes decisions about reported issues. In addition, major Group companies regularly hold risk management meetings in order to strengthen their risk management systems.

Types of Risks to Be Managed / Managing Major Risks

Daiwa Securities Group faces various risks in the course of its business activities. The Group therefore believes that it is important to identify these based on business characteristics and risk profiles, and appropriately evaluate and manage those risks in order to maintain a sound financial base and earnings structure.

Risks that are particularly important for the Group are those that involve our key securities business. Because the Group utilizes its own accounts to temporarily hold product positions for sales purposes and to provide products to customers, the Group is subject to market risk due to market fluctuations, foreign currency and other liquidity risk, credit risk related to counterparties and issuers, and risk for which hedges do not function, as well as operational risk that naturally occurs through the execution of business. The Group manages risk on an integrated basis, including measuring the impact on capital and liquidity within the Group from a forward-looking perspective.



1 Market risk management

Market risk refers to the risk of incurring losses due to market fluctuations, which affect the value of stock prices, interest rates, foreign exchange rates, and commodity prices.

In terms of the Group's trading business, by providing market liquidity the Group acquires compensation while at the same time taking on market risk through the holding of a certain amount of financial assets. The Group implements suitable hedges to curtail fluctuations in profits and losses. However, as hedges may fail to function effectively in times of stress, the Group sets limits on Value at Risk (VaR)^{*1} and loss estimates under various types of stress test^{*2} to ensure that they are within the scope of equity capital after taking into consideration financial conditions and such factors as the business plans and budgets of subject departments. The Group also sets limits on such facets as position and sensitivity.

The departments in charge of the Group's trading services calculate positions and sensitivity for the purpose of assessing their own market risk, and monitor such. Meanwhile, risk management departments also monitor the status of market risk, confirm whether risk falls within the established limits, and report on such to management on a daily basis.

^{*1} Value at Risk (VaR) represents the maximum possible loss of a given trading portfolio with a given probability over a given time horizon.

^{*2} Stress tests are used to calculate the Group's maximum losses based on scenarios of the most significant market fluctuations of the past and due to scenarios based on hypothetical risk events.

2 Credit risk management

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

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

Counterparty risk

The Group assigns an upper allowable credit amount for each counterparty group and monitors it on a regular basis.

Issuer risk

The Group also monitors issuer credit risk for financial instruments held through market-making activities.

Risk Management

The Daiwa Securities Group (Consolidated) Value at Risk

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

	(Billions of yen)							
	6/17	9/17	12/17	3/18	6/18	9/18	12/18	3/19
VaR (Month-end)	1.29	1.16	1.93	1.13	1.34	1.39	1.76	1.06
Quarterly								
High	3.41	4.19	2.00	2.03	1.80	1.67	1.87	2.29
Low	1.28	1.16	1.06	1.07	1.16	1.15	0.95	0.86
Average	2.59	2.29	1.34	1.46	1.40	1.36	1.34	1.45
By Risk Factor (Month-end)								
Equity	0.34	0.43	0.68	0.28	0.65	0.51	0.40	0.29
Interest	1.40	1.15	1.43	1.06	1.21	1.23	1.68	1.06
Currency	0.20	0.15	0.21	0.21	0.16	0.17	0.24	0.18
Commodities	0.06	0.00	0.00	0.00	0.00	0.00	0.00	0.00

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

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

3 Liquidity risk management

Liquidity risk refers to the risk of suffering losses due to cash management difficulties or having to finance at markedly higher costs than usual as a result of a change in market conditions or a deterioration of Group companies' finance.

Basic Policy on Fund Procurement

The Group uses a variety of financial assets and liabilities to conduct its business with a focus on securities-related operations as its core business. In order to prevent market fluctuations from affecting the continuation of our business activities, the Group is constantly striving to secure the stability of fund procurement. Additionally, with the anticipation that financial crises may make it difficult to procure new funds and reacquire existing funds, the Group diversifies repayment periods and fund sources.

Liquidity Management System Using Liquidity Management Indicators

Daiwa Securities Group Inc. has established a liquidity management system that consists of the regulatory consolidated liquidity coverage ratio as well as its own liquidity management indicators.

As a part of efforts to manage short-term liquidity risks, the Group performs daily checks to ascertain that the liquidity portfolios in place are sufficient to cover the repayment of unsecured short-term funds due within a certain time period as well as the estimated outflow of funds under stress in an appropriate time frame—here a number of stress scenarios are adopted. From a long-term liquidity risk management perspective, if stressful conditions are expected to continue for a long period of one year or more, the Group measures and monitors long-term fundraising conditions so that it can continue its business operations even when it becomes impossible to procure funds without collateral for a whole year.

Contingency Funding Plans

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

4 Operational risk management

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

Definitions of Principal Operational Risks

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

The Group classifies operational risks into the seven categories listed in the above table and monitors them by assigning departments responsible for individual risks. As the Group's business becomes more sophisticated, diversified, and systemized, the accompanying risks become more varied. As a result, the importance of managing operational risk has grown each year.

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

Note: RCSA

RCSA (Risk Control Self-Assessment) uses a predetermined assessment sheet to identify and assess operational risks, analyzes risks based on frequency of occurrence and impact, and evaluates and verifies efficacy of risk mitigation efforts.

Risk Management

5 Reputational risk management

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

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

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

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

6 Accounting and tax risk management

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

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

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

Note: Tax policy

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

Daiwa Securities Group Tax Policy

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



Trail-blazing new fields requires us to face risk head-on and resolutely take on the challenge of new business.

Junichi Arihara

Executive Managing Director, CRO and CDO
Daiwa Securities Group Inc.

Finding a balance between offense and defense, contributing to greater value over the medium- to long-term

The missions of the risk management departments, for which I am responsible as CRO, are to support the sustainable growth of Daiwa Securities Group through appropriate risk management and to contribute to greater corporate value over the medium- to long-term.

As an unavoidable aspect of the securities business, the Group conducts business that is highly susceptible to economic conditions and that holds various risks. This fact makes appropriately managing these risks an extremely important part of management. The Group has defined our Risk Appetite Framework (RAF)—the managerial framework for administering management strategies, financial strategies, and risk management in an integrated fashion—as the core concept of risk governance, and has created a risk management system that includes Three Defensive Lines. Along with controlling risk by setting the risk appetite according to the nature of each risk, we work to maintain a sufficient level of equity capital and capital liquidity to ensure business continuity in the event of any sudden changes in the business environment.

One of our current initiatives is increasing the sophistication of risk management systems and management methods to address the Basel rules and other new financial regulations. However, further enhancing the effectiveness of the RAF is also an important issue. The existing RAF is designed as a mechanism focused on limiting risk, so my intention is to evolve this mechanism to achieve a better balance between offense and defense. I feel that the key to this balance lies in facilitating risk communication with the business lines, contributing to greater capital efficiency, and reinforcing the PDCA cycle of risk-taking.

Risk management system for supporting appropriate decision-making

Under the Group's Corporate Principles and the Daiwa Spirit, we "exercise self-discipline and comply fully with the law," and at the same time declare that we will "continue to pioneer a self-directed working environment." This approach in and of itself is the risk culture of the Group. In short, although compliance with laws and regulations is naturally a part of this culture, in regard to situations for which these are not yet fully in place, we constantly discern the principle and intent of laws and regulations, make decisions in good-faith in reference to socially accepted ideas and common sense, and maintain judgement criteria for determining which risks we must avoid. On the other hand, there are also risks that we must selectively take upon ascertaining the relationship with returns. As a pioneer of the financial and capital markets, constantly trail-blazing new fields requires us to face risk head-on and resolutely take on the challenge of new business. In respect to risk management, we support appropriate decision-making by carefully investigating the types and acceptability of risk that coincides with new business from various perspectives, and by quantifying risk to the greatest extent possible.

As part of the Medium-Term Management Plan, Daiwa Securities Group aims to be an integrated securities group with a hybrid business model and foresees greater investments for growth in new business sectors. Those of us involved in risk management are also working to evolve risk management systems and increase the sophistication of risk management methods in accordance with these changes in the business model.

IT Strategy and the Management of Systems Risk



Under its Medium-Term Management Plan, “Passion for the Best” 2020, Daiwa Securities Group is promoting the IT strategy (basic IT policy) of establishing an IT platform that provides momentum for the digital transformation. The Group is also working to further strengthen IT governance in order to address the diversification of its business portfolios and the evolution of technology.

IT Governance Structure

The Group IT Strategy Committee is established at Daiwa Securities Group Inc. as a sub-committee of the Executive Management Committee, and the IT Strategy Committee is created at Daiwa Securities as a subcommittee of the Management Committee. These committees deliberate and decide medium- and long-term IT investment policies and plans after taking into account business needs and trends in the business environment, such as systems and regulations.

Against a backdrop of globally tightening financial regulations, increasingly serious and sophisticated cyberattacks, greater digitalization enabled by technological evolution, and unbundling of financial services, the CIO has been placed in charge of overseeing all IT-related operations across the Group, including overseas bases, to ensure Group-wide risk management and business innovation. By managing IT resources and further strengthening collaboration within the Group, the CIO is working to enhance the Group’s IT capabilities.

IT Investment

The Group has been investing in IT in order to provide products and services responding to customer needs from the perspective of customer-oriented operations, promote a digital transformation which aims at improving the efficiency of existing business and advance business innovation and business process innovation in order to engage in high-value-added business, establish basic infrastructure that is indispensable to the continuation of business, comply with legal requirements, and enhance the risk management system. In FY2018, the Group invested in IT to expand products and services (such as the Daiwa Annual Gifting Service and a log-in system for smartphone applications using biometric authentication), expand operational efficiency through use of voice recognition and AI, install an API* infrastructure to better provide high-value-added financial services, promote compliance with global financial regulations, and further strengthen cyber-securities, etc.

*Application Programming Interface: A mechanism that enables connections between systems via a standard protocol.

Systems Risk Management

Daiwa Securities Group has worked to maintain and enhance the management of systems risk in order to reliably provide high-quality services to customers while protecting information assets from various threats and risks originating from inside or outside the company. In light of the growing threat of cyber-attacks over the past few years, we recognize the importance of cybersecurity as a group management issue, and have accordingly established a cybersecurity management system centered on Group-wide Daiwa-CSIRT*. The Group collects and analyzes the latest information on cyber-attack methods and vulnerability while coordinating with external organizations and companies, and continues to work toward improving its resistance and resilience to cyber-attacks.

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



Masahisa Nakagawa

Senior Executive Managing Director and CIO
Daiwa Securities Group Inc.

Improving value creation through a digital transformation

Digital transformation (DX) is a cornerstone effort aimed at achieving the Medium-Term Management Plan's basic policies of providing high-value-added solutions through the use of our Quality No. 1 consulting capabilities and providing new value as an integrated securities group with a hybrid business model. We are working to improve value creation through DX, including by creating an environment in which all employees can actively contribute toward improvements in customer satisfaction, the Group stretching into new business fields, and the resolution of social issues, and by building an infrastructure that takes advantage of our strengths in business execution and product lineups to seamlessly offer through collaboration with other companies high-added-value services to a variety of customers.

In recognition of its efforts, the Group was selected for the second consecutive year as a Competitive IT Strategy Company by the Ministry of Economy, Trade and Industry (METI) and the Tokyo Stock Exchange (TSE) in April 2019. In the future, we intend to further improve value creation and contribute to sustainable economic and social development by promoting DX.

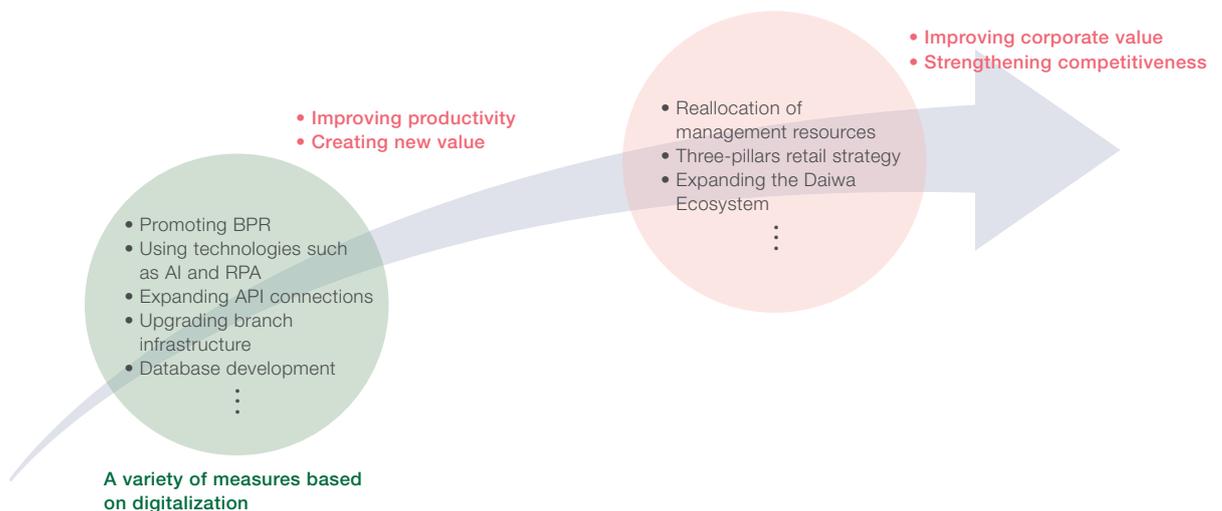
Using risk management to contribute to sound markets

With the goal of fulfilling our social responsibility as a supporter of the capital and financial markets, Daiwa Securities Group is strengthening its approach to risks that could impact the Group as a whole including overseas bases such as cyber-attacks and money laundering. It is believed that the frequency of cyber-attacks could increase in Japan ahead of the 2020 Olympic and Paralympic Games in Tokyo, requiring governments and companies to work together to ensure the stability of social infrastructure. In recent years, cyber-attacks have become increasingly sophisticated and far reaching, often being routed through business partners, contractors, and group companies. With it becoming increasingly difficult to defend against these attacks, we have been working not only to improve our defenses, including through multi-layered technological strategies, but also to improve cyber resilience*, limiting the impact of the attack when these defenses are breached and ensuring the continuation of business and services.

We will continue to implement an appropriate level of risk management throughout the Group, contributing to sound capital and financial markets where customers can transact safely and securely.

* The ability to limit the impact of a cyber-attack that halts business operations and in the process maintain a certain level of services

Initiatives for Achieving Management Strategies: Digital Transformation



A variety of measures based on digitalization

Compliance



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

Raising Compliance Awareness

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

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

As basic standards in three areas that should be fulfilled at a bare minimum, the Group has formulated Group Minimum Standards, and based on these standards, the Group aims to achieve a level of compliance awareness that exceeds the boundaries of business lines.

Group Minimum Standards

- ▷ Securing information
- ▷ Eliminating relationships with anti-social forces
- ▷ Preventing insider trading

Compliance Initiatives for FY2019

- ▷ Enhance information security
- ▷ Reinforce measures to prevent insider trading
- ▷ Strengthen efforts to eliminate relationships with anti-social forces
- ▷ Enhance countermeasures to money laundering and the funding of terrorism

Daiwa Securities Group will continue our efforts in these four areas to support the building out of internal management systems at each Group company.

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

Compliance Training

In addition to raising compliance awareness and spreading corporate ethics, Group companies conduct a wide range of compliance training activities so that employees can exercise self-discipline under any and all circumstances. These training activities focus on a variety of topics, including information security, the prevention of insider trading and the elimination of relations with anti-social forces, and from FY2018 measures to prevent money laundering and the funding of terrorism, especially in the sales departments that form the First Defensive Line of the Group’s risk management.

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

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

Customer Support Center Initiatives

We established the Customer Support Center as part of the Daiwa Securities Compliance Department to handle customer complaints and feedback directly by phone. The Center can also handle communications submitted by email and letters sent to the head office.

The Center promptly gives feedback and complaints from customers to relevant sales branches and departments and sections of the head office. It also sorts and analyzes such feedback and complaints, shares them with officers, sales branches, and head office departments, and capitalizes on them as precious information in the aim of “customer-first operations” and “pursuit of best quality.” To respond to customers’ calls thoroughly, accurately, and promptly, Customer Support Center members study the securities tax code and Daiwa Securities’ services together on a daily basis, and work to improve the quality of their customer service.

With the aim of improving the manner in which the Group responds to customers, the Compliance Department informs all branches of comments and complaints from customers regarding sales offices via the weekly Quality Communication. In regard to complaints or feedback regarding head office departments, the Compliance Department contacts and shares information with the head of the relevant department and offers recommendations for improvement.

In FY2018, the Center received 4,436 calls, down 554 from the previous fiscal year.

Creating a compliance system that enhances corporate value

My efforts until FY2018 were focused on building a customer-centric system for sales, based on the perspective of the Head of Retail Marketing Division. From this experience I learned that the manner in which customers view the Group is extremely important. With the world today so connected by the Internet, word of any scandal can spread around the globe in an instant, and any anomalous activity at the Group, including insider trading or the leakage of customer information, would result in a lower public reputation. It is the responsibility of the compliance departments to instill in executives and employees the determination to never allow this kind of anomalous activity. I will continue to play my role as Head of Compliance in protecting the Group’s reputation by properly upholding our function as gatekeepers to the market.

Compliance with laws and regulations is fundamental to our business activities, and there are strict requirements that all Daiwa Securities Group transactions with our customers be conducted in accordance with stipulated laws and regulations. That being said, it is not enough to merely comply with laws and regulations. It is also necessary to understand the intent of all laws and regulations, and to always be aware of whether our remarks, actions, or ideas might deviate from corporate ethics and social norms. Amid an environment characterized by rapid social change and increasingly complex financial products, we believe the establishment of a compliance system capable of responding to these



Shinji Kawakami

Senior Executive Managing Director
Head of Compliance
Daiwa Securities Group Inc.

changes while simultaneously emphasizing ethics and morality will lead to improved corporate value.

With an eye toward the mutual evaluation of Japan by the Financial Action Task Force (FATF), we will continue to focus our efforts on measures to counter terrorist financing and money laundering in FY2019. In addition to preventing risks associated with insider trading, anti-social forces, and information leaks, we will focus on further improving corporate value by constructing a system that makes more effective use of the valuable information obtained through the Customer Support Center to ensure customer-first operations and the highest quality.

Disclosure and Dialogue with Investors

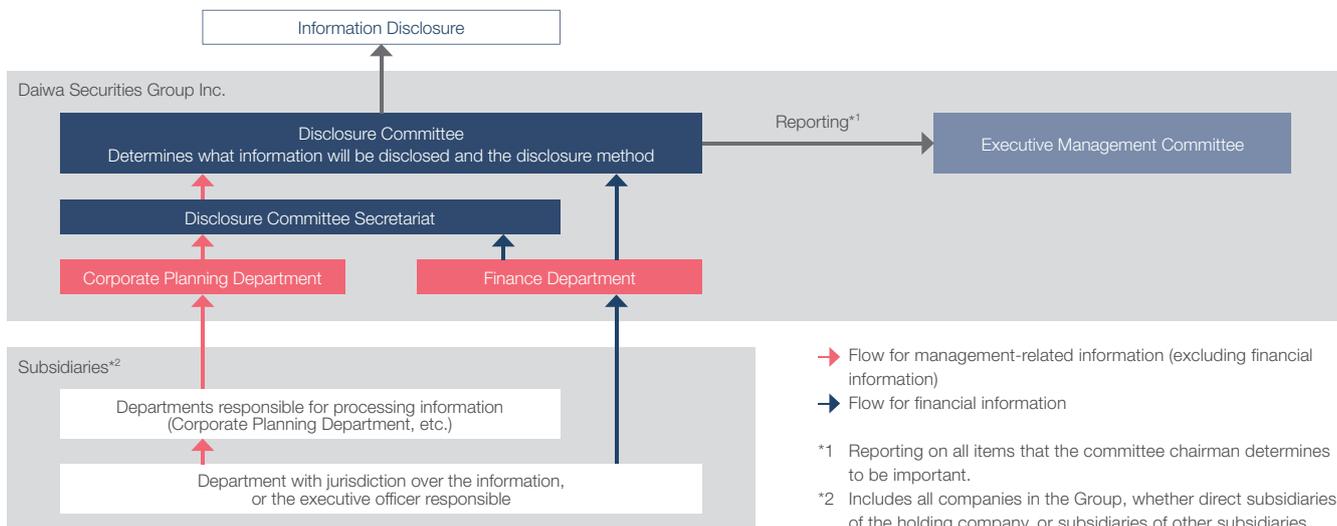
Daiwa Securities Group works to communicate proactively and provide fair and appropriate information in a timely manner so that customers, shareholders and investors, local communities, employees and executives clearly understand and properly evaluate the Group's activities.

Disclosure System

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

In order to realize the policy's spirit, Daiwa Securities Group Inc. has established the Disclosure Committee—a sub-committee of the Executive Management Committee—based on the Rules for Group's Disclosure, which makes final decisions regarding the disclosure of information. Main Group companies have also established their own Rules for Management-Related Information, which govern the appropriate collection of information and reports to Daiwa Securities Group Inc. We have confirmed that the Group's regulations and systems are in compliance with the Fair Disclosure Rules introduced to the Financial Instruments and Exchange Act amended in 2018.

Flowchart of the Daiwa Securities Group's Disclosure Activities



Communication with Shareholders and Investors

Every year, many shareholders attend our general meeting of shareholders, which is an opportunity for us to interact directly. Other activities include telephone conferences on the days of earnings announcements, briefings about the Group for individual investors, the management strategy meeting, one-on-one meetings with analysts and investors and participation in Daiwa Investment Conferences held in Tokyo, Hong Kong and New York. In FY2018, the Group held the ESG Meeting for the first time for institutional investors and analysts. Presentations and Q&A sessions were conducted on corporate governance by the chairman of the Audit Committee, an outside director, and on the Group's SDG initiatives by the executive in charge of Corporate Planning.

In addition, we are further developing information disclosure on our investor relations (IR) website and publishing integrated reports and business reports for shareholders. We will continue to strive to make our communications even more accessible and precise for shareholders.

IR Activities in FY2018

Number of meetings with institutional investors and analysts

202

This includes the following overseas IR activities: two IR events in North America (28 meetings), two IR events in the EU (30 meetings), and two IR events in Asia (23 meetings)

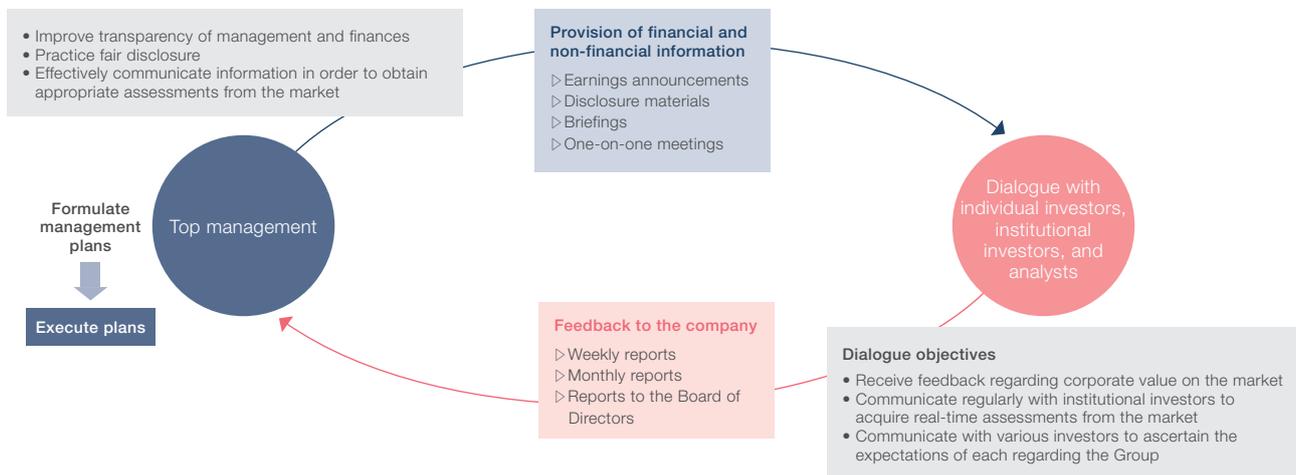
Number of briefings for individual investors (number of participants)

47 (approx. 6,500)

36 briefings at Daiwa Securities locations, eight briefings organized by Daiwa Investor Relations, two briefings via the Internet, one seminar for female investors.

Approach to IR and SR Activities

The Group conducts IR and shareholder relations (SR) activities for the purpose of promoting a greater understanding of the Group among all stakeholders, including shareholders, investors and local communities, and to contribute to their ability to form realistic assessment of the Group. Any issues and opinions received through dialogue with these stakeholders are provided as feedback to the Group through reports to the Board of Directors and are used to support the formulation of management strategies designed to increase corporate value.



IR/SR Schedule

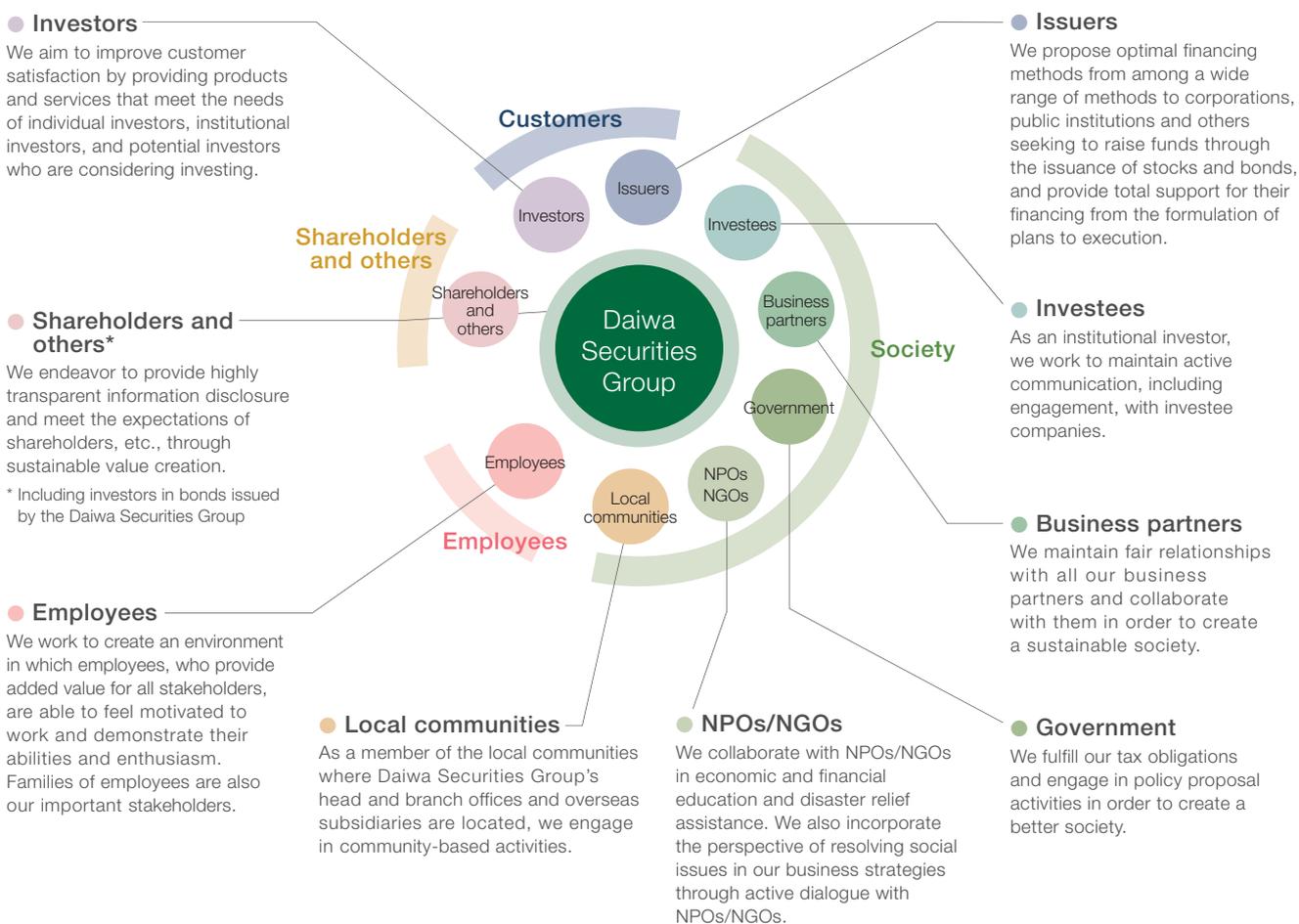
	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
Events		Earnings announcement		Earnings announcement		Shareholders' meeting	Earnings announcement		Earnings announcement		Earnings announcement	
Analysts and Institutional Investors		One-on-one meetings DIC* Tokyo CEO participation and presentation		One-on-one meetings Management strategy meeting North America IR (CEO) Europe IR (CFO) (DIC*NY/LDN) Small meetings for analysts (CFO)			One-on-one meetings		Asia IR (CFO)		One-on-one meetings Analyst and institutional investor meetings (CEO) North America IR (CFO) Europe IR (CEO) DIC* HK (Head of IR)	
Individual Investors		IR for individual investors				Shareholder benefit catalogues		IR for individual investors			IR for individual investors Shareholder benefit catalogues	
Reports and Materials		Updated as required HP Corporate Governance Report				Convocation notice/Financial Report Business Report (BR) Dividend notice			Integrated Report publication SDGs Data Book publication		BR Dividend notice	

Additional notes from the diagram:
 - Engagement with shareholder voting advisory companies (Jan to May)
 - Increasing SR activities (Apr to Dec)
 - Meeting with the SR officer based on the results of shareholder voting (Jul to Dec)
 - Opinions regarding the Group are received via the Investor Relations Office's direct line at all times and are reported to the president and other top managers (Jan to Dec)

* Daiwa Investment Conference (See page 51)

Communication with Stakeholders

Daiwa Securities Group will seek to improve its corporate value by resolving social issues identified through communication with stakeholders.



Policy on Communication with Stakeholders

Communication with stakeholders plays an important role in identifying social demands, which change over time. Accordingly, we have adopted the following basic policy.

Basic Policy ①
Daiwa Securities Group will strive to maintain two-way communication with a broad range of stakeholders based on ISO 26000 and the Charter of Corporate Behavior of the Nippon Keidanren.

Basic Policy ②
The Group will strive to deepen communication with stakeholders already known to us, including customers, shareholders and other investors, business partners, employees and local communities.

Basic Policy ③
The Group will strive to communicate actively with third-party institutions, organizations, and individuals, etc., in order to identify other stakeholders.

Role and Social Responsibilities of the Financial Services

As a major field of Daiwa Securities Group's operations, the securities business facilitates the smooth flow of money by matching demand and supply through financial and capital markets. The Group fulfills an important role and responsibility in society by contributing to sustainable development through the channeling of funds into businesses that solve social issues and create new technologies, for example.

Mission for Financial Institutions toward Solving Social Issues

The business sector's role in endeavoring to create a sustainable society has become more important than ever. For financial institutions, materialization of such a society through finance, their core capability, is a social mission. At Daiwa Securities Group, we believe that our role is not only to maintain and develop a fair and dynamic financial market, but also to incorporate a social perspective in finance and to facilitate the flow of money to build a sustainable society.

In January 2010, Daiwa Securities Group signed the United Nations Global Compact (UNGC), a platform to help companies that have committed to sustainable and responsible business practices shape their policies, and has proceeded with business activities in compliance with the principles. We also incorporate into our activities the Sustainable Development Goals (SDGs) adopted in September 2015 at the United Nations Sustainable Development Summit.



Support for global initiatives

- ▷ United Nations-supported Principles for Responsible Investment (PRI)
- ▷ CDP
- ▷ United Nations Global Compact (UNGC)
- ▷ Principles for Financial Action for the 21st Century
- ▷ Task Force on Climate-related Financial Disclosures (TCFD)
- ▷ United Nations Environment Programme – Finance Initiative (UNEP-FI)
- ▷ 30% Club Japan

To Maintain and Develop Financial and Capital Market Functions

The securities business, the core business of Daiwa Securities Group, serves as an important social and economic infrastructure. It facilitates the smooth flow of money by matching fundraising needs through the issuance of securities with the investment needs of investors via financial and capital markets. We recognize that maintaining and developing this infrastructure is about developing sound financial and capital markets for the next generation. This matches with a part of the Group's Materiality and finance, and is critical to its major missions of achieving the ninth SDG: Industry, Innovation and Infrastructure.

Securities Companies' Role in Financial and Capital Markets



Role and Social Responsibilities of the Financial Services

Settlement functions

Securities settlement—a mainstay of the Group’s overall operations—is the delivery of stocks, bonds, or other instruments and funds both to and from both the buyer and seller of a securities transaction. In trusted markets, financial instruments can be reliably converted into cash when necessary. This is the very reason why such markets attract investment money and enable companies and others with funding demand to procure funds. We consider it vital to settle transactions accurately and promptly as required in order to ensure that markets function as a social infrastructure and become a driver for economic development. We are therefore striving to build a structure enabling the smooth execution of settlement operations.

Meanwhile, the securities industry recognizes that it is necessary to further increase convenience and strengthen risk management to boost the competitiveness of Japan’s financial and capital markets. With this awareness, the entire industry is currently working on reducing settlement time. Daiwa Securities has played a central role in a working group launched by the Japan Securities Dealers Association, identifying and examining a variety of issues towards the reduction of settlement time. The T+1 (trade date plus one day) settlement cycle already started for government bond trading in May 2018 and T+2 settlement cycle also started for stock trading in July 2019. Moreover, cross-border foreign exchange transactions entail settlement risk (for example, the risk of being unable to receive dollars in U.S. time even when paying yen in Japan time) associated with time differences in settlement for the currencies involved. Daiwa Securities is the only Japanese securities company that directly participates in Continuous Linked Settlement as a settlement member. We will fulfill greater responsibility for the stability of financial markets by reducing the settlement risk of foreign exchange transactions.

We are determined to continue the settlement operations no matter what happens. Under such determination, we have drawn up a business continuity plan (BCP) and regularly conduct training in preparation for unforeseen circumstances, such as natural disasters and terrorism.

Supply Chain Management and ESG Due Diligence Including Human Rights

Daiwa Securities Group regularly checks documents disclosed by major business partners, including providers of IT equipment and services, as well as news reports about these companies and their reputation on the Internet in order to address issues in the Group’s supply chain, including those related to the environment, society, human rights, information and cyber security. If any issues are found, we take steps such as urging business partners to make improvements.

We also collect information provided by public institutions within and outside Japan and exchange information with external parties to ensure we remain aware of human rights issues existing in the countries and regions where the Group conducts business operations. We then consider taking appropriate measures for important issues.

We carry out due diligence in deals underwritten, considering not only business performance and financial aspects, but also ESG issues. When we find issues regarding the business model of an issuer or its planned use of proceeds, we conduct more thorough due diligence through such means as field work and meetings, and sometimes make proposals for improvement to the issuer. If major concerns remain even after taking such measures, we report them to the Chief Risk Officer (CRO).

Similarly, we also carry out due diligence in self-investment deals.

Daiwa Securities Group’s Supply Chain Management

Subject	Specific initiatives	Frequency
Major business partners including providers of IT equipment and services	Check documents disclosed by partner companies and external information	Regularly
Countries where the Group conducts business operations	Collect information on human rights issues	As needed
Deals underwritten	Due diligence taking into consideration ESG issues	As needed
Self-investment deals	Due diligence	As needed

Environmental Initiatives



Protecting the global environment, which is the basis of our livelihood, is essential for a sustainable society. Through its business activities, Daiwa Securities Group contributes to the resolution of environmental issues by developing products that reduce the environmental burden, and also by assisting financing for the development of environmental technologies and infrastructure. At the same time, we are working to establish a system that efficiently collects data on the Group's environmental load. We are also focusing on raising employees' environmental awareness to empower them to reduce the environmental burden of daily business operations.

Environmental Vision	The Group is dedicated to protecting the precious global environment and preserving it for future generations by leveraging financial capabilities.
Environmental Principles	The Group recognizes the importance of environmental principles such as the effort to combat global warming, recycling and reuse of raw materials, and preserving biodiversity, in order to create a sustainable society for the 21st century. The Group pledges to contribute to solving environmental issues through its business as a financial service company and to constantly seek new ways to reduce its environmental impact as a responsible corporate citizen.
Basic Environmental Policies	<ol style="list-style-type: none"> 1. Make positive environmental contributions through our core business activities We shall seek to develop and provide financial products and services that promote a low-carbon, recycling-oriented, and symbiotic society. 2. Implement an environmental management system We shall implement an environmental management system and constantly seek new ways to improve environmental activities. In addition, we shall support environmental education and publicity efforts, while promoting environmental protection efforts by employees. 3. Take steps to save natural resources, reduce energy consumption, and promote biodiversity system We shall continue to progress in our efforts to reduce the use of natural resources and energy, and seek ways to improve materials and energy efficiency (including efforts to improve business efficiency). We shall also take steps to reduce water use and reduce, reuse, and recycle other materials to contribute to a more environmentally friendly society. Furthermore, considering the importance of biodiversity, we shall seek a symbiotic relationship with the environment and use safe, clean methods of materials procurement. 4. Promote environmental communication Working in concert with business partners, the local community, NGOs and NPOs, we shall actively disseminate information about environmental issues, and communicate our concern for the environment to customers and society at large. 5. Strictly observe environmental regulations We shall always endeavor in environmental preservation, observing environmental laws and regulations in addition to the Group's environment policies. <p style="text-align: right;">Daiwa Securities Group Inc. (May 22, 2012)</p>

Targets for FY2019 (Daiwa Securities Group)

- Continue to introduce eco-cars
- Improve the accumulation of environment-related data and hone analytical skills
- Purchase products certified under Top Runner standards
- Initiatives for the reduction of electricity consumption
Achieve a reduction of at least 10% from the FY2009 level* (as of FY2020)
Achieve a reduction of at least 20% from the FY2009 level* (as of FY2030)
* On a per unit area basis for both targets
- Initiatives for the reduction of CO₂ emissions
Continue to reduce* CO₂ emissions by at least 1% compared with the previous fiscal year
* On a domestic consolidated basis

<p>Company cars in Japan (Daiwa Securities)</p> <p style="font-size: 2em; color: #e91e63;">1,073 vehicles</p> <p style="font-size: 1.5em; color: #e91e63;">including 845 eco-cars 160 hybrid cars</p> <p style="font-size: 0.8em;">(As of March 31, 2019)</p> <hr/> <p>Introduction results for FY2018</p> <p style="font-size: 1.5em; color: #e91e63;">156 eco-cars 22 hybrid cars</p> <hr/> <p>Introduction plan for FY2019</p> <p style="font-size: 1.5em; color: #e91e63;">410 eco-cars 10 hybrid cars</p>	<p>Cases of soil and groundwater pollution found within office sites</p> <p style="text-align: right; font-size: 2em; color: #e91e63;">0</p> <p style="text-align: right; font-size: 0.8em;">FY2018</p> <hr/> <p>Investment in energy-saving air conditioning systems for FY2018</p> <p style="text-align: right; font-size: 2em; color: #e91e63;">¥91 million</p> <p style="text-align: right; font-size: 0.8em;">(including installation costs)</p> <hr/> <p>CO₂ emissions reduction by adopting LED lighting (in comparison with the levels prior to the introduction of LED lighting)</p> <p style="text-align: right; font-size: 2em; color: #e91e63;">Approximately 606.5 tons</p> <p style="text-align: right; font-size: 0.8em;">(Shinjuku Maynds Tower in 2018)</p>
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Environmental Initiatives

Response to the TCFD

In June 2017, the Financial Stability Board announced Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) (Final Report). The announcement was made in response to concerns over adverse effects on the financial system that could be caused by physical and transition risks in the course of a shift to a lower-carbon society. Daiwa Securities Group Inc. expressed its support to the TCFD in April 2018.

Impact on Daiwa Securities Group in the course of a transition to a lower-carbon economy

The table below describes what Daiwa Securities Group currently recognizes, based on the TCFD recommendations, as major events that may adversely affect the Group's businesses in the course of transition to a lower-carbon economy, measures that are expected to reduce such effects, and developments and opportunities anticipated to occur in the future, as well as effects that could remain, according to the four thematic areas below.

Daiwa Securities Group will continuously conduct verification going forward, based on scientific knowledge and expectations about climate change, and respond appropriately as an important management issue.

Disclosures in Accordance with the TCFD Recommendations

Items	Recommended disclosure	Initiatives
Governance	The organization's governance around climate-related risks and opportunities a) Oversight by the Board of Directors b) Management's role	① Formulation of Environmental Vision, Environmental Principles and Basic Environmental Policies ② Establishment of the SDGs Promotion Committee, chaired by the president and CEO, to discuss the Group's response to various social issues, including climate change
Strategy	Impacts of climate-related risks and opportunities on the organization's businesses, strategy and financial planning a) Climate-related risks and opportunities b) Impacts of climate-related risks and opportunities c) Potential impacts under different climate-related scenarios	Opportunities ① Increase in demand for funds to prepare for a lower-carbon society (financing for the renewable energy business, issuance of Green Bonds, etc.) ② Increase in deals underwritten in association with ① ③ Increase in opportunities for investing in new industries and companies that contribute to the transition to a lower-carbon society ④ Increase in business opportunities for providing solutions to assist in the transition to a lower-carbon society ⑤ Improvement of evaluations from stakeholders through appropriate disclosure of the aforementioned initiatives. Risks ① Decrease in business from companies and others significantly affected in the course of the transition ② Increase in reputational risk associated with investment and underwriting related to businesses with a heavy environmental load ③ Decrease in assets under management resulting from a decline in the value of assets held by funds ④ Decline in the value of assets held by the Group and decrease in selling opportunities ⑤ Increase in costs associated with the tightening of environmental regulations and countermeasures against disaster risk
Risk management	Methods for identifying, assessing and managing climate-related risks a) Processes for identifying and assessing climate-related risks b) Processes for managing climate-related risks c) Integration of processes for identifying, assessing and managing climate-related risks into overall risk management	① Consideration of analysis of the impact of climate change risks on financial and capital markets ② Consideration of the execution of due diligence from an ESG perspective and other non-financial information for deals underwritten ③ The holding of dialogue on the environment and society by the asset management division with investee companies. Discussions on environmental management policy, promotion systems, information disclosure, approach to external evaluations, etc., especially with companies with a large environmental load
Metrics and targets	Metrics and targets used to assess and manage climate-related risks and opportunities a) Metrics for assessing climate-related risks and opportunities b) Scope 1, Scope 2 and Scope 3 greenhouse gas (GHG) emissions c) Targets used to manage climate-related risks and opportunities	① Disclosure of the Company's GHG emissions ▶ Page 111 ② Establishment of the Company's environmental load reduction target ▶ Page 105

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11-Year Financial Summary*1

	FY2008	FY2009	FY2010	FY2011
Operating Performance				
Operating revenues	413,936	537,915	403,042	422,374
Commissions	208,880	252,863	218,630	220,845
Net gain on trading	40,921	110,955	92,476	79,416
Net gain (loss) on private equity and other investments	(79,477)	75,584	(17,259)	1,955
Interest and dividend income	192,663	54,729	71,915	79,761
Service fees and other revenues	50,948	43,783	37,278	40,395
Interest expense	176,034	47,659	58,061	59,689
Cost of service fees and other revenues	38,357	32,150	26,415	26,668
Net operating revenues	199,544	458,105	318,564	336,016
Selling, general and administrative expenses (SG&A)	343,270	362,844	363,919	359,729
Operating income (loss)	(143,725)	95,261	(45,355)	(23,713)
Ordinary income (loss)	(141,150)	102,917	(32,602)	(12,200)
Profit (loss) attributable to owners of parent	(85,039)	43,429	(37,331)	(39,434)
Segment Information*2				
Net operating revenues				
Retail	158,027	192,086	178,970	172,033
Wholesale	(19,989)	249,441	92,130	78,488
Asset Management	68,157	63,795	36,324	37,424
Investment	—	—	(15,277)	1,090
Others/adjustments	—	—	26,416	46,980
Total	199,544	458,105	318,564	336,016
Ordinary income (loss)				
Retail	18,396	40,454	41,866	38,839
Wholesale	(167,468)	68,754	(66,906)	(68,717)
Asset Management	11,613	9,929	15,948	14,615
Investment	(5,895)	(6,952)	(21,476)	(1,976)
Others/adjustments	9,140	7,901	(2,034)	5,039
Total	(141,150)	102,917	(32,602)	(12,200)
Ordinary Income (Loss) from Overseas Operations				
Europe	(4,898)	1,984	(8,954)	(5,039)
Asia & Oceania	(1,553)	60	(11,133)	(17,720)
Americas	4,806	1,707	(1,447)	(3,058)
Total	(1,645)	3,752	(21,536)	(25,818)
Financial Conditions (Fiscal year-end)				
Total assets	14,182,579	17,155,345	16,842,411	18,924,038
Net assets	952,329	1,017,528	921,398	951,702
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%	27.4%
Consolidated Leverage Ratio	—	—	—	—
Consolidated Liquidity Coverage Ratio	—	—	—	—
Cash Flows				
Cash flows from operating activities	1,519,387	(3,259,900)	1,676,882	2,032,677
Cash flows from investing activities	9,437	(237,499)	(79,466)	(973,494)
Cash flows from financing activities	(1,459,438)	3,837,205	(1,301,657)	(1,063,022)
Cash and cash equivalents at end of year	415,600	753,982	1,043,463	1,038,981
Per Share Data (Yen)				
Net income (loss) per share (EPS)*4	(63.16)	26.41	(21.90)	(23.41)
Net assets per share (BPS)	534.99	530.27	496.76	463.04
Dividend per share (DPS)	8.00	13.00	6.00	6.00
Closing share price	428.0	492.0	382.0	327.0
Other Indicators				
Dividend payout ratio	—	49.2%	—	—
Market capitalization (Period-end closing price, number of shares issued basis)	601,197	860,684	668,263	572,047
ROE	—	5.3%	—	—

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

*2 Retail Division from FY2008 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 37.

Millions of yen (Except as otherwise specified)

FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
525,411	642,829	659,396	653,711	616,497	712,601	720,586
229,522	301,937	291,115	288,418	273,335	313,625	283,027
123,537	156,499	157,220	131,324	128,120	109,005	92,218
16,531	17,454	7,415	18,502	14,846	26,912	(232)
93,276	107,974	125,934	149,451	143,241	190,444	291,005
62,544	58,963	77,710	66,014	56,953	72,613	54,567
70,130	60,333	80,070	89,530	98,725	148,348	242,468
37,972	40,545	47,105	49,366	45,022	58,901	36,876
417,308	541,951	532,220	514,815	472,750	505,350	441,240
333,496	357,358	361,380	364,517	353,687	370,292	373,914
83,812	184,593	170,839	150,297	119,062	135,058	67,326
95,176	197,045	184,578	165,148	135,623	155,676	83,159
72,909	169,457	148,490	116,848	104,067	110,579	63,813
184,415	253,093	232,033	217,922	188,051	214,247	185,865
133,109	175,338	180,568	178,014	182,875	171,192	158,903
43,591	48,714	55,140	50,528	46,438	49,390	48,232
17,495	19,989	8,351	19,730	15,736	27,401	1,766
38,696	44,815	56,126	48,618	39,647	43,118	46,473
417,308	541,951	532,220	514,815	472,750	505,350	441,240
49,251	102,120	77,756	61,080	29,375	51,331	24,674
12,034	47,428	52,888	48,878	65,437	45,373	25,400
19,089	25,328	32,142	29,990	26,572	29,119	28,359
14,161	17,171	6,506	17,397	13,041	24,499	(1,093)
639	4,996	15,284	7,801	1,196	5,353	5,817
95,176	197,045	184,578	165,148	135,623	155,676	83,159
(2,873)	(2,307)	(2,187)	(3,240)	2,759	4,227	(1,947)
(7,610)	(3,763)	(2,768)	(4,130)	1,480	4,433	2,946
(87)	916	1,050	2,686	9,254	2,742	2,766
(10,571)	(5,154)	(3,904)	(4,684)	13,493	11,403	3,765
19,049,099	19,480,863	23,001,585	20,420,818	19,827,296	21,141,743	21,126,706
1,082,567	1,253,462	1,434,680	1,313,005	1,343,433	1,370,520	1,256,430
19.0%	20.6%	19.7%	21.0%	22.64%	22.28%	22.06%
19.0%	20.9%	20.4%	21.1%	22.64%	22.28%	22.06%
20.0%	21.8%	21.0%	21.2%	22.64%	22.28%	22.06%
—	—	5.31%	5.99%	5.92%	5.61%	5.73%
—	—	—	156.2%	145.3%	146.6%	141.5%
1,795,021	1,123,594	725,966	221,746	44,543	(1,319,248)	304,857
(798,491)	(448,493)	(13,265)	415,647	307,713	777,872	108,243
(909,461)	25,584	343,385	(229,727)	143,231	432,813	55,741
1,136,053	1,846,617	2,920,509	3,273,640	3,766,145	3,653,464	4,122,102
43.00	99.63	87.07	68.25	61.53	66.88	39.95
536.72	633.53	725.27	720.86	745.80	786.56	794.54
15.00	34.00	30.00	29.00	26.00	28.00	21.00
656.0	898.0	946.0	692.3	677.9	678.7	539.0
34.9%	34.1%	34.5%	42.5%	42.3%	41.9%	52.6%
1,147,592	1,570,942	1,654,912	1,211,095	1,152,009	1,153,368	915,965
8.6%	17.0%	12.8%	9.5%	8.4%	8.8%	5.1%

*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

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. (Now Sumitomo Mitsui DS Asset Management Company, Limited), 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. (Now Sumitomo Mitsui DS Asset Management Company, Limited), Daiwa Securities Business Center Co. Ltd., Daiwa Corporate Investment Co., Ltd. (DCI)

2 : Daiwa Securities Group Inc., Daiwa Securities Co. Ltd.

Personnel Related

		FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
Consolidated Number of Staff* ¹	G	13,150	13,324	13,577	13,725	14,691	15,106
Male		7,458	7,526	7,600	7,552	8,077	8,092
Female		4,124	4,270	4,505	4,660	4,938	5,210
Overseas		1,568	1,528	1,472	1,513	1,676	1,804
Consolidated number of employees	G	13,317	13,466	13,701	13,836	14,791	15,196
Number of temporary employees	G	666	847	940	945	946	915
Number of New Graduates Recruited* ²	8	610	681	662	678	578	677
Male		345	345	332	345	289	337
Female		265	336	330	333	289	340
Average Age	D	38.1	38.0	37.9	38.0	38.0	38.3
Male		39.4	39.4	39.5	39.6	39.6	39.8
Female		36.0	35.9	35.6	35.7	35.7	36.2
Average Number of Years of Service	D	13.6	13.6	13.5	13.6	13.7	13.8
Male		15.0	15.0	15.1	15.2	15.3	15.4
Female		11.6	11.5	11.3	11.4	11.4	11.5
Employee Turnover Statistics (%)	D	—	3	3	3	3	3
Number of employee union members* ³	8	6,406	6,573	6,822	6,943	7,134	7,202
Ratio of employees who are employee union members (%)* ³	8	63.1	63.1	64.2	64.0	64.4	63.9

*1 Since fiscal 2014, the number of employees stationed overseas has been included in the "Overseas" category.

*2 April 1 of the next fiscal year; seven companies excluding Sumitomo Mitsui DS Asset Management Company, Limited in FY2018

*3 This data covers eight Group companies. (Excluding Daiwa Asset Management Co. Ltd. where a separate employee union is maintained and Daiwa Property Co., Ltd. where no employee union exists).

Education Related

		FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
Number of people who have completed	10						
Daiwa Management Academy selective management training program (cumulative total)		314	335	358	380	403	426
Daiwa Leadership Program selective management training program (cumulative total)		671	734	797	862	929	1,036
Number of people who have completed skill training (cumulative total)	8	3,464	4,591	6,073	7,507	9,362	13,488
Number of Persons Earning Credentials	10						
Affiliated Financial Planner (AFP)		5,191	5,279	5,333	5,626	6,811	7,064
Certified Financial Planner (CFP®)*		555	590	616	643	698	796
Chartered Member of the Securities Analysts Association of Japan (CMA)		1,461	1,504	1,525	1,542	1,613	1,644
Chartered Financial Analyst (USA credential)		44	50	57	59	59	63
TOEIC (730-990)		1,470	1,556	1,660	1,752	1,830	1,903
Overseas MBA program, etc.		164	160	168	173	177	176

* This data covers Daiwa Securities.

Diversity Related

		FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
Percentage of employees who are female	G	35.6	36.1	37.2	38.1	37.9	39.2
Percentage of managers who are female	G	5.4	6.3	7.5	8.8	9.4	10.5
Number of women newly appointed to managerial positions	D	27	42	45	62	40	61
Percentage of managers who are female	D	17.3	26.9	27.1	32.3	24.4	26.2
Number of employees re-hired	D	—	—	—	96	112	133
Percentage of employees who are persons with disabilities	D	2.24	2.10	2.05	2.02	2.10	2.33

Work-Life Balance Related

		FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
Annual regular working hours	2	1,837.5	1,845.0	1,837.5	1,837.5	1,837.5	1,837.5
Average monthly overtime hours	2	27.2	28.2	24.0	23.5	23.2	22.8
Paid vacation usage rate (%) (including special summer vacation)	2	50	56	63	66	68	68
Number of employees taking childcare leave	G						
Female		486	576	640	671	695	696
Male		19	134	250	327	437	420
Percentage of employees taking childcare leave	D						
Female		100.0	99.3	100.0	100.0	100.0	100.0
Male		1.6	41.9	73.1	96.8	100.0	100.0
Short working hour system usage (persons)	D	147	180	249	324	373	446
Daycare subsidy usage (persons)	D	288	437	505	625	702	759
Number of employees taking nursing care leave	G						
Female		10	6	4	0	2	5
Male		0	1	2	2	3	3

Social Contribution Related

		FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
Social contribution activity expenses (thousands of yen)		463,321	606,279	583,758	497,457	719,523	1,015,796
Education and research in economics and finance		49,694	189,624	137,193	42,351	130,122	82,579
Assistance to communities inside and outside of Japan through foundations and NPOs		179,937	153,779	147,748	128,594	149,441	175,813
Support for culture and the arts		231,900	257,400	296,110	323,110	437,458	751,961
Corporate citizenship initiatives		1,790	5,476	2,706	3,400	2,501	5,441

Environment Related

		FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
Domestic and Overseas CO ₂ Emissions (t-CO ₂)							
Scope 1		917	831	1,012	1,015	998	944
Scope 2		35,442	40,879	36,372	34,772	33,131	30,764
Scope 3		2,314	2,325	2,208	3,521	5,288	5,920
CO ₂ Emissions per Employee (Japan) (t-CO ₂)		3.3	3.3	2.9	2.9	2.7	2.5
Domestic Clean Water Consumption (thousand m ³)		119.5	118.9	117.7	117.1	119.1	125.3
Waste (paper waste) generated by certain locations in Japan							
Volume generated (t)		346.0	317.7	320.3	310.4	324.6	331.2
Recycling rate (%)		87.9	93.0	93.6	92.4	94.6	92.5
Waste (non-paper waste) generated by certain locations in Japan							
Volume generated (t)		246.1	221.2	210.6	211.5	237.1	271.3
Recycling rate (%)		84.2	51.7	53.8	48.4	44.8	44.1
Domestic and Overseas Paper Consumption (t)*		—	—	—	—	589.3	534.9

* FY2017 data revised

For more detailed SDG-related data, including management reports, social reports and environmental reports, and the status of independent assurance, please see our [SDGs Data Book](#).

Twelve-Quarter Financial Summary

Daiwa Securities Group Inc. and Consolidated Subsidiaries

	FY2016			
	1Q	2Q	3Q	4Q
MARKET DATA				
Nikkei 225 (end of each quarter, yen)	15,575.92	16,449.84	19,114.37	18,909.26
TSE average daily trading value (billions of yen)	2,656	2,537	2,869	2,709
Net purchases (sales) by investors on two major securities exchanges* (billions of yen)				
Institutions	1,752	925	(921)	(908)
Individuals	(405)	(676)	(3,503)	(19)
Foreigners	271	(1,445)	2,498	(1,238)
Securities companies	(23)	(7)	(164)	(30)
Ten-year Japanese government bond yield (end of each quarter, %)	(0.230)	(0.085)	0.040	0.065
Foreign exchange rates: Yen per U.S. dollar (end of each quarter)	102.81	101.14	116.81	111.81

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

OPERATING PERFORMANCE				Millions of yen
Operating revenues	151,859	145,117	153,198	166,322
Commissions	61,693	64,373	70,752	76,515
Brokerage commission	13,888	13,197	17,189	16,672
Underwriting commission	5,366	8,274	8,161	7,926
Distribution commission	6,320	7,037	10,020	10,909
Other commission	36,119	35,863	35,379	41,007
Net gain on trading	33,379	32,385	34,025	28,330
Profit on equity trading	2,063	5,315	7,672	6,419
Profit on bond and foreign exchange trading	31,315	27,070	26,352	21,910
Net gain on private equity and other investments	4,802	5,614	2,423	2,006
Interest and dividend income	35,726	33,088	34,808	39,618
Service fees and other revenues	16,257	9,656	11,188	19,850
Interest expenses	26,633	20,701	20,777	30,612
Cost of service fees and other revenues	11,177	9,319	10,434	14,090
Net operating revenues	114,049	115,096	121,985	121,618
Selling, general and administrative expenses	86,029	85,772	90,376	91,508
Commissions and other expenses	16,385	16,979	17,505	18,884
Employees' compensation and benefits	43,240	43,356	44,838	44,395
Occupancy and rental	8,744	8,538	8,833	9,150
Data processing and office supplies	6,233	6,006	7,843	6,963
Depreciation and amortization	5,897	5,705	5,848	5,955
Taxes other than income taxes	2,559	2,467	2,555	2,948
Others	2,968	2,720	2,952	3,210
Operating income	28,019	29,323	31,609	30,110
Non-operating income	4,613	4,305	3,961	4,907
Non-operating expenses	95	371	135	622
Ordinary income	32,537	33,256	35,434	34,394
Extraordinary gains	1,228	1,607	2,524	12,016
Extraordinary losses	207	1,082	(47)	12,753
Income before income taxes	33,559	33,781	38,007	33,657
Profit attributable to owners of parent	24,571	30,443	26,693	22,358

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

FY2017				FY2018			
1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
20,033.43	20,356.28	22,764.94	21,454.30	22,304.51	24,120.04	20,014.77	21,205.81
2,887	2,756	3,357	3,515	3,034	2,888	3,240	2,794
(179)	442	231	1,786	557	208	2,220	321
(1,985)	(1,225)	(2,563)	1,687	(1,308)	(1,278)	621	(765)
1,714	(1,166)	1,443	(2,617)	(1,132)	(242)	(1,477)	(2,412)
(146)	(64)	(190)	57	3	(27)	78	0
0.080	0.060	0.045	0.045	0.030	0.125	(0.010)	(0.095)
112.01	112.45	112.53	106.20	110.61	113.44	110.04	110.78

Millions of yen

Millions of yen

159,652	176,611	190,875	185,461	175,175	172,570	188,753	184,086
69,746	78,730	85,531	79,616	73,813	66,236	78,347	64,629
16,214	16,688	21,753	19,142	16,566	14,766	14,507	12,495
5,740	13,010	9,890	6,537	11,466	6,199	17,908	6,235
11,143	10,803	13,247	10,613	7,669	7,385	5,540	5,451
36,648	38,228	40,640	43,323	38,111	37,884	40,390	40,446
24,068	23,079	30,446	31,411	26,610	27,057	12,526	26,023
7,775	6,040	11,400	13,769	11,732	7,659	7,986	11,215
16,293	17,038	19,046	17,641	14,878	19,397	4,539	14,808
1,746	13,862	6,217	5,085	2,045	(2,216)	970	(1,031)
43,835	48,096	47,898	50,612	62,070	68,041	83,589	77,303
20,255	12,841	20,782	18,733	10,635	13,451	13,319	17,161
39,566	34,480	30,441	43,859	50,559	54,643	71,414	65,850
11,542	11,207	25,437	10,714	9,009	10,088	7,036	10,742
108,543	130,923	134,997	130,886	115,606	107,837	110,302	107,493
87,121	90,924	94,725	97,520	93,454	92,321	94,117	94,019
16,638	18,658	18,488	18,663	17,961	17,952	18,510	17,509
43,215	44,645	48,387	49,616	46,903	45,197	46,342	46,992
8,818	8,847	9,080	9,163	9,260	9,215	9,308	9,611
6,450	6,494	6,728	6,879	6,519	6,617	6,918	6,463
6,117	6,009	6,119	6,090	6,290	6,233	6,489	6,329
2,754	2,736	2,635	2,606	2,637	2,764	2,612	2,725
3,126	3,533	3,284	4,501	3,881	4,341	3,935	4,387
21,422	39,998	40,271	33,365	22,151	15,516	16,184	13,474
4,454	3,864	3,039	10,567	4,335	4,666	3,392	4,167
723	33	94	455	626	27	97	(21)
25,153	43,829	43,216	43,477	25,860	20,154	19,479	17,664
2,522	2,187	481	5,018	1,256	5,824	3,301	3,937
158	55	9,684	2,122	115	1,313	547	420
27,516	45,961	34,012	46,373	27,002	24,665	22,233	21,181
19,395	31,905	22,697	36,581	18,534	17,751	14,117	13,409

Management's Discussion and Analysis

Macroeconomic Conditions in FY2018

Overseas Markets

While the global economy exhibited moderate growth in FY2018, various international institutions including the International Monetary Fund (IMF) are predicting increased downside risks as a result of growing uncertainty. This largely reflects fears that trade friction between the U.S. and China will intensify following moves by the Trump Administration to vigorously pursue protectionist trade policies. According to the IMF, the rate of global economic growth was held to 3.6% in 2018, below the level recorded in the previous year. Forecasts indicate that the rate of growth will stall even further in 2019 coming in at an anticipated 3.3%. The rate of growth in 2018 was revised downward compared with the forecast of a year earlier. This was mainly due to low growth in such industrialized countries and regions as the Euro zone and the UK and emerging economies including central and east Europe, Brazil, the Middle East and North Africa.

After rising to a high 4.2% annual rate in the April-June 2018 quarter for the first time in roughly four years, the rate of real GDP growth in the U.S. slowed for the next two consecutive quarters. Thereafter, real GDP growth rebounded at a 3.1% annual rate in the January-March 2019 quarter. Looking at the January-March 2019 quarter in more detail, weak private demand including consumer spending and capital investment was offset by trends in external demand that reflected a drop in imports, inventory factors and government expenditure. Despite the aforementioned, domestic final demand grew at a low level after a steady three-year or so period. Reflecting stable employment and income trends, the U.S. economy continued to expand in overall terms led by consumer spending. However, anxieties regarding the future are increasing as a result of the confusion created by the Trump Administration both in the

U.S. and overseas. Much like the partial shutdown of government agencies, conflict between the opposition Democratic Party and President Trump is growing in intensity within the U.S. From an external perspective, the hardline stance adopted by the President toward China has extended to other countries and regions including the European Union, Mexico, Canada and Japan. Despite a measure of success through compromise with other countries excluding China and efforts to enter into trade negotiations with the Chinese government, recent trends would suggest that trade friction is only going to intensify. Taking these conditions into consideration, there are fears that the U.S. economy will suffer a downturn due to the increased burden on households and the corporate sector in the U.S. should import costs surge as a result of steps by the Trump Administration to expand the scope of additional duties on goods imported from China.

Turning to the financial aspects of the economy, the Federal Reserve Board (FRB) increased interest rates on four occasions during 2018 on the back of firm economic growth. Entering 2019, however, attitudes toward the economy took on a more conservative tone amid fears of a slowdown in global economic conditions. In March, the Federal Open Market Committee (FOMC) announced its intention to forego any increase in interest rates during 2019. At the same time, the decision was made to terminate the FRB's prevailing balance sheet reduction policy as of the end of September. Taking these factors into consideration, there is a sense within the market that the FRB is substantially reversing its tightening approach and adopting a soft-line posture.

Despite falling below initial expectations, the European economy (eurozone) continued to exhibit moderate growth. After coming in at a high 2.4% for the first time in a decade in 2017, real GDP growth across the eurozone declined to

GDP Growth Rate in Japan



— Real GDP — Nominal GDP

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

Source: Cabinet Office, Government of Japan

Nikkei 225 and Trading Value of TSE



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

Source: Tokyo Stock Exchange, Daiwa Institute of Research

1.9% in 2018. Looking over the second half of the year in particular, the slowdown in the rates of economic growth was especially marked in such countries as Italy and Germany. In addition to heightened trade friction between the U.S. and China, this was largely attributable to the enormous weight placed on the eurozone by the slump in economic conditions in emerging nations including Turkey with which the eurozone maintains a deep relationship. As a result, weak external demand has had a debilitating impact on the economic environment from the latter half of 2018. Entering the January-March 2019 quarter, the rate of growth picked up in such countries as Germany, Spain and France led mainly by an upswing in consumer spending. Despite signs that the downturn in industrial production and export activity had also bottomed out, uncertainty toward the future continues unabated due to the ongoing turmoil created by U.S./China trade friction, issues relating to Great Britain's exit from the European Union, and the planned trade negotiations between the U.S. and EU.

Looking at the financial market, the European Central Bank (ECB) took steps to adjust the trajectory of its non-standard monetary policy measures for easing financial conditions through to the end of 2018. Upon completing the purchase of assets as of December 31, 2018, reinvestments were directed toward maintaining asset balances. As uncertainty toward the global economy continued to mount and the economic slowdown across the eurozone became increasingly clear, the ECB postponed the possibility of an interest rate hike from autumn 2019 to after 2020 in March 2019. Rather than come to an end, we are therefore looking at a prolonged period of non-standard monetary easing as the policies of the ECB shift to an ongoing trajectory.

Referring to emerging market countries and developing nation economies, the growth rate slowed from 4.8% in 2017 to 4.5% in 2018. The real GDP growth rate in China, the world's second largest economy, remained flat at 6.4% in the January-March 2019 quarter compared with the October-December 2018 quarter, placing a brake on the downturn from a recent peak of 6.8% in the January-March 2018 quarter. Returning to provide a positive contribution, external demand largely offset the slump in domestic demand mainly in consumer spending and gross capital formation throughout this period. However, with the slump in imports that exceeded exports identified as helping to push up the contribution from external demand, increasingly fierce trade friction with the U.S. can be expected to deal a heavy blow to the Chinese economy. In order to avoid an economic slowdown, the Chinese Government launched a broad range of large-scale fiscal and monetary policies entering 2019. These measures are expected to help bolster the underlying strength of the Chinese economy. Turning to emerging

nations other than China, the upswing in resource prices including crude oil that had provided a tailwind for resource-rich economies shifted toward a negative decline largely on the back of concerns of a slowdown in the global economy. Crude oil prices fell below the levels recorded in the previous year from November creating a headwind for resource-rich countries. As indicated, increasingly fierce trade friction mainly between the U.S. and China is having a negative impact on the entire world with emerging economies also suffering a severe blow.

Japan

After experiencing a modest recovery led mainly by domestic demand at the start of FY2018, the Japanese economy stalled during the second half. From July and over September 2018, consumer spending and inbound demand remained subdued and business activities by companies in the production and transportation fields were temporarily limited. This was largely due to successive natural disasters caused by intense heat, heavy rain, typhoons and large-scale earthquakes. In addition, during the second half of FY2018, exports and production declined owing to the slowdown of the overseas economy, as a result, economic growth rates slumped. While the real GDP growth rate in the January-March 2019 quarter improved to 2.2% compared with the previous period on an annual basis, under closer scrutiny conditions would appear mixed. On the one hand, external demand associated with a downturn in imports helped push up growth. On the other hand, domestic demand excluding inventory factors was held to zero growth due to dull consumer spending and capital investment. As a result, and after an extended four-year period of moderate expansion, the overall growth rate came in at a low 0.7% in FY2018, down from 1.9% in FY2017. Compared with balanced domestic and external demand growth in FY2017, the level of external demand contribution declined for the first time in five years falling 0.1 of a percentage point in FY2018. At the same time, the rate of private demand growth including consumer spending as well as capital and housing investment also decreased year on year.

With an eye to the individual components of demand, following a slump due to the effects of a series of natural disasters, consumer spending recovered mainly in the areas of home appliance sales, travel and eating out. With an improvement reflected in the employment and income environment, such key indicators as wages gradually increased and the unemployment rate remained low. Consumer spending in the January-March 2019 quarter contracted after two quarters of positive growth. This was mainly due to the downturn in automobile sales in response

to the previous year's level. There were some signs of a recovery in housing investment from the July-September 2018 quarter as the rush in demand gradually emerged in the lead up to the consumption tax rate hike scheduled in October 2019. Despite a declining trend in the construction of houses for rent, housing investment has continued to improve for three consecutive quarters.

Meanwhile, with little change in the environments in which the corporate sector operates, capital investment increased. On the back of strong corporate profits, low interest rates and a tight labor market, companies are investing for a variety of reasons including rationalization, as well as to save labor and maintain a competitive edge. This also entails expenditures to renew and upgrade machinery and equipment and to boost research and development. However, export and production activities declined mainly for information-related and capital goods due to a slowdown overseas in economic growth over the second half of FY2018. In particular, the drop in export volumes targeting Asia including China was especially marked. In addition, business confidence in the corporate sector declined. Signs that companies were adopting a cautious approach toward capital investment also began to emerge. These trends are largely due to growing uncertainty regarding the future with respect to trade negotiations between the U.S. and China, Britain's exit from the EU and other factors. Taking each of the aforementioned into consideration, the risk of global trade contracting as a result of the ongoing protectionist trade policies of the U.S. warrant close scrutiny.

From a financial perspective, the Bank of Japan maintained a monetary policy that targets lower long-term as well as short-term interest rates. Based on this policy, interest rates continued at an extremely low level. As of the end of July 2018, the Bank of Japan modified its policy and allowed long-term rates to fluctuate within a certain range. 10-year Japanese Government bonds yields that had remained stable at around 0.05% over the April-June quarter climbed modestly rising to roughly 0.1% from August. However, global interest rates fell due to mounting concerns about the global economy entering December. Under these circumstances, Japanese interest rates fell drastically and remained entrenched in a negative range from February 2019. As a result, 10-year Japanese Government bond yields declined to around negative 0.08% as of the end of March 2019. This low level has not been seen since September 2016.

In the Japanese stock market, stock prices have continued to be affected by overseas market events. In the first half of FY2018, stock prices maintained an upward trend due to the expanding economies of developed countries such as Japan, the U.S. and the EU. From the latter half of September and over the beginning of October, the Nikkei

Stock Average recovered to the ¥24,000 level for the first time in eight months, and then surpassed this level to hit a renewed high since November 1999. In December, however, as a result of the global stock price plunge, the Nikkei Stock Average fell below ¥20,000 for the first time in 15 months. This was mainly due to the uncertainty surrounding trade negotiations between the U.S. and China and a rise in concern for a potential global economic slowdown, including in China.

Following the start of 2019, the central banks of the U.S. and the EU adopted monetary policies after taking into consideration the direction of the economy. At the same time, China announced large-scale economic measures. Buoyed by these factors, the excessively pessimistic view about economic prospects receded. As a result, stock prices resumed their upward trend toward the end of March 2019.

Casting an eye over the foreign currency exchange market, the value of the yen depreciated against the U.S. dollar from the start of FY2018. From May and over June, the value of the yen trended in the narrow range of ¥109 to ¥111. While touching on a period of appreciation due to fears regarding worsening trade friction between the U.S. and China from July, the value of the yen again weakened due to the increase in interest rates in the U.S. that widened the gap with interest rates in Japan. At the start of October, the value of the yen depreciated to the low level of around ¥114 for the first time in approximately 11 months. Over the end of the year, there were signs of an appreciation up to the ¥108 level due to the growing risk aversion associated with fears of a slowdown in the global economy going forward. Entering 2019, the value of the yen again depreciated, fluctuating within a range of roughly ¥110 and ¥112, as the excessively pessimistic view about the future of the global economy began to wane. In similar fashion to trends against the U.S. dollar, the yen's appreciation against the euro accelerated toward the end of 2018, largely as a result of the market's inclination toward avoiding risks. As a result, the value of the yen against the euro touched briefly on a period of decline during the January-March 2019 quarter. Meanwhile, taking into account the continued strength of the U.S. dollar and weakness of the euro from the start of 2019, the depth of the euro's appreciation against the yen was limited. In overall terms, the value of the yen against the euro witnessed a moderate appreciation throughout FY2018.

As of the end of March 2019, the Nikkei Stock Average closed at ¥21,205.81, down by ¥248.49 compared with the end of March 2018. The yield on 10-year Japanese government bonds stood at negative 0.082%, a decrease of 0.125 of a percentage point compared with the end of the previous fiscal year. The exchange rate was U.S.\$1.00 = ¥110.75, a ¥4.56-per-dollar decrease compared with the end of March 2018.

Analysis of Consolidated Income Statements

Total Operating Revenues and Net Operating Revenues

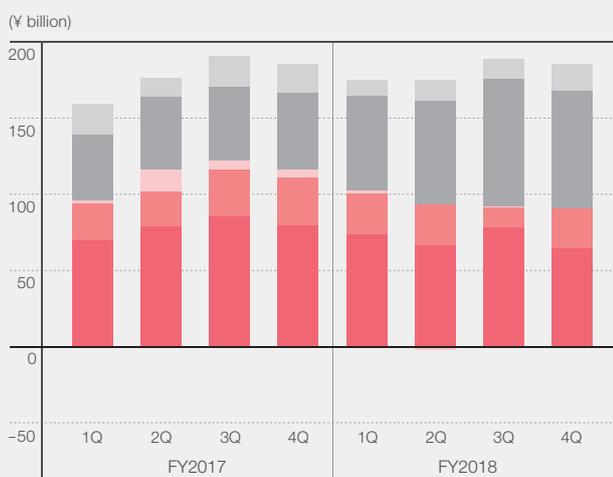
Total consolidated operating revenues in FY2018 increased by 1.1% compared with the previous fiscal year, to ¥720.5 billion. In contrast, net consolidated operating revenues decreased by 12.7% year on year, to ¥441.2 billion.

Commissions received were down by 9.8% compared with the previous fiscal year, to ¥283.0 billion. Brokerage commission also declined by 21.0% year on year, to ¥58.3 billion owing mainly to a downturn in the trading of Japanese stocks. Meanwhile, underwriting activity benefitted from a variety of factors including large-scale PO and IPO transactions. As a result, underwriting commission grew 18.8% compared with the previous fiscal year, to ¥41.8 billion

Breakdown of Net Operating Revenues

	Millions of yen		
	FY2017	FY2018	YoY
Operating revenues	¥712,601	¥720,586	1.1%
Commissions	313,625	283,027	-9.8%
Brokerage commission	73,797	58,336	-21.0%
Underwriting commission	35,180	41,810	18.8%
Distribution commission	45,807	26,047	-43.1%
Other commission	158,840	156,833	-1.3%
Net gain on trading	109,005	92,218	-15.4%
Net gain/loss on private equity and other investments	26,912	(232)	—
Interest and dividend income	190,444	291,005	52.8%
Service fees and other revenues	72,613	54,567	-24.9%
Interest expenses	148,348	242,468	63.4%
Cost of service fees and other revenues	58,901	36,876	-37.4%
Net operating revenues	¥505,350	¥441,240	-12.7%

Breakdown of Consolidated Income



■ Commissions ■ Trading gains/losses
■ Gains/losses on private equity and other investments
■ Interest and dividend income ■ Service fees and other revenues

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

Net Gains/Losses on Trading

Net gain on trading declined substantially falling by 15.4% compared with the previous fiscal year, to ¥92.2 billion. This largely reflected the downturn in customers' trade flows in foreign equities and bonds.

Net trading gains and financial income, calculated on a managerial accounting basis, declined by 7.1% year on year, to ¥52.0 billion. Fixed income, currency and commodities (FICC) revenues decreased by 13.6% compared with the previous fiscal year, to ¥70.0 billion.

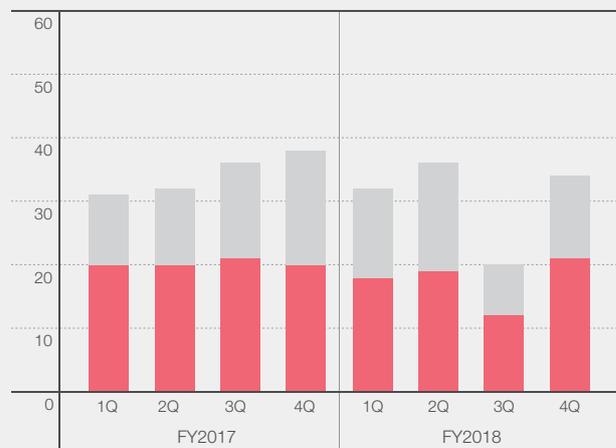
Revenues (Trading Gain/Loss) from Equity and FICC (Net Gain (Loss) on Trading + Net Financial Income, on Managerial Accounting Basis)

	Billions of yen		
	FY2017	FY2018	YoY
Equity	¥ 56.0	¥ 52.0	-7.1%
FICC	81.0	70.0	-13.6%
Total	¥137.0	¥122.0	-10.9%

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)

(¥ billion)



■ FICC ■ Equity

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 1.0% compared with the previous fiscal year, to ¥373.9 billion. Trading-related expenses declined by 0.7% year on year, to ¥71.9 billion. Personnel expenses decreased by 0.2% year on year, to ¥185.4 billion owing to such factors as the downturn in bonuses linked to performance. Real estate expenses increased by 4.1% year on year, to ¥37.3 billion. Depreciation grew by 4.1% compared with the previous fiscal year, to ¥25.3 billion.

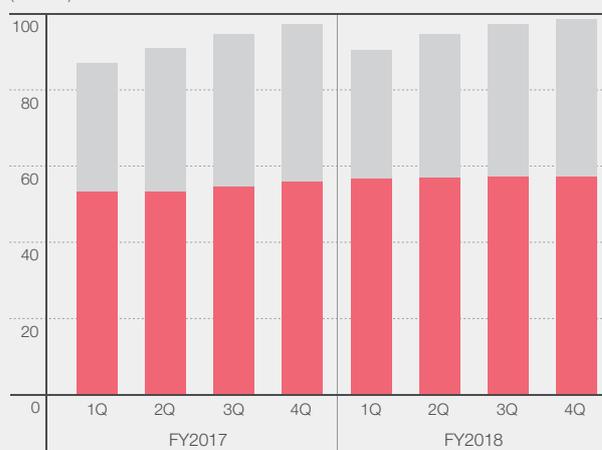
Accounting for each of the aforementioned factors, ordinary income decreased by 46.6% year on year, to ¥83.1 billion. After posting such items as gains on sales of investment securities, extraordinary gains came to ¥14.3 billion, up from ¥10.2 billion in the previous fiscal year. Extraordinary losses totaled ¥2.3 billion, down from ¥12.0 billion in FY2017. These losses included the cost of product compensation related to the other business of a domestic subsidiary. After deducting corporate income taxes and profit attributable to non-controlling interests, profit attributable to owners of parent decreased by 42.3% compared with the previous fiscal year, to ¥63.8 billion.

Breakdown of SG&A and Income

	Millions of yen		
	FY2017	FY2018	YoY
SG&A	¥370,292	¥373,914	1.0%
Trading-related expenses	72,448	71,933	-0.7%
Personnel expenses	185,865	185,436	-0.2%
Real estate expenses	35,910	37,394	4.1%
Office cost	26,552	26,518	-0.1%
Depreciation	24,336	25,343	4.1%
Taxes and dues	10,732	10,740	0.1%
Allowance for doubtful accounts	0	84	—
Other	14,446	16,461	13.9%
Operating income	135,058	67,326	-50.1%
Non-operating income/expenses	20,619	15,832	-23.2%
Ordinary income	155,676	83,159	-46.6%
Extraordinary gains/losses	(1,812)	11,924	—
Income before income taxes	153,864	95,083	-38.2%
Income taxes	38,541	31,251	-18.9%
Profit attributable to owners of parent	¥110,579	¥ 63,813	-42.3%

Cost Structure

(¥ billion)



■ Fixed costs ■ Variable costs

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

Segment Information

Retail Division

Beginning with the introduction of the Daiwa version of NPS across Daiwa Securities' entire branch network, steps were taken to expand the assessment system for branches based on an understanding of customer satisfaction in FY2018. Despite successful efforts to provide optimal services that address a wide range of customer needs, contributions from large-scale underwriting deals, and the amount of net asset inflows hit their highest levels since FY2008, while the balance of assets under custody declined compared with the end of the previous fiscal year due to market prices and other factors. As of the end of the fiscal year, the balance of wrap account contract assets under management expanded by 8.8% compared with the previous fiscal year-end, to ¥2,145.6 billion.

Reflecting the deterioration in the market environment, customer activity stalled. Buffeted especially by the drop in distribution commission for investment trusts, net operating revenues in the Retail Division declined by 13.2% compared with the previous fiscal year, to ¥185.8 billion while ordinary income decreased by 51.9% year on year, to ¥24.6 billion. In FY2018, net operating revenues and ordinary income in the Retail Division accounted for 42.1% and 29.3% of the Group's consolidated net operating revenues and consolidated ordinary income, respectively.

Wholesale Division

Both revenues and income decreased in the Global Markets business in FY2018. Equity revenues declined in the fiscal year under review. This was largely attributable to the drop in U.S. stock prices over the end of the year, and growing uncertainty toward the future of the global economy as a result of confusion surrounding the U.K.'s withdrawal from the European Union and other factors, which led to a downturn in the Japanese stock market triggering weak customer activity trends. Fixed income, currency and commodities (FICC) revenues and income also decreased owing mainly to the ongoing low volatility of financial markets coupled with weak earnings trends. Accounting for each of these factors, net operating revenues decreased by 13.3% compared with the previous fiscal year, to ¥107.2 billion and ordinary income fell by 49.9% year on year, to ¥17.1 billion in FY2018.

In the Global Investment Banking business, income declined despite an increase in revenues in the fiscal year under review. Underwriting and secondary offering commission improved by 18.8% compared with FY2017, to ¥41.8 billion, owing mainly to Daiwa Securities' role as joint global coordinator and lead manager for multiple large-scale equity IPO and primary and secondary equity offering deals. Building on the acquisition of Signal Hill Holdings LLC and Sagent Holdings, both were integrated into DCS Advisory Holdings Inc. (currently Daiwa Corporate Advisory Holdings Inc.) during the previous fiscal year. Positive steps are also being taken to promote increased coordination with Daiwa Corporate Advisory Holdings Limited, which falls under the umbrella of Daiwa Capital Markets Europe Limited, with the aim to grow in the future, and to further reinforce the structure and systems necessary to manage increasing cross-border M&A deals with Japan, and M&A deals in large-scale markets between Europe and the U.S. 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 goodwill associated with the acquisition. Taking the aforementioned into consideration, while net operating revenues of the Global Investment Banking business climbed by 8.8% compared with the previous fiscal year, to ¥51.6 billion, ordinary income declined by 27.9% year on year, to ¥7.2 billion in FY2018.

As a result, in the fiscal year under review, the Wholesale Division reported net operating revenues of ¥158.9 billion, down by 7.2% compared with the previous fiscal year. Ordinary income decreased by 44.0% year on year, to ¥25.4 billion. On this basis, net operating revenues and ordinary income in the Wholesale Division accounted for 36.0% and 30.1% of the Group's consolidated net operating revenues and ordinary income, respectively.

Asset Management Division

In FY2018, 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. At the same time, energies were directed toward upgrading management quality and expanding the lineup of funds including SDG-related and gerontology funds. Despite these efforts, net operating revenues declined by 7.8% compared with the previous fiscal year, to ¥76.7 billion and ordinary income fell by 9.5% year on year, to ¥16.9 billion. This was mainly due to the impact of adjustments to the stock markets over the second half of the fiscal year.

In the real estate asset management business, Daiwa Real Estate Asset Management Co. Ltd. and Mi-Casa Asset Management Inc. merged in October 2018. Successful steps were taken to then expand the balance of real estate and infrastructure assets managed. As of March 31, 2019, total net assets under management at Daiwa Real Estate Asset Management stood at ¥0.9 trillion.

Taking into account these factors, net operating revenues decreased by 2.3% compared with the previous fiscal year, to ¥48.2 billion while ordinary income declined by 2.6% year on year, to ¥28.3 billion. In FY2018, net operating revenues and ordinary income in the Asset Management Division accounted for 10.9% and 33.7% of the Group's consolidated net operating revenues and ordinary income, respectively.

Investment Division

In FY2018, Daiwa Corporate Investment Co., Ltd. actively invested in growing companies inside and outside Japan. During the fiscal year under review, the company established DCI Venture Support Investment Limited Partnership as a flagship fund. Daiwa PI Partners Co. Ltd. (PIP) provided investments in loans, non-performing loans as well as real estate and private equity (PE). Daiwa Energy & Infrastructure Co. Ltd., established in July 2018, undertook investments in renewable energy and other fields.

In FY2018, net operating revenues in the Investment Division dropped by 93.6% compared with the previous fiscal year, to ¥1.7 billion. This Division also incurred an ordinary loss of ¥1.0 billion for the fiscal year under review. In addition to the absence of the large-scale investment recouped during the previous fiscal year, this dramatic downturn in performance reflects the loss attributable to revaluation of existing investments. Based on the aforementioned, net operating revenues in the Investment Division accounted for 0.4% of the Group's consolidated net operating revenues in FY2018.

Others

In FY2018, Daiwa Institute of Research Ltd. (DIR) continued to steadily undertake large-scale system development projects, while at the same time strengthening relationships with clients by putting forward high-value-added solution proposals created in collaboration with entities inside and outside the Group in a bid to contribute to the Group's business.

Daiwa Institute of Research Business Innovation Ltd. secured orders for the introduction of systems that employ artificial intelligence to the Fintech company that was jointly established with regional financial institutions.

Working in close collaboration with Daiwa Securities, which serves as a banking agent, Daiwa Next Bank, Ltd. continued to introduce a variety of promotional offers. As of the end of the fiscal year under review, the deposit balance including negotiable certificates of deposit stood at ¥3,678.9 billion, up 3.5% compared with the end of the previous fiscal year. The number of deposit accounts climbed 5.8% year on year, to 1,364,000 accounts.

Accounting for each of these factors, net operating revenues in others/adjustments totaled ¥46.4 billion compared with ¥43.1 billion in the previous fiscal year. Ordinary income amounted to ¥5.8 billion, up from ¥5.3 billion in the previous fiscal year.

Segment Information

Millions of yen

	Net Operating Revenues				Ordinary Income			
	FY2017	FY2018	YoY	Composition ratio	FY2017	FY2018	YoY	Composition ratio
Retail	¥214,247	¥185,865	-13.2%	42.1%	¥ 51,331	¥24,674	-51.9%	29.3%
Wholesale	171,192	158,903	-7.2%	36.0%	45,373	25,400	-44.0%	30.1%
Asset Management	49,390	48,232	-2.3%	10.9%	29,119	28,359	-2.6%	33.7%
Investment	27,401	1,766	-93.6%	0.4%	24,499	(1,093)	—	—
Others/adjustments	43,118	46,473	—	10.5%	5,353	5,817	—	6.9%
Consolidated total	¥505,350	¥441,240	-12.7%	100.0%	¥155,676	¥83,159	-46.6%	100.0%

Overseas Operations

Carrying on from the previous fiscal year, Daiwa Securities Group continued to strengthen global M&A advisory services in FY2018. In the fiscal year under review, the Company acquired Montalbán Atlas Capital, S.L. based in Spain. By coordinating closely with the Group's overseas network, every effort is being made to bolster cross-border transactions and to further reinforce the Group's structure and systems to ensure that it is capable of responding appropriately to opportunities between Europe and the U.S., a huge market.

In November 2018, Daiwa Securities Group and Beijing State-owned Capital Operation and Management Center, signed a memorandum of understanding in relation to the establishment of a securities joint venture in Beijing, China. With Daiwa Securities Group Inc. taking up a 51% equity share, the newly formed company will endeavor to build a platform that focuses on cross border business while harnessing the Company's global network and know-how. Moving forward, plans are in place to grow the joint venture into a comprehensive securities company and future business hub in China.

As far as results in the Group's overseas operations are concerned, ordinary income came in at ¥3.7 billion in FY2018. This was a third consecutive full fiscal year of positive earnings.

By region, the Group incurred an ordinary loss in Europe totaling ¥1.9 billion. This was mainly due to decreases in FICC- and equity underwriting-related revenues.

In the Asia and Oceania region, profits generated by SSI Securities Corporation, an equity-method affiliate, and the wealth management business contributed to results. While ordinary income came in at ¥2.9 billion, this was 33.5% lower than the previous fiscal year.

Ordinary income in the Americas increased by 0.9% compared with the previous fiscal year, to ¥2.7 billion. Both revenues and intangible fixed asset amortization including goodwill increased in connection with DCS Advisory Holdings Inc.

Ordinary Income from Overseas Operations, Broken Down by Region

Millions of yen

	FY2017	FY2018
Europe	¥ 4,227	¥(1,947)
Asia & Oceania	4,433	2,946
Americas	2,742	2,766
Total	¥11,403	¥ 3,765

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

Progress in Achieving Target Management Indicators

Daiwa Securities Group identified Group numerical targets for customer satisfaction and Daiwa Securities assets under custody as customer-oriented key performance indicators (KPIs), return on equity (ROE) and ordinary income as performance KPIs and the consolidated total capital ratio as a financial KPI under its Medium-Term Management Plan "Passion for the Best" 2020, which covers the three-year period from FY2018 to FY2020. Focusing mainly on the use of the Daiwa version of NPS as a key measure of customer satisfaction, every effort is being made to build a sales structure based on the customer's perspective.

Looking at performance KPIs in FY2018, the first year of the Plan, the Group's ROE came in at 5.1% compared with the FY2020 target of 10% or higher, and ordinary income amounted to ¥83.1 billion compared with the FY2020 target of ¥200.0 billion or higher. Turning to the Group's financial KPI, the consolidated total capital ratio came in at 22.06% in the fiscal year under review. This exceeded the FY2020 target of 18% or higher. As far as the customer satisfaction component of the Group's customer-oriented KPIs is concerned, steps were completed to introduce the Daiwa version of NPS across Daiwa Securities' entire branch network. Energies are now transitioning toward the promotion of increased application and awareness. Despite a harsh market environment, trends in Daiwa Securities assets under custody are firm. Assets under custody at Daiwa Securities were ¥66.3 trillion as of the end of March 2019, compared with the FY2020 target of ¥80 trillion or more.

Spurred by the introduction of the Daiwa version of NPS, the Group looked to further deepen its customer-first operations in FY2018. Evaluating its performance over the year, the Group achieved a certain level of success in upgrading and expanding its customer base. At the same time, the Group was successful in laying a steady foundation for growing its business portfolio even further into areas including renewable energy, infrastructure, agriculture and healthcare as a part of efforts to generate new value of the Group.

Analysis of Consolidated Balance Sheets and Cash Flow Statements

Assets

Total assets as of the end of FY2018 stood at ¥21,126.7 billion, a decrease of ¥8.3 billion, or 0.0% compared with the end of the previous fiscal year. Current assets declined by ¥72.8 billion, or 0.4%, year on year, to ¥20,405.5 billion. While cash and cash deposits climbed by ¥458.9 billion, or 12.4%, to ¥4,153.2 billion, marketable securities fell by ¥174.8 billion, or 17.7%, to ¥812.3 billion, trading assets grew by ¥49.0 billion, or 0.7%, to ¥6,716.0 billion, loans receivable from customers rose by ¥121.9 billion, or 8.4%, to ¥1,564.8 billion, and collateralized short-term financing agreements declined by ¥522.9 billion, or 8.0%, to ¥5,973.7 billion compared with the end of the previous fiscal year. Meanwhile, the balance of fixed assets increased by ¥64.5 billion, or 9.8%, year on year, to ¥721.1 billion.

Liabilities and Net Assets

Total liabilities as of the end of FY2018 stood at ¥19,870.2 billion, an increase of ¥105.7 billion, or 0.5%, compared with the end of the previous fiscal year. Current liabilities edged up by ¥46.8 billion, or 0.3%, compared with the end of the previous fiscal year, to ¥17,081.9 billion. Breaking down current liabilities by category, trading liabilities decreased by ¥283.0 billion, or 5.6% year on year, to ¥4,747.7 billion. On the other hand, collateralized short-term financing agreements increased by ¥172.0 billion, or 3.0%, to ¥5,947.9 billion, deposits for banking business grew by ¥244.1 billion, or 7.2%, to ¥3,632.5 billion and short-term borrowings rose by ¥249.6 billion, or 22.9%, to ¥1,341.4 billion, all compared with the end of the previous fiscal year. Long-term liabilities stood at ¥2,784.3 billion, up ¥58.8 billion, or 2.2% year on year. Specifically, bonds expanded by ¥46.5 billion, or 3.5%, compared with the end of the previous fiscal year, to ¥1,361.9 billion and long-term debt rose by ¥9.0 billion, or 0.7% year on year, to ¥1,336.7 billion.

Net assets as of the end of FY2018 stood at ¥1,256.4 billion, a decrease of ¥114.0 billion, or 8.3% compared with the end of the previous fiscal year. The sum of capital stock issues and capital surplus came to ¥478.0 billion. After adding profit attributable to owners of parent in FY2018 of ¥63.8 billion, and accounting for such factors as the payment of cash dividends applicable to the year of ¥43.5 billion, retained earnings amounted to ¥805.7 billion, an increase of ¥20.0 billion, or 2.5% year on year. For the fiscal year under review, the amount of treasury stock at cost deduction was ¥87.3 billion, an increase of ¥33.0 billion, or 60.8% compared with the end of the previous fiscal year. Valuation difference on available-for-sale securities fell by ¥13.5 billion, or 22.1% year on year, to ¥47.6 billion. Foreign currency translation adjustments grew by ¥3.3 billion,

or 133.0% compared with the end of the previous fiscal year, to ¥5.9 billion. Non-controlling interests declined by ¥85.3 billion, or 96.4% year on year, to ¥3.2 billion.

Analysis of Cash Flows

Net cash flows provided by operating activities came to ¥304.8 billion in FY2018 compared with net cash flows used in operating activities of ¥1,319.2 billion in FY2017. This mainly reflected changes in the values of trading assets and liabilities, loans receivable from customers, collateralized short-term financing agreements and the balance of deposits for banking business. Net cash flows provided by investing activities totaled ¥108.2 billion compared with ¥777.8 billion in FY2017. The major component was proceeds from sales and redemption of securities. Net cash flows provided by financing activities were ¥55.7 billion compared with ¥432.8 billion in FY2017. This largely reflected the increase 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 FY2018 stood at ¥4,122.1 billion, an increase of ¥468.6 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. The Group also 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 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 141.5%, 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, 2019 to March 31, 2019)
High-Quality Liquid Assets	(A)	2,528.4
Cash Outflows	(B)	3,540.6
Cash Inflows	(C)	1,754.5
Consolidated Liquidity Coverage Ratio (LCR)		
Total High-Quality Liquid Assets	(D)	2,528.4
Total Net Cash Outflows	(B)-(C)	1,786.0
Consolidated Liquidity Coverage Ratio (LCR)	(D)/((B)-(C))	141.5%

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 August 2, 2019, 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	BBB+	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-2
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, 2019 and 2018

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Cash and cash deposits:			
Cash and cash equivalents (Note 5)	¥ 4,122,102	¥ 3,653,464	\$ 37,473,655
Cash segregated as deposits for regulatory purposes (Note 5)	324,560	348,912	2,950,545
Time deposits (Notes 5 and 9)	32,169	43,819	292,445
	4,478,831	4,046,195	40,716,645
Receivables:			
Loans receivable from customers (Note 5)	1,564,857	1,442,939	14,225,973
Loans receivable from other than customers	5,856	5,321	53,236
Receivables related to margin transactions (Notes 3 and 5)	175,034	262,963	1,591,218
Other (Note 22)	515,506	410,506	4,686,420
Less: Allowance for doubtful accounts (Note 5)	(317)	(245)	(2,882)
	2,260,936	2,121,484	20,553,965
Collateralized short-term financing agreements (Notes 4, 5 and 22)	5,973,772	6,496,753	54,307,018
Trading assets (Notes 5, 6 and 9)	6,716,066	6,667,033	61,055,145
Securities (Notes 5, 7 and 9)	811,342	984,211	7,375,836
Private equity investments			
Private equity and other investments (Notes 5 and 7)	110,035	115,333	1,000,318
Less: Allowance for possible investment losses (Note 5)	(156)	(505)	(1,418)
	109,879	114,828	998,900
Other assets:			
Property and equipment, at cost	283,940	238,549	2,581,273
Less: Accumulated depreciation	(115,851)	(114,359)	(1,053,191)
	168,089	124,190	1,528,082
Goodwill	10,606	11,171	96,418
Other intangible fixed assets	105,331	94,606	957,555
Investment securities (Notes 5, 7 and 9)	374,485	367,196	3,404,409
Deferred tax assets (Note 14)	6,916	6,163	62,873
Other	111,116	101,883	1,010,145
Less: Allowance for doubtful accounts	(662)	(671)	(6,018)
	775,881	704,538	7,053,464
	¥21,126,707	¥21,135,042	\$192,060,973

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Debt:			
Short-term borrowings (Notes 5, 9 and 12)	¥ 1,020,264	¥ 983,471	\$ 9,275,127
Commercial paper (Note 5)	100,000	105,000	909,091
Long-term debt (Notes 5, 9 and 12)	3,213,412	3,015,808	29,212,836
	4,333,676	4,104,279	39,397,054
Payables:			
Payables to customers and counterparties (Notes 5 and 11)	650,088	660,251	5,909,891
Payables related to margin transactions (Notes 3, 5 and 9)	69,982	71,345	636,200
Deposits for banking business (Note 5)	3,632,576	3,388,444	33,023,418
Other (Note 5)	35,921	49,297	326,555
	4,388,567	4,169,337	39,896,064
Collateralized short-term financing agreements (Notes 4, 5 and 22)	5,947,969	5,775,898	54,072,445
Trading liabilities (Notes 5 and 6)	4,747,777	5,030,818	43,161,609
Trade account payables, net (Note 5)	255,804	407,184	2,325,491
Accrued and other liabilities:			
Income taxes payable	5,978	9,212	54,345
Deferred tax liabilities (Note 14)	6,072	9,204	55,200
Accrued bonuses	28,437	34,862	258,518
Retirement benefits (Note 13)	44,108	42,425	400,982
Other (Note 22)	107,949	177,357	981,355
	192,544	273,060	1,750,400
Statutory reserves (Note 15)	3,939	3,946	35,809
Total liabilities	19,870,276	19,764,522	180,638,872
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	2,249,064
Capital surplus	230,633	230,714	2,096,664
Retained earnings	805,761	785,731	7,325,100
Treasury stock at cost	(87,319)	(54,310)	(793,809)
Deposit for subscriptions to treasury stock	5	4	45
	1,196,477	1,209,536	10,877,064
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	47,669	61,177	433,355
Deferred gains or losses on hedges	(5,611)	(130)	(51,009)
Translation adjustment	5,943	2,549	54,027
	48,001	63,596	436,373
Stock subscription rights (Note 18)	8,742	8,791	79,473
Non-controlling interests	3,211	88,597	29,191
Total net assets	1,256,431	1,370,520	11,422,101
	¥21,126,707	¥21,135,042	\$192,060,973

See accompanying notes.

Consolidated Statements of Income

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Operating revenues:			
Commissions	¥283,027	¥313,626	\$2,572,973
Net gain on trading (Note 24)	92,218	109,006	838,345
Net gain on private equity and other investments	(232)	26,912	(2,109)
Interest and dividend income (Note 22)	291,005	190,444	2,645,500
Service fees and other revenues	54,568	72,613	496,073
	720,586	712,601	6,550,782
Interest expense (Note 22)	242,469	148,348	2,204,264
Cost of service fees and other revenues	36,877	58,902	335,245
Net operating revenues (Note 21)	441,240	505,351	4,011,273
Selling, general and administrative expenses (Notes 13 and 25)	373,914	370,293	3,399,218
Operating income	67,326	135,058	612,055
Other income (expenses):			
Provision for statutory reserves, net (Note 15)	7	(16)	64
Other, net (Note 26)	27,750	18,822	252,272
	27,757	18,806	252,336
Income before income taxes	95,083	153,864	864,391
Income taxes (Note 14):			
Current	27,664	34,694	251,491
Deferred	3,587	3,848	32,609
	31,251	38,542	284,100
Profit	63,832	115,322	580,291
Profit attributable to non-controlling interests	18	4,742	164
Profit attributable to owners of parent	¥ 63,814	¥110,580	\$ 580,127
		Yen	U.S. dollars (Note 1)
Per share amounts:			
Net income	¥39.95	¥66.88	\$0.36
Diluted net income	39.72	66.45	0.36
Cash dividends applicable to the year	21.00	28.00	0.19

See accompanying notes.

Consolidated Statements of Comprehensive Income

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Profit	¥ 63,832	¥115,322	\$ 580,291
Other comprehensive income:			
Valuation difference on available-for-sale securities	(13,112)	659	(119,200)
Deferred gains (losses) on hedges	(5,467)	(617)	(49,700)
Translation adjustment	3,679	(4,125)	33,445
Share of other comprehensive income of associates accounted for using equity method	(738)	387	(6,709)
Total other comprehensive income	(15,638)	(3,696)	(142,164)
Comprehensive income	¥ 48,194	¥111,626	\$ 438,127
		Millions of yen	Thousands of U.S. dollars (Note 1)
Comprehensive income attributable to:			
Comprehensive income attributable to owners of the parent	¥48,217	¥106,923	\$438,336
Comprehensive income attributable to non-controlling interests	(22)	4,703	(200)

See accompanying notes.

Consolidated Statements of Changes in Net Assets

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2019 and 2018

	Millions of yen										
	Number of shares of common stock (thousands)	Owners' equity					Accumulated other comprehensive income				Non-controlling interests
		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	
Balance at April 1, 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
Cash dividends paid				(43,575)							
Profit attributable to owners of parent				63,813							
Purchase of treasury shares					(34,819)						
Disposal of treasury shares				(208)	1,810						
Retirement of treasury shares											
Change of scope of consolidation											
Other			(81)			1					
Net changes of items other than owners' equity							(13,508)	(5,481)	3,393	(49)	(85,386)
Balance at March 31, 2019	1,699,379	¥247,397	¥230,633	¥805,761	¥(87,319)	¥5	¥47,669	¥(5,611)	¥5,943	¥8,742	¥ 3,211

	Thousands of U.S. dollars (Note 1)										
		Owners' equity					Accumulated other comprehensive income				Non-controlling interests
		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	
Balance at April 1, 2018	\$2,249,064	\$2,097,400	\$7,143,009	\$(493,727)	\$36	\$556,155	\$ (1,182)	\$23,182	\$79,918	\$805,427	
Cash dividends paid			(396,136)								
Profit attributable to owners of parent			580,118								
Purchase of treasury shares				(316,536)							
Disposal of treasury shares				(1,891)	16,454						
Retirement of treasury shares											
Change of scope of consolidation											
Other			(736)			9					
Net changes of items other than owners' equity							(122,800)	(49,827)	30,845	(445)	(776,236)
Balance at March 31, 2019	\$2,249,064	\$2,096,664	\$7,325,100	\$(793,809)	\$45	\$433,355	\$(51,009)	\$54,027	\$79,473	\$ 29,191	

See accompanying notes.

Consolidated Statements of Cash Flows

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Cash flows from operating activities:			
Profit	¥ 63,832	¥ 115,322	\$ 580,291
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	32,002	30,553	290,927
Allowance for doubtful accounts, net	80	(252)	727
Statutory reserves, net	(7)	16	(64)
Losses (gains) related to fixed assets	281	(371)	2,555
Losses (gains) related to investment securities	(12,602)	(5,712)	(114,564)
Losses (gains) on change in equity	178	—	1,618
Losses (gains) on step acquisitions	—	(1,498)	—
Deferred income taxes	3,587	3,848	32,609
Provision for loss on litigation	—	8,997	—
Changes in operating assets and liabilities:			
Receivables and payables related to margin transactions	86,566	(51,465)	786,964
Other receivables and other payables	(124,796)	24,682	(1,134,509)
Collateralized short-term financing agreements	694,017	(1,426,684)	6,309,245
Trading assets and liabilities	(580,698)	420,403	(5,279,073)
Private equity and other investments	7,200	5,275	65,455
Deposits for banking business	244,131	402,710	2,219,373
Other, net	(108,914)	(845,073)	(990,127)
Total adjustments	241,025	(1,434,571)	2,191,136
Net cash flows provided by (used in) operating activities	304,857	(1,319,249)	2,771,427
Cash flows from investing activities:			
Increase in time deposits	(51,478)	(82,080)	(467,982)
Decrease in time deposits	64,157	99,167	583,245
Purchase of securities	(861,315)	(1,034,742)	(7,830,136)
Proceeds from sales and redemption of securities	1,067,277	1,874,636	9,702,518
Payments for purchases of property and equipment	(49,969)	(7,707)	(454,264)
Proceeds from sales of property and equipment	873	1,094	7,936
Payments for purchases of intangible fixed assets	(36,762)	(31,753)	(334,200)
Payments for purchases of investment securities	(65,065)	(52,495)	(591,500)
Proceeds from sales and redemption of investment securities	42,018	17,271	381,982
Proceeds from liquidation of subsidiaries and associates	—	2,592	—
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(991)	(7,098)	(9,009)
Payments of loans receivable	(592)	(50)	(5,382)
Collection of loans receivable	26	48	236
Other, net	64	(1,010)	583
Net cash flows provided by (used in) investing activities	108,243	777,873	984,027

	2019	Millions of yen 2018	Thousands of U.S. dollars (Note 1) 2019
Cash flows from financing activities:			
Increase in short-term borrowings and commercial paper	30,828	277,128	280,255
Increase in long-term debt	620,162	783,670	5,637,836
Decrease in long-term debt	(434,836)	(542,714)	(3,953,055)
Payments of cash dividends	(43,575)	(43,500)	(396,136)
Repayments to non-controlling shareholders	(82,697)	—	(751,791)
Other, net	(34,140)	(41,771)	(310,364)
Net cash flows provided by (used in) financing activities	55,742	432,813	506,745
Effect of exchange rate changes on cash and cash equivalents	4,426	(5,046)	40,237
Net increase or decrease in cash and cash equivalents	473,268	(113,609)	4,302,436
Cash and cash equivalents at beginning of year	3,653,464	3,766,145	33,213,309
Increase in cash and cash equivalents from newly consolidated subsidiary	—	928	—
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(4,630)	—	(42,090)
Cash and cash equivalents at end of year	¥4,122,102	¥3,653,464	\$37,473,655

See accompanying notes.

Notes to Consolidated Financial Statements

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2019 and 2018

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 business in Japan. The retail business operates through a network of 160 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

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

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 the Japanese language, but not considered as necessary for the 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, 2019, which was ¥110 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.

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, Daiwa therefore 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 it 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.

3. Margin transactions

Margin transactions at March 31, 2019 and 2018 consisted of the following:

	2019	Millions of yen 2018	Thousands of U.S. dollars 2019
Assets:			
Loans on margin transactions	¥157,310	¥231,486	\$1,430,091
Cash collateral pledged for securities borrowing on margin transactions	17,724	31,477	161,127
	¥175,034	¥262,963	\$1,591,218
Liabilities:			
Borrowings on margin transactions	¥ 3,675	¥ 3,008	\$ 33,409
Cash received for securities lending on margin transactions	66,307	68,337	602,791
	¥ 69,982	¥ 71,345	\$ 636,200

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.

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 the 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 the securities report.

(c) Impact of application

The impact is under evaluation as of the filing date of the securities report.

4. Collateralized short-term financing agreements

Collateralized short-term financing agreements at March 31, 2019 and 2018 consisted of the following:

	2019	Millions of yen 2018	Thousands of U.S. dollars 2019
Assets:			
Securities purchased under agreements to resell	¥ 854,136	¥ 23,962	\$ 7,764,873
Securities borrowed	5,119,636	6,472,791	46,542,145
	¥5,973,772	¥6,496,753	\$54,307,018
Liabilities:			
Securities sold under agreements to repurchase	¥1,013,854	¥ 130,869	\$ 9,216,854
Securities loaned	4,934,115	5,645,029	44,855,591
	¥5,947,969	¥5,775,898	\$54,072,445

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, dealing in public offerings, secondary offerings and private placement of securities and other securities-related business, banking business and other financial businesses.

Daiwa holds financial assets and liabilities such as "trading securities and other," "derivatives," "operational investment securities," "loans" and "investment securities," etc., in its businesses and raises funds with corporate bonds, medium-term notes, borrowing from financial institutions, commercial paper, call money, deposit acceptance, repurchase agreements, etc. In fundraising, under the basic policy for financing such that enough liquidity for continuing business should be effectively secured, Daiwa tries to realize efficient and stable financing by diversifying financial measures and maturity dates and maintaining an appropriate balance between assets and liabilities. Also, Daiwa utilizes interest rate swaps and foreign currency swaps, etc., for the purpose of hedging fluctuations in interest rates and foreign currencies in terms of financial assets and liabilities.

Daiwa tries to secure financial soundness by managing entirely and efficiently the variety of risks incurred by holding financial assets and liabilities in accordance with the characteristics of such risks.

(2) Contents and risks of financial instruments

Daiwa holds financial instruments in the trading business as follows: (a) trading securities and other (stocks and

warrants, bonds and units of investment trusts, etc.), loans secured by securities and loans payable secured by securities, margin transaction assets and liabilities, etc. (b) derivatives traded on exchanges, such as stock index futures, bond futures, interest rate futures and options for such derivatives, (c) derivatives (OTC derivatives) not traded on exchanges, such as interest rate swaps, foreign exchange swaps, foreign currency futures, bond options, currency options, FRA and OTC securities derivatives, etc. Daiwa also holds operational investment securities, etc., in the investments business, loans and securities, etc., in banking business and investment securities for business relationships, etc.

Among the various risks associated with these financial instruments, the major risks are market risk and credit risk. Market risk means the risks of suffering losses from fluctuations in the value of holding financial instruments and transactions in accordance with changes of market prices or rate of stock prices, interest rates, foreign exchange rates and commodities prices, etc., and from the market environment in which no transaction can be executed because of an excessive decrease of liquidity or one in which market participants are forced to trade in extremely unfavorable conditions. Credit risk means the risk of suffering losses from defaults or creditworthiness changes, etc., of counterparts or issuers of financial instruments which Daiwa holds.

In the trading business, Daiwa conducts derivative transactions as single transactions or as transactions embedded in structured notes, in order to meet customers' needs. These include transactions which are highly volatile in comparison to the fluctuation of stock prices, interest rates, foreign exchange rates and commodities prices of reference assets and the correlation between them, or

transactions which tend to move in a complicated manner. Therefore, these carry higher risk than the reference assets. These derivative transactions are categorized as “Trading assets” in the consolidated balance sheets and the realized and unrealized profit/loss by fluctuation of fair values are recorded as “Net gain on trading.”

Daiwa, holding the financial instruments as above, also raises funds utilizing corporate bonds, medium-term notes, borrowing from financial institutions, commercial paper, call money, deposits acceptance, repurchase agreements, etc., and is exposed to liquidity risk. Liquidity risk means the risk of suffering losses such that cash management may be impossible or require remarkably higher financing costs than usual as a result of abrupt change of market environment or deterioration of financial conditions of Daiwa, etc.

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

(3) Risk management system concerning financial instruments

The Company adopted the “Risk Management Rule” at the meeting of the Board of Directors, which states the basic policy of risk management, types of risks that should be managed and responsible executive officers and departments for each major risk, and conducted risk management of the entire Group in accordance with Risk Appetite Framework. Furthermore, the Company also prepared a risk management framework through establishment of guidelines regarding “the Three Lines of Defense” in order to develop an effective risk governance system.

Each subsidiary conducts risk management suitable for its business profile and size in accordance with the basic policy of risk management. The Company also monitors the system and process of subsidiaries’ risk management. Also, the Group Risk Management Committee as a sub-committee of the Executive Committee of the Company receives reports on and discusses matters such as risk exposure and issues concerning the risk management system of each subsidiary discovered by monitoring subsidiaries. Major subsidiaries

regularly hold risk management committee meetings, etc., and strengthen their risk management.

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

(a) Management of market risk

Daiwa manages its trading business by establishing the limit for Value at Risk (which indicates the estimate of the maximum loss amount under a certain confidence level, hereinafter “VaR”), position and sensitivity, etc., considering the financial situation, the business plan and budget of each division. The risk management department of the Company monitors and reports the market risk to the management of the Company on a daily basis. In order to cover the capacity limit of VaR calculated by the statistical hypothesis based on the data obtained for a certain period, the Company applies the stress test with a scenario assuming the impact of abrupt change in the market and hypothetical stress events.

(Quantitative information concerning market risk)

Major subsidiaries engaged in securities business utilize the historical simulation method (holding period: 1 day, confidence interval: 99%, observation period: 520 business days) for calculating VaR of trading products.

The VaR as of March 31, 2019 (fiscal year-end) was ¥1.0 billion (\$9.1 million) in total.

In the meantime, Daiwa verifies the model by executing back tests which compare calculated VaR and the actual profit/loss. Please note that as the VaR statistically estimates the risk based on historical market fluctuation, it may be unable to completely grasp the risk in an environment in which the market unexpectedly changes beyond the estimation.

(b) Management of credit risk

The credit risks generated in the trading business of Daiwa consist of counterparty risk and issuer risk. In regards to counterparty risk, Daiwa has established the upper limit on the credit-equivalent exposure that can be tolerated for each counterparty and periodically monitors such credit-equivalent exposure. In addition, Daiwa has established the upper limit on total counterparty risk. Daiwa monitors risk amount related to the issuer risk of financial instruments held for market-making.

Because Daiwa provides financial instruments, manages assets and invests, Daiwa is exposed to the risk that various instrument and transaction exposures

collect on a specific counterparty. If the counterparty's credit situation worsens, Daiwa may incur significant losses. Therefore, Daiwa has established the upper limit on total exposure to any counterparty and periodically monitors such limit.

Because margin transactions generate credit to customers, Daiwa requires customers to set deposits as collateral. In connection with securities loan transactions, Daiwa has tried to reduce credit risk by establishing credit limit for counterparties, charging necessary collateral, and daily mark-to-market.

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

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

The subsidiaries in the investment business make an investment decision after investigating each investment thoroughly in an investment committee, etc. After investments, the subsidiaries regularly monitor and report the situation of invested companies to the risk management committee, etc.

The subsidiary offering banking business specifies risks which need management and establishes a management policy and management system for each risk. Furthermore, it establishes the ALM committee, a body under the Board of Directors, to discuss and decide the way to manage the risks (the ALM committee discusses the important matters relating to the management and control of credit risk, market risk and liquidity risk, etc.). The subsidiary controls the risks by conducting its business within the various limit set by the Board of Directors, the ALM committee, etc.

In connection with investment securities for business relationships, etc., Daiwa decides to acquire or sell the securities in accordance with the policy defined by the relevant company's rules. Also, Daiwa regularly monitors and reports the situation of risk to the management of the Company.

(Quantitative information concerning market risk)

(a) Financial assets and liabilities (excluding those held by the subsidiary offering banking business)

The main financial assets that are influenced by market risk are "operational investment securities" in the investment business and "investment securities" for business relationships. As of March 31, 2019, if the index, such as TOPIX, were to change by 10%, market prices of the listed equities in "operational investment securities" and "investment securities" would fluctuate by ¥9.9 billion (\$90 million).

Also, the main financial liabilities in Daiwa that are influenced by market risk are "bonds and notes" and "long-term borrowings." As of March 31, 2019, if all other risk variables were assumed to be unchanged and the interest rate supposed to change by 10 basis points (0.1%), the market prices of "bonds and notes" and "long-term borrowings" would fluctuate by ¥2.0 billion (\$18.2 million) and ¥0.2 billion (\$1.8 million), respectively.

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

The subsidiary offering banking business utilizes VaR in managing market risk (i.e., the risk of loss caused by fluctuation of value of assets and liabilities (including off-balance liabilities) due to fluctuation of interest rates, exchange rates, stocks and other risk factors in the market and the risk of loss caused by fluctuation of income from assets and liabilities).

When measuring VaR, Daiwa utilizes the historical simulation method (holding period: 20 days, confidence interval: 99%, observation period: 750 business days) and convert the number calculated in 20 days of the holding period to the number in 125 days of the holding period. Such number as of March 31, 2019 is ¥2.4 billion (\$21.8 million).

The subsidiary, in order to verify the effectiveness of the model, periodically conducts the back-tests by comparing the VaR calculated in the risk measuring model with the virtual profits and losses. By the back-tests in fiscal year 2018, Daiwa estimates that the risk measurement model grasps the market risk. However, as the VaR statistically estimates the risk based on historical market fluctuation, it may be unable to completely grasp the risk in an environment in which the market unexpectedly changes beyond the estimation.

In order to complement the limitation of management utilizing VaR, Daiwa measures loss calculated by a wide variety of scenarios (stress test).

(iii) Management of liquidity

As Daiwa conducts its business with a core focus on the securities-related business by utilizing a variety of

assets and liabilities, it has the basic policy of fundraising to efficiently and stably secure enough liquidity for continuing its business.

Methods of raising funds of Daiwa include unsecured fundraising such as corporate bonds, medium-term notes, borrowing from financial institutions, commercial paper, call money and deposits acceptance, etc., and secured fundraising such as repurchase agreements, etc. Daiwa intends to realize effective and stable fundraising by combining these various methods.

In terms of financial stability, Daiwa, preparing for the case that the environment vastly changes, endeavors even in ordinary times to secure a stable reserve to prevent the business from suffering difficulties. Also, Daiwa tries to diversify the maturity and sources of funds in preparation for the event where it becomes difficult to raise new funds and to reschedule the existing funds due to a financial crisis.

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

Daiwa collectively manages and monitors the liquidity of the entire Group under the basic policy of securing the appropriate liquidity of Daiwa as a whole. The Company always monitors whether the liquidity portfolio is sufficiently secured against short-term raised funds without collateral in preparation for the case where it

becomes difficult to raise new funds and to reschedule the existing funds due to the occurrence of some stress, which is specific to the Company or influences the entire market. Also, Daiwa raises and manages funds efficiently as a group by establishing a system that enables the Company to flexibly distribute and supply funds to its group companies and also enables companies in Daiwa to finance each other.

Daiwa has also established a contingency funding plan as one of the measures of dealing with liquidity risk. This plan states the basic policy concerning the reporting lines and the method of fundraising, etc., depending upon the urgency of stress by internal factors such as decrease in creditworthiness and external factors such as abrupt change of market environment. The contingency funding plan enables Daiwa to prepare a system for securing liquidity through a swift response.

Daiwa has established the contingency funding plan of Daiwa considering the stress that the entire Group may face and also revised it periodically 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 liquidity is significant, have established their own contingency funding plans and periodically revise their plans as well.

In addition, the Company periodically monitors the development status of its subsidiaries' contingency funding plans. The Company revises, if necessary, its subsidiaries' fundraising plans or contingency funding plans itself considering crises scenarios to be assumed and also tries to preliminarily execute countermeasures, both increasing liquidity and reducing assets at the same time.

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

Fair value of financial instruments includes the price based on market value and the theoretical price reasonably calculated in the case of no market value. As such theoretical prices are calculated based on certain assumptions and may be changed under different assumptions.

2. Fair values of financial instruments

The figures stated on the consolidated balance sheets as of March 31, 2019 and 2018, fair value and the difference of the two are as below. Any items for which it is extremely difficult to obtain fair value are not included in the table below (see Note 2).

	Millions of yen					
	2019			2018		
	Amounts on consolidated balance sheets	Fair value	Difference	Amounts on consolidated balance sheets	Fair value	Difference
Assets						
(1) Cash and cash equivalents	¥ 4,122,102	¥ 4,122,102	¥ —	¥ 3,653,464	¥ 3,653,464	¥ —
(2) Cash segregated as deposits for regulatory purposes	324,560	324,560	—	348,912	348,912	—
(3) Time deposits	32,169	32,169	—	43,819	43,819	—
(4) Loans receivable from customers	1,564,857			1,442,939		
Allowance for doubtful accounts	(54)			(54)		
	1,564,803	1,565,715	912	1,442,885	1,443,495	610
(5) Receivables related to margin transactions	175,034	175,034	—	262,963	262,963	—
(6) Collateralized short-term financing agreements	5,973,772	5,973,772	—	6,496,753	6,496,753	—
(7) Trading assets	6,716,066	6,716,066	—	6,667,033	6,667,033	—
(8) Securities, private equity and other investments and investment securities						
(a) Securities intended to be held for trading purposes	—	—	—	11,923	11,923	—
(b) Held-to-maturity debt securities	132,125	133,965	1,840	111,545	111,961	416
(c) Subsidiaries companies' stocks and related companies' stocks	122,585			116,809		
Allowance for possible investment loss	—			—		
	122,585	184,423	61,838	116,809	152,071	35,262
(d) Available-for-sale securities	853,485	853,485	—	1,079,945	1,079,945	—
Total assets	¥20,016,701	¥20,081,291	¥64,590	¥20,236,051	¥20,272,339	¥36,288
Liabilities						
(9) Short-term borrowings	¥ 1,020,264	¥ 1,020,264	¥ —	¥ 983,471	¥ 983,471	¥ —
(10) Commercial paper	100,000	100,000	—	105,000	105,000	—
(11) Long-term debt	3,213,412	3,220,320	(6,908)	3,015,808	3,019,749	(3,941)
(12) Deposits for banking business	3,632,576	3,632,410	166	3,388,444	3,388,438	6
(13) Payables to customers and counterparties	650,088	650,088	—	660,251	660,251	—
(14) Payables related to margin transactions	69,982	69,982	—	71,345	71,345	—
(15) Payables—other	35,921	35,921	—	49,297	49,297	—
(16) Collateralized short-term financing agreements	5,947,969	5,947,969	—	5,775,898	5,775,898	—
(17) Trading liabilities	4,747,777	4,747,777	—	5,030,818	5,030,818	—
(18) Trade account payables, net	255,804	255,804	—	407,184	407,184	—
Total liabilities	¥19,673,793	¥19,680,535	¥ (6,742)	¥19,487,516	¥19,491,451	¥ (3,935)
Derivatives used for non-trading						
Derivatives to which hedge accounting is not applied	¥ (3,501)	¥ (3,501)	¥ —	¥ (974)	¥ (974)	¥ —
Derivatives to which hedge accounting is applied	(6,814)	(8,308)	(1,494)	5,534	2,420	(3,114)
Total derivatives related to non-trading	¥ (10,315)	¥ (11,809)	¥ (1,494)	¥ 4,560	¥ 1,446	¥ (3,114)

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

	Thousands of U.S. dollars		
	Amounts on consolidated balance sheets	Fair value	Difference
2019			
Assets			
(1) Cash and cash equivalents	\$ 37,473,655	\$ 37,473,655	\$ —
(2) Cash segregated as deposits for regulatory purposes	2,950,545	2,950,545	—
(3) Time deposits	292,445	292,445	—
(4) Loans receivable from customers	14,225,973		
Allowance for doubtful accounts	(491)		
	14,225,482	14,233,773	8,291
(5) Receivables related to margin transactions	1,591,218	1,591,218	—
(6) Collateralized short-term financing agreements	54,307,018	54,307,018	—
(7) Trading assets	61,055,145	61,055,145	—
(8) Securities, private equity and other investments and investment securities			
(a) Securities intended to be held for trading purposes	—	—	—
(b) Held-to-maturity debt securities	1,201,136	1,217,864	16,728
(c) Subsidiaries companies' stocks and related companies' stocks	1,114,409		
Allowance for possible investment loss	—		
	1,114,409	1,676,573	562,164
(d) Available-for-sale securities	7,758,955	7,758,955	—
Total assets	\$181,970,008	\$182,557,191	\$587,183
Liabilities			
(9) Short-term borrowings	\$ 9,275,127	\$ 9,275,127	\$ —
(10) Commercial paper	909,091	909,091	—
(11) Long-term debt	29,212,836	29,275,636	(62,800)
(12) Deposits for banking business	33,023,418	33,021,909	1,509
(13) Payables to customers and counterparties	5,909,891	5,909,891	—
(14) Payables related to margin transactions	636,200	636,200	—
(15) Payables—other	326,555	326,555	—
(16) Collateralized short-term financing agreements	54,072,445	54,072,445	—
(17) Trading liabilities	43,161,609	43,161,609	—
(18) Trade account payables, net	2,325,491	2,325,491	—
Total liabilities	\$178,852,663	\$178,913,954	\$ (61,291)
Derivatives related to non-trading			
Derivatives to which hedge accounting is not applied	\$ (31,827)	\$ (31,827)	\$ —
Derivatives to which hedge accounting is applied	(61,946)	(75,528)	(13,582)
Total derivatives related to non-trading	\$ (93,773)	\$ (107,355)	\$ (13,582)

* 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 recorded at their book value because their fair values are similar to book value as they are settled in the short term.

(2) Cash segregated as deposits for regulatory purposes

Cash segregated as deposits for regulatory purposes mainly consists of the trust of cash segregated for customers. The price of those which are invested in securities like government bonds are calculated based on reasonably calculated prices utilizing yield spread with index interest rates for each term

which are defined by immediately previous traded prices including those of similar bonds. Other investment products are recorded as their book value because the fair value closely resembles the book value and they are settled in the short term.

(4) Loans receivable from customers

Loans receivable from customers mainly consist of lending in banking business and loans secured by customers' safekeeping securities.

Loans with a floating rate for banking business are recorded at their book value because their fair value is similar to the book value, as such floating rate loans reflect

money market rates in the short term as far as the credit condition of borrowers does not greatly change provided, however, that some loans are calculated based on the prices offered by financial institutions. The fair value of loans with a fixed rate is calculated by discounting the total amount of principal and interest at the rate assumed when the similar new loan is performed based on the loan type and duration, etc.

Loans secured by securities are recorded at their book value because the fair value is close to the book value in consideration of the 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 accompanied by margin transactions and cash collateral to securities finance companies. Those are recorded at their book value as deemed to be settled in the short term because the former is settled by reversing trades by customers' decisions and the latter is collateral marked-to-market on lending and borrowing transactions.

Payables related to margin transactions consist of borrowed money from securities finance companies accompanied by customers' margin transactions and the amount equivalent to the sales price of securities as to customers' margin transactions. Those are recorded at their book value as deemed to be settled in the short term because the former is marked-to-market and the latter is settled by reversing trades by customers' decisions.

(6), (16) Collateralized short-term financing agreements

These are recorded at their book value because fair values are similar to book value as those are almost settled in the short term.

(7) Trading assets and (17) Trading liabilities

(a) Trading securities and other

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

(b) Derivative transactions

Derivatives traded on exchange	mainly settlement price on exchange or standard price for margin calculation
Interest rate swaps	prices calculated by price valuation models (models generally acknowledged in the market or a model expanding such models), based on expected cash flow calculated from yield curve, price and coupon rate of underlying bond, interest rates, discount rates, volatility, correlation, etc.
OTC equity derivatives	prices calculated by price valuation models (models generally acknowledged in the market or a model expanding such models), based on price of equities or equities indices, interest rates, dividends, volatility, discount rates, correlation, etc.
Credit derivatives	prices calculated by price valuation models (models generally acknowledged in the market or a model expanding such models), based on interest rates, credit spread of referents, etc.

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

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

Equities, etc.	closing price or closing quotation on the main stock exchange
Bonds	price reasonably calculated by utilizing spread with index interest rate based on immediately previous traded price including similar bonds (OTC and broker screen, etc.) or market value information (trading price statistics, etc.), or reasonably calculated price based on the value of collateralized assets
Units of investment trusts	closing price or closing quotation on exchange, or standard price
Investment in partnership	concerning the investments in partnership whose possible investment losses are calculated based on the estimated amount recoverable from real estate, the fair value resembles the amount calculated by deducting an allowance for possible investment losses at present from the amount recorded in the balance sheets as of the fiscal year-end. Therefore, Daiwa deemed such calculated amount as fair value.

(9) Short-term borrowings and (10) Commercial paper
These are recorded at their book value because fair value is similar to book value as they are settled in the short term.

(11) Long-term debt

The fair values of bonds and notes due within one year are recorded at their book value because fair value is similar to book value as they are settled in the short term.

On the other hand, concerning the fair value of bonds whose maturity is longer than one year, in the case that market price (trading price statistics, etc.) is available in the market, fair value is calculated from the market price. If the market price is not available, fair value is calculated from book value which is adjusted based on the amount equivalent to the fluctuation of interest rate and credit spread of the Company since the issuance. As to the credit spread of the Company, the Company refers to the interest rate of the immediately previous fundraising, market prices of similar bonds issued by the Company, etc.

Concerning fair values of long-term borrowings, fair value is calculated from book value which is adjusted based on the amount equivalent to the fluctuation of interest rate and credit spread of the Company from initial lending. As to the credit spread of the Company, we refer to the interest rate of the immediately previous fundraising, market prices of similar bonds issued by the Company, etc.

(12) Deposits for banking business

Concerning demand deposits, Daiwa deems the amount payable demanded at the end of the fiscal year (which

means their book value) as their fair value.

The fair value of fixed deposits is calculated by discounting the estimated relevant future cash flow at the fixed discount rate.

Discount rate is calculated by yield curve, which includes credit spread of Daiwa.

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

These are mainly composed of deposits received and Guarantee deposits received.

Deposits received are mainly deposits received from customers. The payment amount when settled at the end of this fiscal year (book value) is deemed as fair value. Other deposits are recorded at their book value because the fair value closely resembles the book value as they are settled in the short term.

Guarantee deposits received are mainly guarantee deposits relating to derivative transactions. They are recorded at their book value as they can be deemed to be settled in the short term because of those characteristics which are marked-to-market for each transaction. Concerning other guarantee deposits received from customers, the payment amount when settled at the end of this fiscal year (book value) is deemed as fair value.

(18) Trade account payables, net

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

(Note 2) Any financial instruments for which it is extremely difficult to obtain a fair value at March 31, 2019 and 2018 are as below and are 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
	2019	2018	U.S. dollars
Subsidiaries’ stocks and related companies’ stocks			2019
Unlisted equities	¥ 46,618	¥37,301	\$423,800
Other securities			
Unlisted equities	33,139	33,703	301,264
Investments in limited partnership and other similar partnerships	103,935	70,152	944,864
Others	3,975	5,362	36,136

These are recognized as extremely difficult to obtain their fair value because they do not have any market price and it is extremely difficult to estimate their future cash flow. Therefore, their fair value is not disclosed.

(Note 3) Scheduled redemption amount of financial receivables and securities with a maturity date after March 31, 2019

	Millions of yen			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and cash equivalents	¥ 4,122,102	¥ —	¥ —	¥ —
Cash segregated as deposits for regulatory purposes	324,560	—	—	—
Time deposits	32,169	—	—	—
Loans receivable from customers	886,239	119,757	540,365	18,496
Receivables related to margin transactions	175,034	—	—	—
Collateralized short-term financing agreements	5,973,772	—	—	—
Securities, private equity and other investments and investment securities				
Held-to-maturity securities	4,700	8,296	—	119,129
Government bonds, municipal bonds, etc.	—	—	—	—
Corporate bonds	4,700	8,296	—	119,129
Other securities with a maturity date	76,606	143,821	94,394	161,925
Bonds	67,919	143,821	94,394	161,925
Government bonds, municipal bonds, etc.	—	10,326	—	85,648
Corporate bonds	11,460	—	—	51,573
Other bonds	56,459	133,495	94,394	24,704
Other securities	8,687	—	—	—
Total	¥11,595,182	¥271,874	¥634,759	¥299,550

* 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 the 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	\$ 37,473,655	\$ —	\$ —	\$ —
Cash segregated as deposits for regulatory purposes	2,950,545	—	—	—
Time deposits	292,445	—	—	—
Loans receivable from customers	8,056,719	1,088,700	4,912,409	168,145
Receivables related to margin transactions	1,591,218	—	—	—
Collateralized short-term financing agreements	54,307,018	—	—	—
Securities, private equity and other investments and investment securities				
Held-to-maturity securities	42,727	75,418	—	1,082,991
Government bonds, municipal bonds, etc.	—	—	—	—
Corporate bonds	42,727	75,418	—	1,082,991
Other securities with a maturity date	696,418	1,307,464	858,127	1,472,046
Bonds	617,445	1,307,464	858,127	1,472,046
Government bonds, municipal bonds, etc.	—	93,873	—	778,618
Corporate bonds	104,182	—	—	468,845
Other bonds	513,263	1,213,591	858,127	224,583
Other securities	78,973	—	—	—
Total	\$105,410,745	\$2,471,582	\$5,770,536	\$2,723,182

* 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 the 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, 2019

	Millions of yen			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Payable to securities finance companies	¥ 3,675	¥ —	¥ —	¥ —
Deposits for banking business	3,591,337	41,239	—	—
Commercial paper	100,000	—	—	—
Long-term debts	512,924	1,553,591	759,390	387,507
Total	¥4,207,936	¥1,594,830	¥759,390	¥387,507

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

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

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

	Thousands of U.S. dollars			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Payable to securities finance companies	\$ 33,409	\$ —	\$ —	\$ —
Deposits for banking business	32,648,518	374,900	—	—
Commercial paper	909,091	—	—	—
Long-term debts	4,662,945	14,123,555	6,903,545	3,522,791
Total	\$38,253,963	\$14,498,455	\$6,903,545	\$3,522,791

* 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, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Trading assets:			
Trading securities:			
Equities	¥ 132,362	¥ 289,729	\$ 1,203,291
Government, corporate and other bonds	2,826,953	3,258,291	25,699,572
Investment trusts	89,256	254,654	811,418
Commercial paper, certificates of deposits and others	736,680	367,883	6,697,091
Derivatives:			
Option transactions	376,666	424,829	3,424,236
Futures and forward transactions	47,489	61,495	431,718
Swap agreements	2,491,173	1,990,964	22,647,027
Other derivatives	19,358	23,957	175,983
Risk reserves	(3,871)	(4,769)	(35,191)
	¥6,716,066	¥6,667,033	\$61,055,145
Trading liabilities:			
Trading securities:			
Equities	¥ 196,361	¥ 285,408	\$ 1,785,100
Government, corporate and other bonds	1,768,632	2,414,088	16,078,473
Investment trusts	169	16	1,536
Commercial paper, certificates of deposits and others	75,035	130,960	682,136
Derivatives:			
Option transactions	352,231	375,240	3,202,100
Futures and forward transactions	49,202	62,804	447,291
Swap agreements	2,283,698	1,738,922	20,760,891
Other derivatives	22,449	23,380	204,082
	¥4,747,777	¥5,030,818	\$43,161,609

* 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, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
	¥370	¥(249)	\$3,364

Amortized cost of held-to-maturity debt securities as of March 31, 2019 and 2018 consisted of the following:

	Millions of yen		
	Cost	Fair value	Difference
March 31, 2019:			
Government, municipal and other bonds	¥ —	¥ —	¥ —
Corporate bonds	132,125	133,965	1,840
Other	—	—	—
	¥132,125	¥133,965	¥1,840

	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

	Thousands of U.S. dollars		
	Cost	Fair value	Difference
March 31, 2019:			
Government, municipal and other bonds	\$ —	\$ —	\$ —
Corporate bonds	1,201,136	1,217,864	16,728
Other	—	—	—
	\$1,201,136	\$1,217,864	\$16,728

Cost and fair value of marketable available-for-sale securities as of March 31, 2019 and 2018 consisted of the following:

	Millions of yen		
	Cost	Fair value	Difference
March 31, 2019:			
Equities	¥ 82,771	¥132,653	¥49,882
Government, corporate and other bonds	456,764	467,616	10,852
Other	247,511	253,216	5,705
	¥787,046	¥853,485	¥66,439

	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

	Thousands of U.S. dollars		
	Cost	Fair value	Difference
March 31, 2019:			
Equities	\$ 752,464	\$1,205,936	\$453,472
Government, corporate and other bonds	4,152,400	4,251,055	98,655
Other	2,250,100	2,301,964	51,864
	\$7,154,964	\$7,758,955	\$603,991

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, 2019 and 2018 are as follows:

	Millions of yen		
	Contract amount	Fair value	Unrealized gains (losses)
March 31, 2019:			
Foreign exchange forward	¥102,872	¥(2,208)	¥(2,208)
Credit derivative	60,000	(407)	(407)
Stock index future	—	—	—
Interest swap	10,375	(415)	(415)
Currency swap	180,867	(470)	(470)

	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

	Thousands of U.S. dollars		
	Contract amount	Fair value	Unrealized gains (losses)
March 31, 2019:			
Foreign exchange forward	\$ 935,200	\$(20,073)	\$(20,073)
Credit derivative	545,455	(3,700)	(3,700)
Stock index future	—	—	—
Interest swap	94,318	(3,773)	(3,773)
Currency swap	1,644,245	(4,273)	(4,273)

B. Derivatives to which hedge accounting is applied

Main hedged items, contract amount and fair value of these derivatives at March 31, 2019 and 2018 are as follows:

				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	¥202,754	¥ 4,175	
Equity forward	Fundamental method	Equity	—	—	
Interest swap	Fundamental method	Debt and securities	295,407	(9,234)	
	Special treatment	Debt	—	—	
Currency swap	Allocation method	Debt	33,300	(2,115)	
	Fundamental method	Foreign currency loans and securities	196,829	(1,755)	
Interest and currency swap	Integration of special treatment and allocation method	Corporate bond	5,289	621	

				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, 2019

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	\$1,843,218	\$ 37,955
Equity forward	Fundamental method	Equity	—	—
Interest swap	Fundamental method	Debt and securities	2,685,518	(83,945)
	Special treatment	Debt	—	—
Currency swap	Allocation method	Debt	302,727	(19,227)
	Fundamental method	Foreign currency loans and securities	1,789,355	(15,955)
Interest and currency swap	Integration of special treatment and allocation method	Corporate bond	48,082	5,645

9. Pledged assets

Secured obligations at March 31, 2019 and 2018 consisted of the following:

	2019	Millions of yen 2018	Thousands of U.S. dollars 2019
Short-term borrowings	¥250,000	¥100,400	\$2,272,727
Long-term debt	630,400	369,400	5,730,909
Payables related to margin transactions	3,675	3,008	33,409
	¥884,075	¥382,808	\$8,037,045

All above obligations at March 31, 2019 and 2018 were secured by the following assets:

	2019	Millions of yen 2018	Thousands of U.S. dollars 2019
Time deposits	¥ —	¥ 200	\$ —
Loans receivable from customers	685,367	407,503	6,230,609
Trading assets	558,045	643,776	5,073,136
Securities	43,628	—	396,618
Investment securities	12,514	24,676	113,764
	¥1,299,554	¥1,076,155	\$11,814,127

In addition to the above, securities borrowed amounting to ¥181,124 million (\$1,646,582 thousand) and ¥139,988 million were pledged as guarantees at March 31, 2019 and 2018, respectively.

Total fair value of the securities pledged as collateral at March 31, 2019 and 2018 consisted of the following:

	2019	Millions of yen 2018	Thousands of U.S. dollars 2019
Securities loaned	¥5,379,208	¥6,424,651	\$48,901,891
Securities sold under agreements to repurchase	1,019,601	130,797	9,269,100
Other	474,590	574,052	4,314,454
	¥6,873,399	¥7,129,500	\$62,485,445

Total fair value of the securities received as collateral at March 31, 2019 and 2018 consisted of the following:

	2019	Millions of yen 2018	Thousands of U.S. dollars 2019
Securities borrowed	¥5,692,767	¥7,526,802	\$51,752,427
Securities purchased under agreements to resell	854,994	23,675	7,772,673
Other	296,294	317,501	2,693,582
	¥6,844,055	¥7,867,978	\$62,218,682

10. Lease transactions

The information concerning operating leases at March 31, 2019 and 2018 are as follows:

Lessee:	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Operating leases:			
Future lease payments in respect of operating leases	¥87,280	¥89,873	\$793,455
Due within one year	12,715	12,228	115,591

Lessor:	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Operating leases:			
Future lease receipts in respect of operating leases	¥2,512	¥1,312	\$22,836
Due within one year	387	457	3,518

11. Payables to customers and counterparties

Payables to customers and counterparties at March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Deposits from customers	¥247,896	¥214,626	\$2,253,600
Guarantee deposits received	372,592	420,040	3,387,200
Other	29,600	25,585	269,091
	¥650,088	¥660,251	\$5,909,891

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, 2019 and 2018 was 0.25% and 0.17%, respectively.

Long-term debt at March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Bond payable in yen: 0.93% due CY2018	¥ —	¥ 40,000	\$ —
Bond payable in yen: 1.25% due CY2020	30,000	30,000	272,727
Bond payable in yen: 0.69% due CY2021	30,000	30,000	272,727
Bond payable in yen: 0.40% due CY2019	20,000	20,000	181,818
Bond payable in yen: 0.87% due CY2024	12,000	12,000	109,091
Bond payable in yen: 0.41% due CY2020	25,000	25,000	227,273
Bond payable in yen: 0.89% due CY2025	20,000	20,000	181,818
Bond payable in yen: 0.40% due CY2020	20,000	20,000	181,818
Bond payable in yen: 0.40% due CY2020	45,000	45,000	409,091
Bond payable in yen: 0.91% due CY2025	25,000	25,000	227,273
Bond payable in yen: 0.67% due CY2022	30,000	30,000	272,727
Bond payable in yen: 0.40% due CY2023	13,000	13,000	118,182
Bond payable in yen: 0.56% due CY2026	11,000	11,000	100,000
Bond payable in yen: 0.40% due CY2023	50,000	50,000	454,545
Bond payable in yen: 0.40% due CY2026	30,000	30,000	272,727
Bond payable in yen: 0.35% due CY2023	22,000	22,000	200,000
Bond payable in yen: 0.22% due CY2022	25,000	25,000	227,273

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Bond payable in yen: 0.41% due CY2027	15,000	15,000	136,364
Bond payable in yen: 0.23% due CY2023	10,000	—	90,909
Bond payable in yen: 0.48% due CY2028	12,000	—	109,091
Bond payable in yen: 0.26% due CY2018	—	20,000	—
Bond payable in yen: 0.27% due CY2022	20,000	20,000	181,818
Bond payable in yen: 0.30% due CY2026	30,000	30,000	272,727
Bond payable in yen: 0.22% due CY2022	30,000	30,000	272,727
Bond payable in yen: 0.30% due CY2027	20,000	20,000	181,818
Bond payable in yen: 0.24% due CY2024	15,000	15,000	136,364
Bond payable in yen: 0.23% due CY2024	20,000	20,000	181,818
Bond payable in yen: 0.24% due CY2024	20,000	20,000	181,818
Bond payable in yen: 0.24% due CY2025	20,000	—	181,818
Bond payable in yen: 2.87% due CY2018	—	15,936	—
Bond payable in U.S. dollars: 3.19% due CY2019	16,649	15,936	151,355
Bond payable in U.S. dollars: 3.30% due CY2020	27,748	26,560	252,255
Bond payable in U.S. dollars: 3.34% due CY2021	16,649	—	151,355
Bond payable in U.S. dollars: 3.13% due CY2022	110,990	106,240	1,009,000
Bond payable in yen: 1.72% due CY2020	18,400	18,400	167,273
Bond payable in yen: 2.16% due CY2025	7,800	7,800	70,909
Bond payable in yen: 2.41% due CY2026	3,000	3,000	27,273
Bond payable in yen: 2.24% due CY2026	5,000	5,000	45,454
Bond payable in yen: 0.14% due CY2034	5,000	5,000	45,454
Bond payable in yen: 0.20% due CY2038	2,000	—	18,182
Euro medium-term notes issued by the Company and a domestic consolidated subsidiary, maturing through CY2048	713,031	728,447	6,482,100
Subordinated bond payable in yen: maturing through CY2021	6,425	6,525	58,409
Long-term borrowings principally from banks in yen, maturing through CY2047	1,657,939	1,436,081	15,072,173
Lease obligation	2,781	2,883	25,282
	¥3,213,412	¥3,015,808	\$29,212,836

The amount for euro medium-term notes issued by the Company and a domestic consolidated subsidiary as of March 31, 2019 includes US\$455,429 thousand.

Interest rates of euro medium-term notes range from (0.23)% to 4.03% at March 31, 2019 and from (0.19)% to 3.59% at March 31, 2018. The weighted average interest rate on total outstanding yen subordinated borrowings and

borrowings principally from banks at March 31, 2019 and 2018 was 0.38% and 0.39%, respectively. The weighted average interest rate on total outstanding lease obligations at March 31, 2019 was 1.04%.

Daiwa had an unused commitment line amounting to ¥11,099 million (\$100,900 thousand) under agreements with several banks at March 31, 2019.

13. Retirement benefits

Retirement benefits for employees

(1) Defined benefit plans

Retirement benefits in the consolidated balance sheets as of March 31, 2019 and 2018 are ¥43,441 million (\$394,918 thousand) and ¥41,759 million, respectively. Benefit expenses stated in the consolidated statements of income for the years ended March 31, 2019 and 2018 were ¥3,802 million (\$34,564 thousand) and ¥3,649 million, respectively.

Movement in retirement benefit obligations consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
At beginning of period	¥41,759	¥39,792	\$379,627
Service cost	3,802	3,649	34,564
Benefits paid	(2,260)	(1,820)	(20,545)
Other	140	138	1,272
At end of period	¥43,441	¥41,759	\$394,918

(2) Defined contribution plan

Benefit expenses to “Defined contribution” for the years ended March 31, 2019 and 2018 were ¥4,787 million (\$43,518 thousand) and ¥4,519 million, respectively.

Retirement benefits for directors

Directors’ retirement benefits in consolidated subsidiaries of ¥667 million (\$6,064 thousand) and ¥666 million are included in “Retirement benefits” in the accompanying consolidated balance sheets as of March 31, 2019 and 2018, respectively. Benefit expenses stated in the consolidated statements of income for the years ended March 31, 2019 and 2018 were ¥204 million (\$1,855 thousand) and ¥214 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 rates in Japan were approximately 30.6% and 30.9% for the years ended March 31, 2019 and 2018, 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, 2019 and 2018 is as follows:

	2019	2018
Statutory tax rate	30.6%	30.9%
Valuation allowance	6.1	(3.4)
Permanent difference (expense)	2.7	1.6
Permanent difference (income)	(3.6)	(1.0)
Lower tax rate applicable to income of overseas consolidated subsidiaries	(0.4)	(0.0)
Adjustment of unrealized inter-company profit	(0.0)	(0.1)
Amortization of goodwill	0.4	0.2
Share of profit and loss of entities accounted for using equity method	(2.7)	(2.6)
Tax credits	(0.5)	(1.5)
Other	0.3	1.0
Effective tax rate	32.9%	25.1%

Details of deferred tax assets and liabilities at March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Deferred tax assets:			
Net operating losses carry-forward	¥ 40,589	¥ 46,380	\$ 368,991
Retirement benefits	13,374	12,870	121,582
Write-down of investment securities	6,275	6,553	57,045
Impairment losses on fixed assets	6,080	6,578	55,273
Compensation and bonuses	5,615	7,211	51,045
Loss on private equity and other investments	5,584	2,976	50,764
Elimination of unrealized gain	5,050	4,826	45,909
Depreciation	3,887	4,248	35,336
Deferred gains (losses) on hedges	2,414	613	21,945
Loss on trading	2,105	2,405	19,136
Loss on valuation of shares of subsidiaries and associates	—	1,573	—
Other	15,954	15,237	145,038
Gross deferred tax assets	106,927	111,470	972,064
Valuation allowance for net operating losses carry-forward	(39,623)	—	(360,209)
Valuation allowance for future deductible temporary differences	(41,526)	—	(377,509)
Less: Valuation allowance	(81,149)	(84,792)	(737,718)
Total deferred tax assets	25,778	26,678	234,346
Deferred tax liabilities	24,934	29,718	226,673
Net deferred tax assets (liabilities)	¥ 844	¥ (3,040)	\$ 7,673

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.

Net operating losses ("NOL") carry-forward and deferred tax assets by each expiring date at March 31, 2019 are as follows:

March 31, 2019

	Millions of yen						Total
	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	over 5 years	
NOL carry-forward	¥ 6,588	¥ 2,067	¥ 1,694	¥ 1,870	¥ 1,274	¥ 27,096	¥ 40,589
Valuation allowance	(6,588)	(2,067)	(1,694)	(1,815)	(1,274)	(26,185)	(39,623)
Deferred tax assets	¥ —	¥ —	¥ —	¥ 55	¥ —	¥ 911	¥ 966

March 31, 2019

	Thousands of U.S. dollars						Total
	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	over 5 year	
NOL carry-forward	\$ 59,891	\$ 18,791	\$ 15,400	\$ 17,000	\$ 11,582	\$ 246,327	\$ 368,991
Valuation allowance	(59,891)	(18,791)	(15,400)	(16,500)	(11,582)	(238,045)	(360,209)
Deferred tax assets	\$ —	\$ —	\$ —	\$ 500	\$ —	\$ 8,282	\$ 8,782

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 ¥58 million (\$527 thousand) and ¥90 million at March 31, 2019 and 2018, 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, 2019 amounted to ¥357,160 million (\$3,246,909 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 ¥9 (\$0.08) per share amounting to ¥14,097 million (\$128,155 thousand) and ¥12 (\$0.11) per share amounting to ¥19,296 million (\$175,418 thousand) were approved by the Board of Directors on May 16, 2019 and October 29, 2018, respectively.

18. Stock options

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, June 28, 2017 and June 27, 2018 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, 2019 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	170,000	¥ 1	(\$0.01)	from July 1, 2005 to June 30, 2025
June 24, 2006	119,000	¥ 1	(\$0.01)	from July 1, 2006 to June 30, 2026
June 23, 2007	160,000	¥ 1	(\$0.01)	from July 1, 2007 to June 30, 2027
June 21, 2008	202,000	¥ 1	(\$0.01)	from July 1, 2008 to June 30, 2028
	—	¥ 881	(\$8.01)	from July 1, 2013 to June 20, 2018
June 20, 2009	450,000	¥ 1	(\$0.01)	from July 1, 2009 to June 30, 2029
	1,383,000	¥ 496	(\$4.51)	from July 1, 2014 to June 19, 2019
June 26, 2010	820,000	¥ 1	(\$0.01)	from July 1, 2010 to June 30, 2030
	2,598,000	¥ 380	(\$3.45)	from July 1, 2015 to June 25, 2020
June 25, 2011	1,036,000	¥ 1	(\$0.01)	from July 1, 2011 to June 30, 2031
	2,443,000	¥ 326	(\$2.96)	from July 1, 2016 to June 24, 2021
June 27, 2012	738,000	¥ 1	(\$0.01)	from February 12, 2013 to June 30, 2032
	4,998,000	¥ 598	(\$5.44)	from July 1, 2017 to June 26, 2022
June 26, 2013	375,000	¥ 1	(\$0.01)	from February 10, 2014 to June 30, 2033
	3,680,000	¥1,062	(\$9.65)	from July 1, 2018 to June 25, 2023
June 26, 2014	441,000	¥ 1	(\$0.01)	from February 9, 2015 to June 30, 2034
	—	¥ 931	(\$8.46)	from July 1, 2019 to June 25, 2024
June 25, 2015	567,000	¥ 1	(\$0.01)	from February 16, 2016 to June 30, 2035
	—	¥ 733	(\$6.66)	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	(\$6.97)	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	(\$7.41)	from July 1, 2022 to June 27, 2027
June 28, 2018	—	¥ 686	(\$6.24)	from July 1, 2023 to June 30, 2028

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, 2018	Change during the period	As of March 31, 2019	As of March 31, 2019
¥5,294	¥26,250	¥31,544	¥—

		Thousands of U.S. dollars	
		Book value	Fair value
As of March 31, 2018	Change during the period	As of March 31, 2019	As of March 31, 2019
\$49,939	\$236,825	\$286,764	\$—

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

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 346.6% (unaudited) for March

31, 2019. Daiwa also announced that it has calculated the consolidated capital adequacy ratio as of March 31, 2019 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, 2019 was 22.06% (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 services 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, 2019:							
Net operating revenues:							
Sales to customers	¥160,686	¥158,222	¥ 67,969	¥2,445	¥389,322	¥34,866	¥424,188
Intersegment sales and transfers	25,179	681	(19,736)	(679)	5,445	13,603	19,048
Total	¥185,865	¥158,903	¥ 48,233	¥1,766	¥394,767	¥48,469	¥443,236

	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

	Thousands of U.S. dollars						
	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Total
Year ended March 31, 2019:							
Net operating revenues:							
Sales to customers	\$1,460,782	\$1,438,382	\$ 617,900	\$22,227	\$3,539,291	\$316,963	\$3,856,254
Intersegment sales and transfers	228,900	6,191	(179,418)	(6,173)	49,500	123,664	173,164
Total	\$1,689,682	\$1,444,573	\$ 438,482	\$16,054	\$3,588,791	\$440,627	\$4,029,418

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

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

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

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

(Adjustment of difference)

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Net operating revenues			
Reportable segment total	¥394,767	¥462,233	\$3,588,791
Net operating revenues from "Others"	48,469	41,117	440,627
Elimination between segments	(19,048)	(18,516)	(173,164)
Commission fee deducted from net operating revenues	19,631	22,195	178,464
Other adjustments	(2,578)	(1,678)	(23,436)
Net operating revenues of financial statements	¥441,241	¥505,351	\$4,011,282

(Impairment losses on fixed assets by reportable segment)

Not applicable.

(Gains on negative goodwill by reportable segment)

Not applicable.

22. Transactions with related parties

The information on subsidiaries' material transactions with related parties and individuals for the years ended March 31, 2019 and 2018, and the resulting account balances with those related parties at the balance sheet dates are as follows:

Transaction details, amounts and balances

Name of related company	Paid-in Capital Millions of yen			Millions of yen
				2019
Tokyo Tanshi Co., Ltd.	¥10,300	Continual transactions of collateralized short-term financing agreements	Collateralized short-term financing agreements (liabilities)	¥106,320
			Collateralized short-term financing agreements (assets)	320,213
			Interest and dividend expense	¥ 204
			Interest income	564
			Interest and dividend income	481
		Interest expense	1,556	
				Millions of yen
Tokyo Tanshi Co., Ltd.	¥10,300	Continual transactions of collateralized short-term financing agreements	Collateralized short-term financing agreements (liabilities)	¥229,063
			Collateralized short-term financing agreements (assets)	726,303
			Interest and dividend expense	¥ 327
			Interest income	800
			Interest and dividend income	399
		Interest expense	1,162	
				Thousands of U.S. dollars
				2019
		Continual transactions of collateralized short-term financing agreements	Collateralized short-term financing agreements (liabilities)	\$ 966,545
			Collateralized short-term financing agreements (assets)	2,911,027
		Interest and dividend expense	Receivables—Other	64
		Interest income	Accrued and other liabilities—Other	109
		Interest and dividend income		
		Interest expense		14,145

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 eight special purpose entities for the year ended March 31, 2019 (seven for the year ended March 31, 2018) 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 years ended March 31, 2019 and 2018 are ¥621,348 million (\$5,648,618 thousand) and ¥589,153 million, respectively.

24. Net gain on trading

Net gain on trading for the years ended March 31, 2019 and 2018 is as follows:

	2019	Millions of yen 2018	Thousands of U.S. dollars 2019
Equities and others	¥38,594	¥ 38,986	\$350,855
Bonds, forex and others	53,624	70,020	487,490
	¥92,218	¥109,006	\$838,345

25. Selling, general and administrative expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2019 and 2018 are summarized as follows:

	2019	Millions of yen 2018	Thousands of U.S. dollars 2019
Employees' compensation and benefits	¥185,436	¥185,866	\$1,685,782
Commissions and brokerage	32,153	34,673	292,300
Communications	22,425	21,620	203,864
Occupancy and rental	37,395	35,910	339,955
Data processing and office supplies	26,519	26,553	241,082
Taxes other than income taxes	10,740	10,732	97,636
Depreciation	25,344	24,336	230,400
Other	33,902	30,603	308,199
	¥373,914	¥370,293	\$3,399,218

26. Other income (expenses)

Details of “Other, net” in the accompanying consolidated statements of income for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
Gain on sales of non-current assets	¥ 149	¥ 854	\$ 1,357
Gain on sales of investment securities	13,129	5,781	119,351
Gain on step acquisitions	—	1,498	—
Gain on recoveries of written-off claims	—	481	—
Gain on reversal of subscription rights to shares	688	895	6,257
Gain on compensation for transfer	347	—	3,156
Other income	16,562	22,627	150,566
Loss on sales and retirement of non-current assets	(430)	(483)	(3,910)
Loss on valuation of investment securities	(527)	(69)	(4,790)
Loss on change in equity	(178)	—	(1,622)
Office transfer expenses	(592)	(2,021)	(5,383)
Business restructuring cost	—	(193)	—
Cost of product compensation related	(631)	—	(5,736)
Provision for loss on litigation	—	(8,997)	—
Other expenses	(767)	(1,551)	(6,974)
	¥27,750	¥18,822	\$252,272

Provision for loss on litigation

(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

(Merger of equity method affiliate)

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

The amount of gain on change in equity by the merger is expected to be ¥11,413 million (\$103,755 thousand).

Independent Auditor's Report



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

We have audited the accompanying consolidated financial statements of Daiwa Securities Group Inc. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2019 and 2018, 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 judgment, 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, 2019 and 2018, 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, 2019 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 27, 2019

Tokyo, Japan

Report Regarding Consolidated Capital Adequacy Ratio and Consolidated Leverage Ratio Situation of Soundness in Management as of March 31, 2019

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, 2019.

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Key Metrics (at consolidated group level)

Basel III template number	Millions of yen, %				
	March 2019	December 2018	September 2018	June 2018	March 2018
Available capital (amounts)					
1 Common Equity Tier 1 (CET1)	¥ 1,092,835	¥ 1,085,262	¥ 1,111,476	¥ 1,134,950	¥ 1,142,340
2 Tier 1	1,092,835	1,085,262	1,111,476	1,134,950	1,142,340
3 Total capital	1,092,835	1,085,262	1,111,476	1,134,950	1,142,340
Risk-weighted assets (amounts)					
4 Total risk-weighted assets (RWA)	4,953,208	4,911,966	5,234,732	4,989,109	5,125,879
5 CET1 ratio (%)	22.06%	22.09%	21.23%	22.74%	22.28%
6 Tier 1 ratio (%)	22.06%	22.09%	21.23%	22.74%	22.28%
7 Total capital ratio (%)	22.06%	22.09%	21.23%	22.74%	22.28%
Additional CET1 buffer requirements as a percentage of RWA					
8 Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	1.87%	1.87%	1.87%	1.87%
9 Countercyclical buffer requirement (%)	0.02%	0.02%	0.01%	0.01%	0.00%
10 Bank G-SIB and/or D-SIB additional requirements (%)	0.50%	0.37%	0.37%	0.37%	0.37%
11 Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	3.02%	2.27%	2.26%	2.26%	2.25%
12 CET1 available after meeting the bank's minimum capital requirements (%)	14.06%	14.09%	13.23%	14.74%	14.28%
Leverage ratio					
13 Total leverage ratio exposure measure	19,067,611	20,199,002	19,458,472	19,902,398	20,358,038
14 Leverage ratio (%) including the impact of any applicable temporary exemption of central bank reserves	5.73%	5.37%	5.71%	5.70%	5.61%

Composition of Capital Disclosure

CC1: Composition of Capital Disclosure

Basel III template number	Items	Millions of yen, %	
		Group Consolidated Quarter-End	Cross- referenced to CC2
Common Equity Tier 1 capital: Instruments and reserves		(1)	
1a+2-1c-26	Shareholders' equity	¥1,182,379	
1a	Common stock and capital surplus	478,030	(i), (j)
2	Retained earnings	805,761	(k)
1c	Treasury stock (Δ)	87,315	(l), (m)
26	Planned distributions (Δ)	14,096	
	Others	—	
1b	Stock subscription rights	8,741	(p)
3	Accumulated other comprehensive income (and other reserves)	48,000	(o)
5	Minority interest after adjustments	—	
6	Common Equity Tier 1 capital before regulatory adjustments	(a) 1,239,122	
Common Equity Tier 1 capital: regulatory adjustments		(2)	
8+9	Intangible assets other than mortgage-servicing rights (net of related tax liability)	115,937	
8	Goodwill (net of related tax liability)	10,605	(e)
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	105,331	(f)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	382	(d), (h)
11	Cash-flow hedge reserve	(141)	(n)
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)	196	(b)
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)	11,653	(a), (b), (c), (g)
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	18,258	
28	Total regulatory adjustments to Common equity Tier 1	(b) 146,287	
Common Equity Tier 1 capital			
29	Common Equity Tier 1 capital (CET1) ((a) - (b))	(c) ¥1,092,835	

Basel III template number	Items		Millions of yen, %	
			Group Consolidated Quarter-End	Cross- referenced to CC2
	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		—	(q)
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.)		—	
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)		4,233	(a), (b), (c), (g)
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)		—	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions		14,025	
43	Total regulatory adjustments to Additional Tier 1 capital	(e)	18,258	
	Additional Tier 1 capital			
44	Additional Tier 1 capital ((d) - (e))	(f)	—	
	Tier 1 capital			
45	Tier 1 capital ((c) + (f))	(g)	1,092,835	
	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		—	(q)
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		—	
51	Tier 2 capital before regulatory adjustments	(h)	¥ —	

Basel III template number	Items	Millions of yen, %	
		Group Consolidated Quarter-End	Cross- referenced to CC2
Tier 2 capital: regulatory adjustments			
52	Investments in own Tier 2 instruments	¥ —	
53	Reciprocal cross-holdings in Tier 2 instruments and other TLAC liabilities	—	
54	Investments in the capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	14,025	(a), (b), (c), (g)
54a	Investments in the other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation and where the bank does not own more than 10% of the issued common share capital of the entity: amount previously designated for the 5% threshold but that no longer meets the conditions	—	
55	Significant investments in the capital and other TLAC liabilities of 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) 14,025	
Tier 2 capital			
58	Tier 2 capital ((h) - (i))	(j) —	
Total capital			
59	Total capital ((g) + (j))	(k) 1,092,835	
Risk weighted assets			
60	Total risk weighted assets	(l) 4,953,208	
Consolidated capital adequacy ratio			
61	Common Equity Tier 1 (as a percentage of risk weighted assets) ((c) / (l))	22.06%	
62	Tier 1 (as a percentage of risk weighted assets) ((g) / (l))	22.06%	
63	Total capital (as a percentage of risk weighted assets) ((k) / (l))	22.06%	
64	CET1 specific buffer requirement	3.02%	
65	of which: capital conservation buffer requirement	2.50%	
66	of which: countercyclical buffer requirement	0.02%	
67	of which: G-SIB/D-SIB additional requirement	0.50%	
68	CET1 available after meeting the minimum capital requirements	14.06%	
Amounts below the thresholds for deduction (before risk weighting)			
72	Non-significant investments in the capital of other financials	112,274	(a), (b), (c), (g)
73	Significant investments in the common stock of financials	43,961	(a), (b), (c), (g)
74	Mortgage servicing rights (net of related tax liability)	—	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	6,533	(d), (h)
Applicable caps on the inclusion of allowance in Tier 2			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	—	
77	Cap on inclusion of allowance in Tier 2 under Standardized approach	—	
78	Provisions 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			
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: 60 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 Corporate Investment Co., Ltd.	Investment businesses
Daiwa PI Partners Co. Ltd.	Investment businesses
Daiwa Energy & Infrastructure 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, regulatory capital, and stress testing 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 structure of the Group-wide risk management

The Group has introduced the risk appetite framework to strengthen risk governance from the management level.

Based on the characteristics of various risks held in business, the Group has established basic matters to manage risks appropriately. The risk management structure is established to ensure financial soundness and business adequacy.

<Risk Appetite Framework>

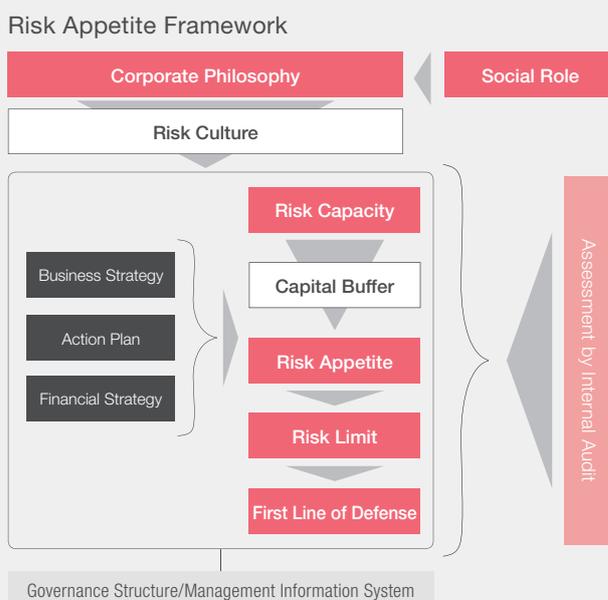
The risk appetite framework defines risk appetite as the type and total amount of risk that should be assumed in order to achieve profit targets and business plans. It is the framework of group-wide risk control.

The Group operates the risk appetite framework as described below.

(Overview of Risk Appetite Framework)

According to the liquidity, capital adequacy, concentration risk, and operational risk, as well as its business plan and risk characteristics the Group adopts appropriate risk appetite metrics, sets the acceptable level of risk and the response plan in case of excess, 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 structure, as well as fostered a culture of risk management.



The Roles and Responsibilities in the Risk Appetite Framework

— Board of Directors —

Conduct deliberation and determination of risk appetite statements, which include quantitative indicators of risk appetite of the Group.

— Audit Committee —

Perform audit on execution of duties by the Board of Directors and management regarding the risk appetite framework.

— Group Risk Management Committee —

Conduct the Group's risk limits based upon the approved risk appetite.

In addition, properly grasp the status of risks including the situation of risk management structure and the risk limits violation of the group companies.

— CEO —

The CEO is responsible for the Group's overall management, which includes the group-wide business strategies, risk strategies and development and maintains the risk appetite framework.

— COO —

The COO has responsibility to assist the CEO's overall management which is based on the risk appetite framework.

— CFO —

The CFO is responsible for the Group's overall financial management which is based on the risk appetite framework.

— CRO —

Carry out development of the risk appetite statement and obtain board approval for the statement.

In addition, based on the statement, the CRO is responsible for the Group's overall risk management, which includes consolidating and monitoring the risk management structure of each group company.

— CDO —

Based on the risk appetite framework, the CDO has responsibility to manage the overall data governance and the information system.

— Risk Management Department and compliance department of each group company —

As the second line of defense, based on the risk appetite, business size and risk characteristics, consolidate the risk

limits for the company.

— Business department of each group company —

As the first line of defense, conduct autonomous risk management.

Detect exceeding of risk limits during daily business. Consolidate the appropriate structure to perform countermeasure analysis and report to the Risk management Department.

— Internal audit department —

As the third line of defense, conduct independent examination and evaluation for the Group's risk management framework. Consolidate an appropriate internal audit structure to verify the effectiveness of the risk appetite framework.

(The operating structure of the risk appetite framework)
The Group's Board of Directors reviews the risk appetite statement on a semi-annual basis.

The risk appetite framework is also reviewed properly when business strategies or capital allocation plans are revised or the external environment changes significantly or great excess occurs on the risk profile.

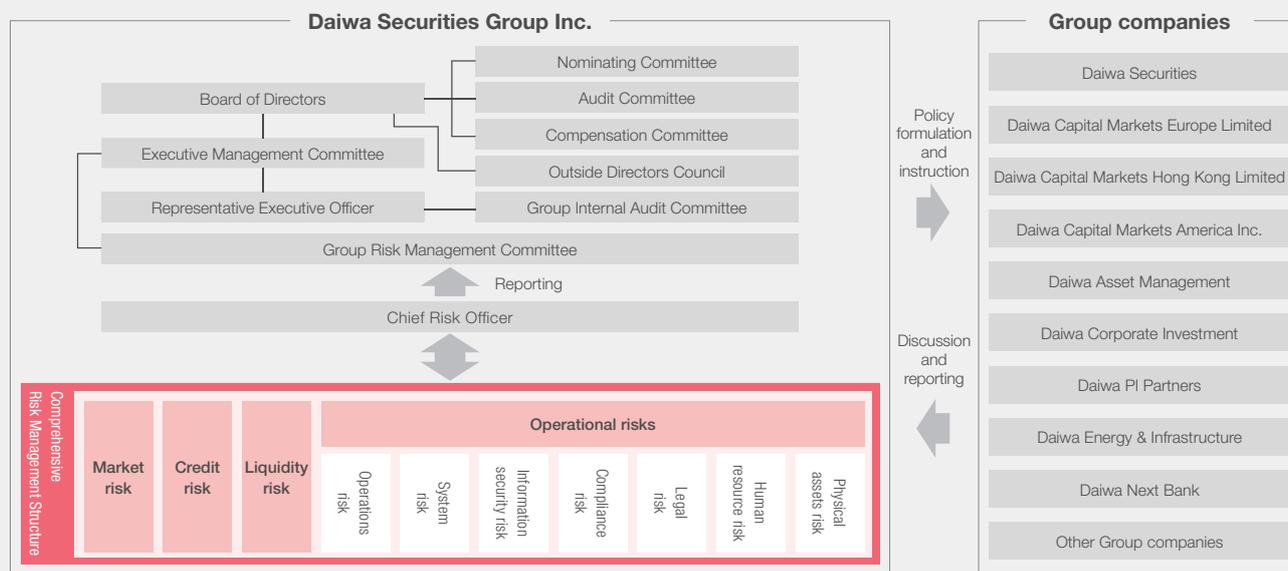
<Risk characteristics and management policy, risk management structure>

The Group is exposed to various risks in management. Of particular importance to the Group are the risks associated with its core securities business. Since the Group temporarily holds product positions for sale using its own account and offers products to customers, it is necessary to introduce liquidity risk including foreign currency, market risk resulting from market fluctuations, credit risk to trading partners and issuers, risk for which hedge does not function and operational risk that inevitably arises in executing business. The Group conducts integrated risk management that measures the impact on capital and liquidity within the Group from a forward-looking perspective.

Based on the risk appetite framework, Daiwa Securities Group Inc. plays a central role in risk governance structure consolidation from the integrated management perspective. The Group Risk Management Committee, which is a subcommittee of the Executive Committee of the Group, performs monitoring on the risk management structure and the status of risks of the group companies, to strengthen the risk management of the entire group.

The contents of each Group Risk Management Committee meeting are reported to the Audit Committee.

Risk Management Structure



In addition, based on the group-wide risk management and the approved risk appetite framework, Group Risk Management Committee established the basic policy of risk management in the “Risk Management Regulations,” which includes the following components:

(Basic policy of risk management)

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

In addition, assign the executive management and department to take charge of managing each risk. Consolidate the risk management structure.

(Definitions of Risks)

—Market risk—

Market risk refers to the risk of incurring losses due to market fluctuations, which affect the value of stock prices, interest rates, foreign exchange rates, and commodity prices, or due to the event of significant market liquidity declining, fluctuations occurring and a trade cannot be concluded or a trade is forced under a disadvantageous condition.

—Credit risk—

Credit risk refers to the risk of losses caused in cases

where a counterparty of a trade or the issuer of a financial product held by the Group suffers a default, or credibility deteriorates. The credit risk of the Group’s trading activities involves counterparty risk and issuer risk.

—Liquidity risk—

Liquidity risk refers to the risk of suffering losses due to cash management difficulties or having to finance at markedly higher costs than usual as a result of a change in market conditions or a deterioration of Group companies’ finances.

—Operational risk—

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

—Reputational risk—

Reputational risk refers to the possibility of the Group sustaining unforeseen losses and the Group’s counterparties being adversely affected due to a deterioration of its reliability, reputation, and assessment caused by the spread of rumors or erroneous information.

—Accounting and tax risk—

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

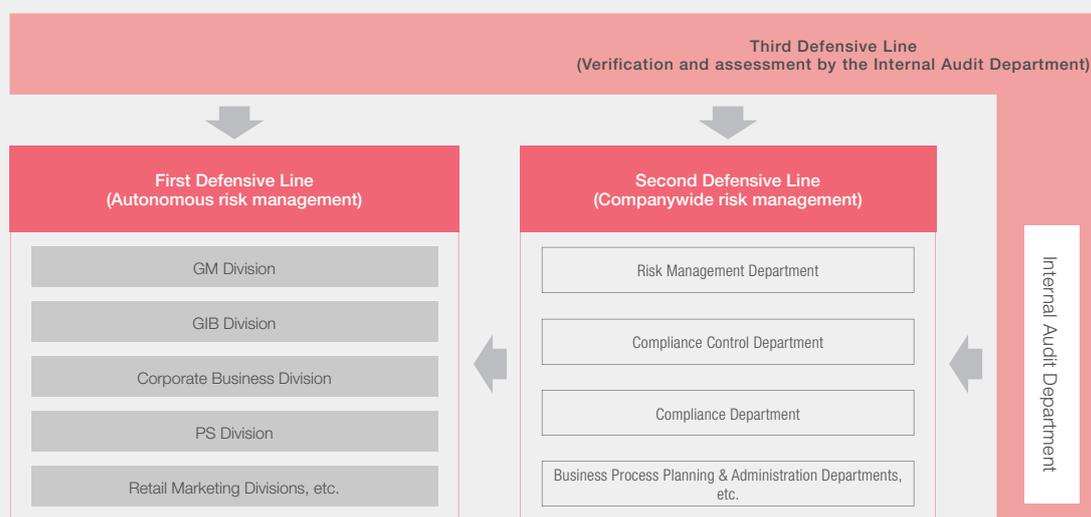
Executive Management, department and committee (to deliberate and decide the policies and specific measures of risk management) in charge of each risk

Risk category	Executive management	Department	Committee
Market risk	CRO	Risk Management Department	Group Risk Management Committee
Credit risk	CRO	Risk Management Department	Group Risk Management Committee
Liquidity risk	CRO	Risk Management Department	Group Risk Management Committee
Operational risk	CRO	Risk Management Department	Group Risk Management Committee
Reputational risk	Executive Managing Director of Corporate Communication	Corporate Communication Department	Disclosure Committee
	Executive Officer responsible for Investor Relations	Investor Relations Office	
	Executive Officer responsible for General Affairs	General Affairs Department	
Accounting and tax risk	CFO	Finance Department	Group Risk Management Committee

(Three lines of defense)

In order to establish an effective risk governance structure, the Group consolidates the risk management framework based on the “three lines of defense.”

“Three lines of defense” is the concept of clarifying functions, roles and responsibilities in risk management and performing sound management. The first line is autonomous risk management. The second line is group-wide risk management. The third line is internal audit.



4. Credit risk

A) Overview of the risk characteristics and the policies, procedures and structure 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.

The Group has a structure to appropriately control credit risk. The Group's risk management department measures the amount of credit risk exposure and reports to management daily. In addition, the risk management department also conducts the screening of business partners, setting of credit facilities, measuring the quantity of risk, monitoring of the credit risk situation and reporting to the Group risk management committee.

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 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 the 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 conduct 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 structure for Credit Risk Mitigation (hereunder CRM) techniques (excluding credit risk mitigation-related derivative and repo-style transactions)

A) Overview of the basic characteristics of policies, processes and the usage of netting

In securities-secured loans, loans are made up to the maximum borrowing amount within the market value of the securities received as collateral. After the execution of a loan, a netting agreement is conducted for the amount of the loan and the collateral valuation. Additional collateral is called in response to the deterioration of the ratio of the loan amount to the collateral value. Furthermore, collateral disposal is executed to protect loans when the deterioration is regarded as prolonged.

B) Overview of the basic characteristics of policies and processes of collateral evaluation and collateral management

Collateral is used for CRM techniques. Types of collateral are generally cash or high liquid securities.

Eligible collateral type and collateral haircut rate are set in consideration of the creditworthiness and liquidity of each collateral.

The exposure amount and collateral value are, accordingly, calculated and compared daily.

C) Overview of the concentration of market risk and credit risk under applying CRM

Since price fluctuations occur with securities which are posted as collateral, assessment rates are evaluated by such volatility. In order to prevent concentration, for identical securities received from different business partners, an upper limit is set for the number of securities received.

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

A) Policy on how to assign risk capital and credit limits for exposures to counterparties and central clearing houses

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.

B) Overview of the policies of collateral evaluation, collateral management and disposal procedures for collateral, guarantees and netting agreement

Collateral is used for CRM techniques. Types of collateral are generally cash or highly liquid securities. Eligible collateral type and collateral haircut rate are set in consideration of the creditworthiness and liquidity of each collateral. 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. In the event that a business partner defaults, collateral will be sold in the market for claims protection.

For derivative and repo-style transactions, bilateral netting agreements (ISDA Master Agreement, etc.) and collateral agreement (ISDA CSA, etc.) are generally set. For a transaction where a legally enforceable bilateral netting arrangement exists, CRM techniques are applied. The Group uses the Comprehensive Approach for CRM techniques.

C) Explanation of the impact caused by additional collateral needs to be posted due to the deterioration of the creditworthiness of the Group

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 structure 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 others. 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 226 Paragraph 1 (i) - (iv) of the Notification

Based on the regulations, periodical monitoring of securitization exposures is 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 the 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 structure for the risk management

The Group provides market liquidity through the trading businesses and takes the market risk by holding the assets. 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 trading departments conduct monitoring by calculating positions and sensitivities for the purpose of grasping the market risk. In addition, the risk

management department monitors the group-wide market risk condition, and reports to management daily.

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

IMA is applied to general market risk and includes Daiwa Securities Co. Ltd., overseas subsidiaries and Daiwa Next Bank, Ltd. (trading book). IMA captures the following market risk factors which are "foreign exchange risk," "interest rate risk," "equity risk" and "commodity risk."

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 timeframe under the IMA. The Group applies the historical simulation method that uses historical market fluctuations as a scenario. 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	

(Supplementary explanation)

- VaR is used for internal management to capture a wide range of market risk, which includes equity-specific risks and credit spread risks.
- VaR is calculated for all 260 business days since April 2, 2007. Take the maximum value of them as the length of the stressed period.
- Since VaR is calculated based on statistical assumptions based on data for a fixed period, stress tests are conducted using scenarios based on both historical and hypothetical stress events.

- 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. Over the last 250 business days of the fiscal year ended March 2019, there was a single VaR breach with a confidence level of 99%.
- The Group's internal model receives an internal audit by the internal audit department once a year, and also receives independent verification by an internal third party on a regular basis.
- There is no Incremental Risk Charge (IRC) nor Comprehensive risk.

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 group companies engage in the following framework 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.

<Operational Risk Management Framework>

The Group adopts RCSA (Risk Control Self-Assessment) as the framework for operational risk management. RCSA is a process which includes the following components: employees have the obligation to identify, grasp, and evaluate themselves according to operational risk. According to analysis of the frequency and the impact of the risk, they evaluate and verify the effectiveness of risk mitigation measures. RCSA is conducted among major consolidated subsidiaries, and the results are reported at the Group Risk Management Meeting.

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 structure for the exposure of the investments or equities subject to credit risk

A) Structure of recognizing, assessing, measuring and reporting risks

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.

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.

B) Risk management policy of subsidiaries' stock, affiliated companies' stock and other securities

For the consolidated subsidiaries, the scopes of risk

C) Accounting policy of valuation of equity exposure

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 that arises 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. Reconciliation of regulatory capital to balance sheet

CC2—Reconciliation of regulatory capital to balance sheet

	Millions of yen		
	Balance sheets as in published statements	Under regulatory scope of consolidation	Cross-referenced to CC1
Assets			
Current assets			
Cash and deposits	¥ 4,153,271	¥ 4,153,271	
Cash segregated as deposits	324,559	324,559	
Notes and accounts receivable-trade	18,741	18,741	
Short-term investment securities	(a) 812,341	812,341	18, 39, 54, 72, 73
Trading products	(b) 6,716,066	6,716,066	16, 18, 39, 54, 72, 73
Trading date accrual	—	—	
Operational investment securities	(c) 110,034	110,034	18, 39, 54, 72, 73
Allowance for investment loss	(155)	(155)	
Operating loans	1,564,856	1,564,856	
Work in process	901	901	
Margin transaction assets	175,034	175,034	
Loans secured by securities	5,973,771	5,973,771	
Advances paid	28,503	28,503	
Short-term loans receivable	350	350	
Accrued income	39,229	39,229	
Deferred tax assets	(d) —	—	10, 75
Other current assets	488,391	488,391	
Allowance for doubtful accounts	(317)	(317)	
Total current assets	20,405,580	20,405,580	
Noncurrent assets			
Property, plant and equipment	168,089	168,089	
Intangible assets	115,937	115,937	
Goodwill	(e) 10,605	10,605	8
Others	(f) 105,331	105,331	9
Investments and other assets	437,100	437,100	
Investment securities	(g) 374,484	374,484	18, 39, 54, 72, 73
Deferred tax assets	(h) 6,915	6,915	10, 75
Others	55,699	55,699	
Total noncurrent assets	721,126	721,126	
Total deferred charges	—	—	
Total assets	¥21,126,706	¥21,126,706	

		Balance sheets as in published statements	Under regulatory scope of consolidation	Millions of yen Cross-referenced to CC1
Liabilities				
Current liabilities				
Notes and accounts payable-trade		¥ 7,116	¥ 7,116	
Trading products		4,747,777	4,747,777	
Trading date accrual		255,804	255,804	
Margin transaction liabilities		69,981	69,981	
Loans payable secured by securities		5,947,969	5,947,969	
Deposits from banking business		3,632,575	3,632,575	
Deposits received		276,700	276,700	
Guarantee deposits received		372,591	372,591	
Short-term loans payable		1,341,415	1,341,415	
Commercial paper		100,000	100,000	
Current portion of bonds		190,772	190,772	
Income taxes payable		5,978	5,978	
Deferred tax liabilities		—	—	
Provision for bonuses		28,436	28,436	
Other current liabilities		104,852	104,852	
Noncurrent liabilities				
Bonds payable		1,361,918	1,361,918	
Long-term loans payable		1,336,787	1,336,787	
Deferred tax liabilities		6,071	6,071	
Net defined benefit liabilities		43,441	43,441	
Provision for loss on litigation		25,573	25,573	
Negative goodwill		—	—	
Other noncurrent liabilities		10,572	10,572	
Reserves under the special laws		3,938	3,938	
Total liabilities		19,870,276	19,870,276	
Net assets				
Shareholders' equity				
Common stock	(i)	247,397	247,397	1a
Capital surplus	(j)	230,633	230,633	1a
Retained earnings	(k)	805,761	805,761	2
Treasury stock	(l)	(87,320)	(87,320)	1c
Advances on subscription of treasury stock	(m)	5	5	1c
Total shareholders' equity		1,196,476	1,196,476	
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities		47,668	47,668	
Deferred gains or losses on hedges	(n)	(5,611)	(5,611)	11
Foreign currency translation adjustment		5,942	5,942	
Total accumulated other comprehensive income	(o)	48,000	48,000	3
Subscription rights to shares	(p)	8,741	8,741	1b
Minority interests	(q)	3,211	3,211	34-35, 48-49
Total net assets		¥ 1,256,430	¥ 1,256,430	

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

March 2019	Credit risk exposures			
		Loans	Securities	Others
Japan	¥6,088,175	¥837,642	¥820,760	¥4,429,773
Overseas	337,185	61,902	27,545	247,738
Total (by area)	6,425,360	899,544	848,305	4,677,511
Sovereign	4,895,836	687,856	539,392	3,668,587
Financial institutions	597,017	—	19,204	577,813
Corporate	331,065	200,097	26,570	104,397
Individuals	—	—	—	—
CCPs	5,442	—	—	5,442
Others	595,997	11,590	263,137	321,269
Total (by industry)	6,425,360	899,544	848,305	4,677,511
< 1 year	230,605	125,416	81,256	23,932
> 1 year ≤ 3 years	62,717	1,426	61,252	39
> 3 years ≤ 5 years	90,949	—	90,864	84
> 5 years ≤ 7 years	89,417	—	89,327	90
> 7 years	261,487	—	261,416	71
Indeterminate	5,690,183	772,702	264,187	4,653,294
Total (by maturity)	¥6,425,360	¥899,544	¥848,305	¥4,677,511

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)

March 2019	Millions of yen		
	Term-end balance	Term-end allowance	Write-offs for the year
Japan	¥ 655	¥493	¥—
Overseas	2,629	118	—
Total (by area)	3,285	612	—
Sovereign	—	—	—
Financial institutions	39	—	—
Corporate	3,051	497	—
Individuals	—	—	—
Others	194	115	—
Total (by industry)	¥3,285	¥612	¥—

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	¥163	¥143	¥10	¥—	¥ 9
Overseas	673	48	11	—	615
Total (by area)	836	191	21	—	624
Sovereign	—	—	—	—	—
Financial institutions	49	—	10	—	39
Corporate	786	191	10	—	584
Individuals	—	—	—	—	—
CCPs	—	—	—	—	—
Others	—	—	—	—	—
Total (by industry)	¥836	¥191	¥21	¥—	¥624

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

Not applicable.

3. Amount of exposure by approaches for banks' equity investments in funds

Millions of yen

	Exposures
Equity investments in funds (look-through approach)	¥645,854
Equity investments in funds (mandate-based approach)	60,251
Equity investments in funds (subject to 250% risk weight)	—
Equity investments in funds (subject to 400% risk weight)	—
Equity investments in funds (fall-back approach)	52
Total	¥706,159

4. Other quantitative disclosures

OV1: Overview of RWA

Millions of yen

Basel III template number		RWA		Minimum capital requirements	
		March 2019	March 2018	March 2019	March 2018
1	Credit risk (excluding counterparty credit risk) (CCR)	¥ 779,968	¥ 903,175	¥ 62,397	¥ 72,254
2	Of which standardized approach (SA)	581,678	747,448	46,534	59,795
3	Of which internal rating-based (IRB) approach	—	—	—	—
	Of which significant investments	—	—	—	—
	Of which exposures for estimated residual value of lease	—	—	—	—
	Others	198,289	155,726	15,863	12,458
4	Counterparty credit risk	992,548	1,261,575	79,403	100,926
5	Of which standardized approach for counterparty credit risk (SA-CCR)	331,892	—	26,551	—
	Of which current exposure method (CEM)	—	330,889	—	26,471
6	Of which internal model method (IMM)	—	—	—	—
	Of which credit valuation adjustment (CVA) risk	345,076	564,809	27,606	45,184
	Of which exposures to central counterparties (CCPs)	14,842	27,929	1,187	2,234
	Others	300,737	337,948	24,058	27,035
7	Equity positions under market-based approach	—	—	—	—
8	Equity investments in funds (look-through approach)	336,045	301,418	26,883	24,113
9	Equity investments in funds (mandate-based approach)	60,870	—	4,869	—
	Equity investments in funds (subject to 250% risk weight)	—	—	—	—
	Equity investments in funds (subject to 400% risk weight)	—	—	—	—
10	Equity investments in funds (fall-back approach)	653	—	52	—

Basel III template number		Millions of yen			
		RWA		Minimum capital requirements	
		March 2019	March 2018	March 2019	March 2018
11	Settlement risk	165	391	13	31
12	Securitization exposures in banking book	145,587	138,181	11,647	11,054
13	Of which internal ratings-based approach (SEC-IRBA) or internal assessment approach (IAA)	—	—	—	—
14	Of which external ratings-based approach (SEC-ERBA)	145,587	138,181	11,647	11,054
15	Of which standardized approach (SEC-SA)	—	—	—	—
	Of which 1250% risk weight applied	—	—	—	—
16	Market risk	1,536,044	1,461,548	122,883	116,923
17	Of which standardized approach (SA)	838,957	860,281	67,116	68,822
18	Of which internal model approaches (IMM)	697,087	601,266	55,766	48,101
19	Operational risk	975,088	1,028,878	78,007	82,310
20	Of which basic indicator approach	975,088	1,028,878	78,007	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)	126,235	30,709	10,098	2,456
	Amounts included in risk weighted asset due to transitional arrangements	—	—	—	—
24	Floor adjustment	—	—	—	—
25	Total	¥4,953,208	¥5,125,879	¥396,256	¥410,070

Basel III template number		Millions of yen			
		RWA		Minimum capital requirements	
		March 2019	December 2018	March 2019	December 2018
1	Credit risk (excluding counterparty credit risk) (CCR)	¥ 779,968	¥ 853,398	¥ 62,397	¥ 68,271
2	Of which standardized approach (SA)	581,678	675,740	46,534	54,059
3	Of which internal rating-based (IRB) approach	—	—	—	—
	Of which significant investments	—	—	—	—
	Of which exposures for estimated residual value of lease	—	—	—	—
	Others	198,289	177,658	15,863	14,212
4	Counterparty credit risk	992,548	1,183,985	79,403	94,718
5	Of which standardized approach for counterparty credit risk (SA-CCR)	331,892	—	26,551	—
	Of which current exposure method (CEM)	—	310,811	—	24,864
6	Of which internal model method (IMM)	—	—	—	—
	Of which credit valuation adjustment (CVA) risk	345,076	512,779	27,606	41,022
	Of which exposures to central counterparties (CCPs)	14,842	30,519	1,187	2,441
	Others	300,737	329,874	24,058	26,389
7	Equity positions under market-based approach	—	—	—	—
8	Equity investments in funds (look-through approach)	336,045	404,549	26,883	32,363
9	Equity investments in funds (mandate-based approach)	60,870	—	4,869	—
	Equity investments in funds (subject to 250% risk weight)	—	—	—	—
	Equity investments in funds (subject to 400% risk weight)	—	—	—	—
	Equity investments in funds (fall-back approach)	653	—	52	—
11	Settlement risk	165	109	13	8
12	Securitization exposures in banking book	145,587	140,360	11,647	11,228
13	Of which internal ratings-based approach (SEC-IRBA) or internal assessment approach (IAA)	—	—	—	—
14	Of which external ratings-based approach (SEC-ERBA)	145,587	140,360	11,647	11,228
15	Of which standardized approach (SEC-SA)	—	—	—	—
	Of which 1250% risk weight applied	—	—	—	—
16	Market risk	1,536,044	1,334,804	122,883	106,784
17	Of which standardized approach (SA)	838,957	847,602	67,116	67,808
18	Of which internal model approaches (IMM)	697,087	487,201	55,766	38,976

Basel III template number		Millions of yen			
		RWA		Minimum capital requirements	
		March 2019	December 2018	March 2019	December 2018
19	Operational risk	975,088	981,734	78,007	78,538
20	Of which basic indicator approach	975,088	981,734	78,007	78,538
21	Of which standardized approach	—	—	—	—
22	Of which advanced measurement approach	—	—	—	—
23	Amounts below the thresholds for deduction (subject to 250% risk weight)	126,235	13,023	10,098	1,041
	Amounts included in risk weighted asset due to transitional arrangements	—	—	—	—
24	Floor adjustment	—	—	—	—
25	Total	¥4,953,208	¥4,911,966	¥396,256	¥392,957

L11: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

	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
Assets							
1. Cash and deposits	¥ 4,153,271	¥4,153,409	¥ —	¥ —	¥ —	¥ 204,662	¥ —
2. Cash segregated as deposits	324,559	324,558	—	—	—	15,554	—
3. Notes and accounts receivable-trade	18,741	18,638	—	—	—	—	—
4. Short-term investment securities	812,341	787,637	—	—	24,704	283,591	—
5. Trading products	6,716,066	—	—	2,796,954	—	6,719,936	(3,870)
6. Trading date accrual	—	12	—	—	—	—	—
7. Operational investment securities	110,034	110,033	—	—	—	23,887	—
8. Allowance for investment loss	(155)	(155)	—	—	—	—	—
9. Operating loans	1,564,856	893,659	—	—	671,197	535,624	—
10. Work in process	901	901	—	—	—	—	—
11. Margin transaction assets	175,034	—	—	175,030	—	—	—
12. Loans secured by securities	5,973,771	—	—	6,365,924	—	3,901,989	—
13. Advances paid	28,503	28,501	—	—	—	107	—
14. Short-term loans receivable	350	350	—	—	—	—	—
15. Accrued income	39,229	39,048	—	—	—	19,699	—
16. Deferred tax assets	—	—	—	—	—	—	—
17. Other current assets	488,391	293,116	158,121	—	—	79,902	30,313
18. Allowance for doubtful accounts	(317)	(227)	—	—	—	(227)	—
19. Total current assets	20,405,580	6,649,486	9,496,030	695,901	11,784,724	26,442	—
20. Property, plant and equipment	168,089	168,089	—	—	—	3,235	—
21. Intangible assets	115,937	—	—	—	—	9,969	115,937
22. Goodwill	10,605	—	—	—	—	2,254	10,605
23. Others	105,331	—	—	—	—	7,715	105,331
24. Investments and other assets	437,100	436,999	—	—	—	60,358	—
25. Investment securities	374,484	374,383	—	—	—	22,374	—
26. Deferred tax assets	6,915	6,915	—	—	—	—	—
27. Others	55,699	55,698	—	—	—	37,984	—
28. Total noncurrent assets	721,126	605,088	—	—	—	73,562	115,937
29. Total deferred assets	—	—	—	—	—	—	—
30. Total assets	¥21,126,706	¥7,254,576	¥9,496,030	¥695,901	¥11,858,286	¥142,379	—

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."

	Millions of yen								
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:				Not subject to capital requirements or subject to deduction from capital		
			Subject to credit risk framework ¹	Subject to counterparty credit risk framework	Subject to the securitization framework ²	Subject to the market risk framework			
Liabilities									
31. Notes and accounts payable-trade	¥	7,116	¥	—	¥	—	¥	7,116	
32. Trading products		4,747,777		—	2,638,120		4,777,699	—	
33. Trading date accrual		255,804		—	7,683		158,041	70,678	
34. Margin transaction liabilities		69,981		—	69,981		—	—	
35. Loans payable secured by securities		5,947,969		—	6,344,154		4,906,405	—	
36. Deposits from banking business		3,632,575		—	—		300,540	3,332,035	
37. Deposits received		276,700		—	—		51,965	224,735	
38. Guarantee deposits received		372,591		—	—		9,925	362,666	
39. Short-term loans payable		1,341,415		—	—		66,577	1,274,838	
40. Commercial paper		100,000		—	—		—	100,000	
41. Current portion of bonds		190,772		—	—		—	190,772	
42. Income taxes payable		5,978		—	—		676	5,302	
43. Deferred tax liabilities		—		—	—		—	—	
44. Provision for bonuses		28,436		—	—		13,044	15,392	
45. Other current liabilities		104,852		272	17,746		49,650	86,832	
46. Bonds payable		1,361,918		—	—		44,665	1,317,253	
47. Long-term loans payable		1,336,787		—	—		—	1,336,787	
48. Deferred tax liabilities		6,071		—	—		1,406	4,665	
49. Net defined benefit liabilities		43,441		—	—		—	43,441	
50. Provision for loss on litigation		25,573		—	—		23,774	1,799	
51. Negative goodwill		—		—	—		—	—	
52. Other noncurrent liabilities		10,572		—	—		1,203	9,369	
53. Reserves under the special laws		3,938		—	—		—	3,938	
54. Total liabilities		¥19,870,276		¥272	¥9,077,686		¥—	¥10,405,570	¥8,387,627

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)	¥20,984,327	¥7,254,576	¥ 9,496,030	¥695,901	¥11,858,286
2. Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	11,482,648	272	9,077,686	—	10,405,570
3. Total net amount under regulatory scope of consolidation	9,501,678	7,254,303	418,343	695,901	1,452,715
4. Off-balance sheet amounts	114,960	5,841	109,118	—	—
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	4,859,650	—	4,859,650	—	—
10. Differences due to netting and CRM for SFTs	13,700,864	—	13,700,864	—	—
11. Other differences	(207,129)	19,512	(215,736)	(10,905)	—
12. Exposure amounts considered for regulatory purposes	10,709,038	7,132,430	1,417,085	706,807	1,452,715

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

	Gross carrying values of			Millions of yen	
	Defaulted exposures	Non-defaulted exposures	Allowances/impairments	Net values ¹	
On-balance sheet assets					
1. Loans	¥ —	¥ 899,592	¥ 47	¥ 899,544	
2. Debt Securities	—	585,167	—	585,167	
3. Other on-balance sheet assets (debt products)	624	4,271,267	1,696	4,270,195	
4. Sub-total on-balance sheet assets (1+2+3)	624	5,756,026	1,744	5,754,907	
Off-balance sheet assets					
5. Acceptances and guarantees	—	1,817	—	1,817	
6. Commitments	—	19,035	—	19,035	
7. Sub-total off-balance sheet assets (5+6)	—	20,852	—	20,852	
Total					
8. Total (4+7)	¥624	¥5,776,879	¥1,744	¥5,775,760	

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

CR2: Changes in stock of defaulted loans and debt securities

Previous reporting period end: September 2018		Current reporting period end: March 2019		Millions of yen	
				Amounts	
1. Defaulted loans and debt securities at end of previous reporting period				¥559	
2. Changes in loans and debt securities during the reporting period	Loans and debt securities that have defaulted since the last reporting period			116	
3.	Returned to non-defaulted status			8	
4.	Amounts written off			—	
5.	Other changes			(43)	
6. Defaulted loans and debt securities at end of reporting period (1+2-3-4+5)				624	

* 1 Other changes include a decrease due to collection of exposures.

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	¥ 793,049	¥106,494	¥106,494	¥—	¥—
2. Debt securities	585,167	—	—	—	—
3. Other on-balance sheet assets (debt products)	4,270,189	5	5	—	—
4. Total (1+2+3)	5,648,407	106,500	106,500	—	—
5. Of which defaulted	624	—	—	—	—

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

Asset classes	Exposures before CCF and CRM		Exposures post-CCF and CRM		Millions of yen, %	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
	¥	¥	¥	¥	¥	%
1. Cash	—	—	—	—	—	—
2. Japanese government and central bank	4,516,291	—	4,516,291	—	—	—
3. Non-Japanese sovereign and central bank	131,409	—	131,409	—	30	0.02%
4. Bank for International Settlements (BIS)	—	—	—	—	—	—
5. Japanese local public authorities	2,851	—	2,851	—	—	—
6. Non-Japanese public sector entities (excluding sovereign)	2,760	—	2,760	—	624	22.61%
7. Multilateral Development Banks (MDBs)	157	—	157	—	—	—
8. Japan Finance Organization for Municipalities (JFM)	1,367	—	1,367	—	271	19.82%
9. Japanese government-sponsored entities	240,998	—	240,998	—	26,167	10.86%
10. Three major local public corporations of Japan	—	—	—	—	—	—
11. Financial institutions and securities firms	596,978	19,035	596,978	3,807	127,447	21.21%
12. Corporates	313,020	1,819	206,520	1,819	191,234	91.79%
13. SMEs and individuals (risk weight 75% applied)	—	—	—	—	—	—
14. Residential mortgage loans	—	—	—	—	—	—
15. Projects including acquisition of real estate properties	11,590	3,663	11,590	3,663	15,253	100.00%
16. Past due exposures for three months or more (excluding residential mortgage loans)	624	—	624	—	936	150.00%
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)	219,713	—	219,713	—	219,713	100.00%
22. Total	¥6,037,764	¥24,518	¥5,931,264	¥9,289	¥581,679	9.79%

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

Asset classes	Risk weight	Credit risk exposures (post-CCF and post-CRM)					
		0%	10%	20%	35%	50%	75%
		¥	¥	¥	¥	¥	¥
1. Cash	—	—	—	—	—	—	
2. Japanese government and central bank	4,516,291	—	—	—	—	—	
3. Non-Japanese sovereign and central bank	131,344	—	9	—	55	—	
4. Bank for International Settlements (BIS)	—	—	—	—	—	—	
5. Japanese local public authorities	2,851	—	—	—	—	—	
6. Non-Japanese public sector entities (excluding sovereign)	—	—	2,669	—	—	—	
7. Multilateral Development Banks (MDBs)	157	—	—	—	—	—	
8. Japan Finance Organization for Municipalities (JFM)	—	17	1,349	—	—	—	
9. Japanese government-sponsored entities	—	220,318	20,679	—	—	—	
10. Three major local public corporations of Japan	—	—	—	—	—	—	
11. Financial institutions and securities firms	—	—	583,041	—	13,811	—	
12. Corporates	—	—	17,880	—	5,601	—	

	Risk weight	Millions of yen					
		Credit risk exposures (post-CCF and post-CRM)					
		0%	10%	20%	35%	50%	75%
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		¥4,650,644	¥220,336	¥625,631	¥—	¥19,467	¥—

Asset classes	Risk weight	Millions of yen						
		Credit risk exposures (post-CCF and post-CRM)						
		100%	150%	250%	1250%	Total		
1. Cash	¥	—	¥	—	¥—	¥—	¥	—
2. Japanese government and central bank		—	—	—	—	—	¥	4,516,291
3. Non-Japanese sovereign and central bank		—	—	—	—	—	¥	131,409
4. Bank for International Settlements (BIS)		—	—	—	—	—	¥	—
5. Japanese local public authorities		—	—	—	—	—	¥	2,851
6. Non-Japanese public sector entities (excluding sovereign)		90	—	—	—	—	¥	2,760
7. Multilateral Development Banks (MDBs)		—	—	—	—	—	¥	157
8. Japan Finance Organization for Municipalities (JFM)		—	—	—	—	—	¥	1,367
9. Japanese government-sponsored entities		—	—	—	—	—	¥	240,998
10. Three major local public corporations of Japan		—	—	—	—	—	¥	—
11. Financial institutions and securities firms		3,933	—	—	—	—	¥	600,785
12. Corporates		184,857	—	—	—	—	¥	208,339
13. SMEs and individuals (risk weight 75% applied)		—	—	—	—	—	¥	—
14. Residential mortgage loans		—	—	—	—	—	¥	—
15. Projects including acquisition of real estate properties		15,253	—	—	—	—	¥	15,253
16. Past due exposures for three months or more (excluding residential mortgage loans)		—	624	—	—	—	¥	624
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)		219,713	—	—	—	—	¥	219,713
22. Total		¥423,848	¥624	¥—	¥—	¥—	¥	¥5,940,554

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

	Millions of yen					
	Replacement cost	PFE	Alpha used for computing regulatory EAD	EEPE	EAD post-CRM	RWA
1. SA-CCR (for derivatives)	¥176,760	¥208,865	¥1.4		¥539,877	¥331,892
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)					481,457	300,737
5. VaR for SFTs					—	—
6. Total						¥632,629

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	479,924	345,076
5. Total subject to the CVA capital charge	¥479,924	¥345,076

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

	Risk weight	Millions of yen		
		EAD (post-CRM)		
		0%	10%	20%
Regulatory portfolio				
1. Japanese government and central bank		¥ 2,970	¥ —	¥ —
2. Non-Japanese sovereign and central bank		3,235	—	89
3. Bank for International Settlements (BIS)		16,662	—	—
4. Japanese local public authorities		30	—	—
5. Non-Japanese public sector entities (excluding sovereign)		—	—	50,167
6. Multilateral Development Banks (MDBs)		17,302	—	—
7. Japan Finance Organization for Municipalities (JFM)		—	—	4,430
8. Japanese government-sponsored entities		—	2,592	7,988
9. Three major local public corporations of Japan		—	—	—
10. Financial institutions and securities firms		—	—	353,278
11. Corporates		—	—	6,657
12. SMEs and individuals (risk weight 75% applied)		—	—	—
13. Other assets		—	—	—
14. Total		¥40,201	¥2,592	¥422,611

	Risk weight	Millions of yen		
		EAD (post-CRM)		
		50%	75%	100%
Regulatory portfolio				
1. Japanese government and central bank	¥	—	¥—	¥ —
2. Non-Japanese sovereign and central bank		47	—	—
3. Bank for International Settlements (BIS)		—	—	—
4. Japanese local public authorities		—	—	—
5. Non-Japanese public sector entities (excluding sovereign)		142	—	—
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		354	—	—
11. Corporates		15,617	—	539,766
12. SMEs and individuals (risk weight 75% applied)		—	—	—
13. Other assets		—	—	—
14. Total		¥16,162	¥—	¥539,766

	Risk weight	Millions of yen		
		EAD (post-CRM)		
		150%	Others	Total credit exposure
Regulatory portfolio				
1. Japanese government and central bank		¥—	¥—	¥ 2,970
2. Non-Japanese sovereign and central bank		—	—	3,372
3. Bank for International Settlements (BIS)		—	—	16,662
4. Japanese local public authorities		—	—	30
5. Non-Japanese public sector entities (excluding sovereign)		—	—	50,309
6. Multilateral Development Banks (MDBs)		—	—	17,302
7. Japan Finance Organization for Municipalities (JFM)		—	—	4,430
8. Japanese government-sponsored entities		—	—	10,581
9. Three major local public corporations of Japan		—	—	—
10. Financial institutions and securities firms		—	—	353,633
11. Corporates		—	—	562,041
12. SMEs and individuals (risk weight 75% applied)		—	—	—
13. Other assets		—	—	—
14. Total		¥—	¥—	¥1,021,335

CCR5: Composition of collateral for CCR exposure

	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
1 Cash—domestic currency	¥ 6,582	¥140,069	¥ 77,963	¥180,323	¥ 2,878,249	¥ 2,215,507
2 Cash—other currencies	68,920	27,682	2,089	18,941	4,905,460	4,340,753
3 Domestic sovereign debt	9	20,998	—	7,413	1,396,726	1,472,726
4 Other sovereign debt	566	—	—	—	3,555,600	3,441,955
5 Government agency debt	2,692	—	—	—	899,756	1,509,405
6 Corporate bonds	33,090	—	—	—	63,428	176,111
7 Equity securities	7,444	683	41,497	—	569,099	272,473
8 Other collateral	4,188	—	—	—	28,380	34,927
9 Total	¥123,494	¥189,433	¥121,549	¥206,678	¥14,296,703	¥13,463,860

* Collateral applied to credit risk mitigation techniques

CCR6: Credit derivatives exposures

		Millions of yen	
		Protection bought	Protection sold
Notionals			
1	Single-name credit default swaps	¥ 738,448	¥ 907,524
2	Index credit default swaps	309,056	202,926
3	Total return swaps	—	—
4	Credit options	—	—
5	Other credit derivatives	4,725	—
6	Total notionals	1,052,229	1,110,451
Fair values			
7	Positive fair value (asset)	2,173	14,026
8	Negative fair value (liability)	(14,223)	(6,776)

CCR8: Exposures to central counterparties

		Millions of yen	
		EAD (post-CRM)	RWA
1	Exposures to QCCPs (total)		¥14,842
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	¥218,226	4,364
3	(i) OTC derivatives	87,289	1,745
4	(ii) Exchange-traded derivatives	27,854	557
5	(iii) Securities financing transactions	103,082	2,061
6	(iv) Netting sets where cross-product netting has been approved	—	—
7	Segregated initial margin	113,021	
8	Non-segregated initial margin	16,328	330
9	Pre-funded default fund contributions	48,173	10,146
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		
		Group acts as originator		
Type of underlying assets		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	¥135,446	¥—	¥135,446
2 residential mortgage	69,742	—	69,742
3 credit card	—	—	—
4 other retail exposures	65,704	—	65,704
5 re-securitization	—	—	—
6 Wholesale (total)—of which	571,360	—	571,360
7 loans to corporates	570,484	—	570,484
8 commercial mortgage	—	—	—
9 lease and receivables	876	—	876
10 other wholesale	—	—	—
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	1,843	—	1,843
7 loans to corporates	1,843	—	1,843
8 commercial mortgage	—	—	—
9 lease and receivables	—	—	—
10 other wholesale	—	—	—
11 re-securitization	—	—	—

Type of underlying assets	Group acts as sponsor			Millions of yen
	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	—	—	—	—

Type of underlying assets	Group acts as investor			Millions of yen
	Traditional	Synthetic	Sub-total	
	¥4,096	¥—	¥4,096	
1 Retail (total)—of which				
2 residential mortgage	108	—	108	108
3 credit card	—	—	—	—
4 other retail exposures	3,988	—	3,988	3,988
5 re-securitization	—	—	—	—
6 Wholesale (total)—of which	3,015	—	3,015	3,015
7 loans to corporates	3,015	—	3,015	3,015
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

Total exposures	Millions of yen				
	Traditional securitization				
	Of which securitization			Of which retail underlying	Of which wholesale
Exposure values (by RW bands)					
1 ≤20% RW	¥692,307	¥692,307	¥692,307	¥120,946	¥571,360
2 >20% to 50% RW	—	—	—	—	—
3 >50% to 100% RW	14,500	14,500	14,500	14,500	—
4 >100% to <1250% RW	—	—	—	—	—
5 1250% RW	—	—	—	—	—
Exposure values (by regulatory approach)					
6 Of which internal ratings-based approach (SEC-IRBA) or internal assessment approach (IAA)	—	—	—	—	—
7 Of which external ratings-based approach (SEC-ERBA)	706,807	706,807	706,807	135,446	571,360
8 Of which standardized approach (SEC-SA)	—	—	—	—	—
9 Of which 1250% risk weight applied	—	—	—	—	—

Millions of yen

	Total exposures					
	Traditional securitization				Of which retail underlying	Of which wholesale
	Of which securitization					
RWA (by regulatory approach)						
10 Of which internal ratings-based approach (SEC-IRBA) or internal assessment approach (IAA)	—	—	—	—	—	—
11 Of which external ratings-based approach (SEC-ERBA)	145,587	145,587	145,587	31,359	114,228	
12 Of which standardized approach (SEC-SA)	—	—	—	—	—	—
13 Of which 1250% risk weight applied	—	—	—	—	—	—
Capital charge after cap						
14 Of which internal ratings-based approach (SEC-IRBA) or internal assessment approach (IAA)	—	—	—	—	—	—
15 Of which external ratings-based approach (SEC-ERBA)	11,647	11,647	11,647	2,508	9,138	
16 Of which standardized approach (SEC-SA)	—	—	—	—	—	—
17 Of which 1250% risk weight applied	—	—	—	—	—	—

Millions of yen

	Total exposures				
	Traditional securitization			Synthetic securitization	
	Of which re-securitization			Of which securitization	
	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 Of which internal ratings-based approach (SEC-IRBA) or internal assessment approach (IAA)	—	—	—	—	—
7 Of which external ratings-based approach (SEC-ERBA)	—	—	—	—	—
8 Of which standardized approach (SEC-SA)	—	—	—	—	—
9 Of which 1250% risk weight applied	—	—	—	—	—
RWA (by regulatory approach)					
10 Of which internal ratings-based approach (SEC-IRBA) or internal assessment approach (IAA)	—	—	—	—	—
11 Of which external ratings-based approach (SEC-ERBA)	—	—	—	—	—
12 Of which standardized approach (SEC-SA)	—	—	—	—	—
13 Of which 1250% risk weight applied	—	—	—	—	—
Capital charge after cap					
14 Of which internal ratings-based approach (SEC-IRBA) or internal assessment approach (IAA)	—	—	—	—	—
15 Of which external ratings-based approach (SEC-ERBA)	—	—	—	—	—
16 Of which standardized approach (SEC-SA)	—	—	—	—	—
17 Of which 1250% risk weight applied	—	—	—	—	—

Millions of yen

	Total exposures				
	Synthetic securitization				
	Of which securitization		Of which re-securitization		
	Of which retail underlying	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 Of which internal ratings-based approach (SEC-IRBA) or internal assessment approach (IAA)	—	—	—	—	—
7 Of which external ratings-based approach (SEC-ERBA)	—	—	—	—	—
8 Of which standardized approach (SEC-SA)	—	—	—	—	—
9 Of which 1250% risk weight applied	—	—	—	—	—
RWA (by regulatory approach)					
10 Of which internal ratings-based approach (SEC-IRBA) or internal assessment approach (IAA)	—	—	—	—	—
11 Of which external ratings-based approach (SEC-ERBA)	—	—	—	—	—
12 Of which standardized approach (SEC-SA)	—	—	—	—	—
13 Of which 1250% risk weight applied	—	—	—	—	—
Capital charge after cap					
14 Of which internal ratings-based approach (SEC-IRBA) or internal assessment approach (IAA)	—	—	—	—	—
15 Of which external ratings-based approach (SEC-ERBA)	—	—	—	—	—
16 Of which standardized approach (SEC-SA)	—	—	—	—	—
17 Of which 1250% risk weight applied	—	—	—	—	—

MR1: Market risk under standardized approach

	Millions of yen
	RWA
1 Interest rate risk (general and specific)	¥621,669
2 Equity risk (general and specific)	120,708
3 Foreign exchange risk	74,858
4 Commodity risk	—
Options	
5 Simplified approach	—
6 Delta-plus method	—
7 Scenario approach	—
8 Securitization	21,721
9 Total	¥838,957

MR2: RWA flow statements of market risk exposures under an IMA

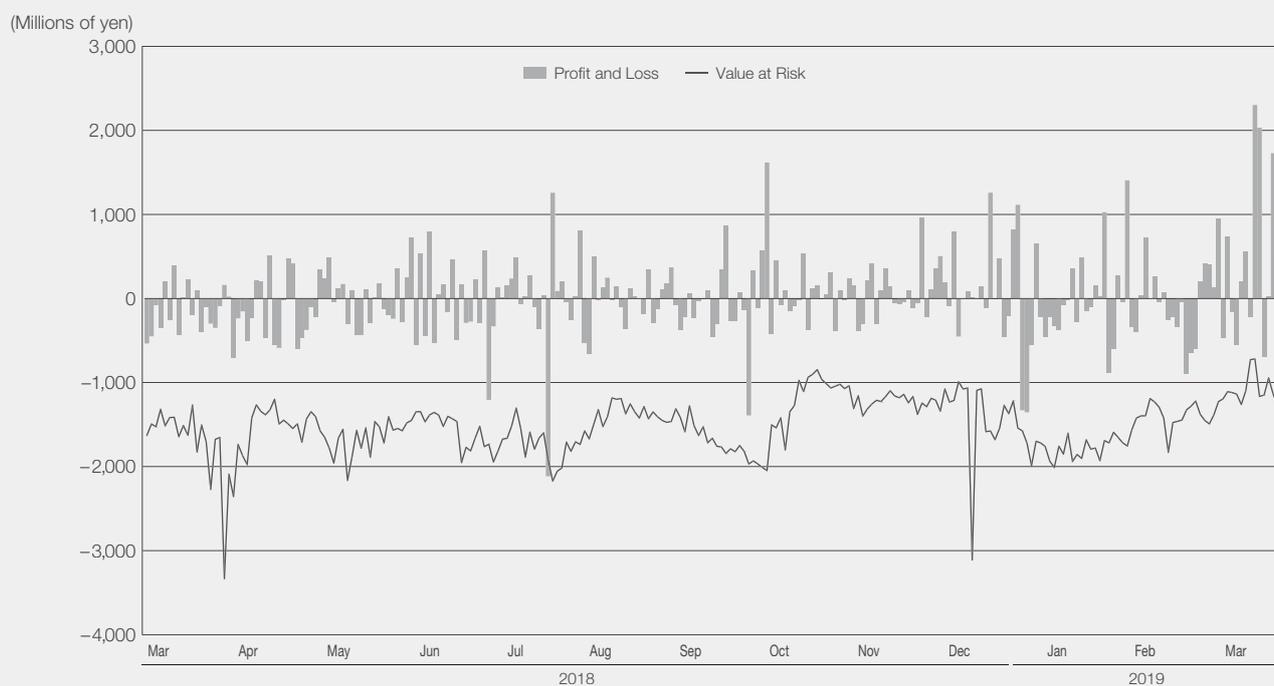
							Millions of yen	
		VaR	Stressed VaR	IRC	CRM	Other	Total RWA	
1a	RWA at end of previous year	¥189,559	¥411,707	¥—	¥—		¥601,266	
1b	Adjustments to RWA based on the regulatory consolidated capital at end of previous year	5	3	—	—		4	
1c	Amounts of IMA at end of previous year	32,178	106,780	—	—		138,959	
2	Change in Movement in risk levels	8,479	48,791	—	—		57,270	
3	reporting Model updates/changes	4,335	(13,492)	—	—		(9,157)	
4	period Methodology and policy	—	—	—	—		—	
5	Acquisitions and disposals	—	—	—	—		—	
6	Foreign exchange movements	—	—	—	—		—	
7	Other	—	—	—	—		—	
8a	Amounts of IMA at end of reporting period	44,992	142,079	—	—		187,072	
8b	Adjustments to RWA based on the regulatory consolidated capital at end of reporting period	3	3	—	—		3	
8c	RWA at end of reporting period	173,111	523,975	—	—		697,087	

							Millions of yen	
		VaR	Stressed VaR	IRC	CRM	Other	Total RWA	
1a	RWA at previous quarter end	¥176,487	¥310,714	¥—	¥—		¥487,201	
1b	Adjustments to RWA based on the regulatory consolidated capital at previous quarter end	2	1	—	—		1	
1c	Amounts of IMA at previous quarter end	64,703	196,079	—	—		260,782	
2	Change in Movement in risk levels	(19,710)	(53,999)	—	—		(73,710)	
3	reporting Model updates/changes	—	—	—	—		—	
4	period Methodology and policy	—	—	—	—		—	
5	Acquisitions and disposals	—	—	—	—		—	
6	Foreign exchange movements	—	—	—	—		—	
7	Other	—	—	—	—		—	
8a	Amounts of IMA at end of reporting period	44,992	142,079	—	—		187,072	
8b	Adjustments to RWA based on the regulatory consolidated capital at end of reporting period	3	3	—	—		3	
8c	RWA at end of reporting period	173,111	523,975	—	—		697,087	

MR3: IMA values for trading portfolios

		Millions of yen			Millions of yen
VaR (10 day 99%)—			Incremental Risk Charge (99.9%)		
1	Maximum value	¥15,076	9	Maximum value	—
2	Average value	5,850	10	Average value	—
3	Minimum value	1,932	11	Minimum value	—
4	Period end	3,969	12	Period end	—
Stressed VaR (10 day 99%)			Comprehensive Risk capital charge (99.9%)		
5	Maximum value	18,297	13	Maximum value	—
6	Average value	10,498	14	Average value	—
7	Minimum value	4,635	15	Minimum value	—
8	Period end	12,092	16	Period end	—
			17	Floor (standardized measurement method)	—

MR4: Comparison of VaR estimates with gains/losses



IRRBB1: Quantitative information on IRRBB

	Millions of yen	
	March 2019	March 2018
		ΔEVE
1 Parallel up	¥ 4,691	¥ 4,288
2 Parallel down	32,156	30,982
3 Steepener	1,632	11,995
4 Flattener	430	520
5 Short rate up	1,718	1,563
6 Short rate down	18,699	28,576
7 Maximum	32,156	30,982
8 Tier 1 capital	1,092,835	1,142,340

ΔNII 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.

CCyB1: Geographical distribution of credit exposures used in the countercyclical buffer

Geographical breakdown	Millions of yen			
	Countercyclical capital buffer rate	Risk-weighted assets used in the computation of the countercyclical capital buffer	Bank-specific countercyclical capital buffer rate	Countercyclical buffer amount
Hong Kong SAR	2.50%	¥ 10,069		
Sweden	2.00%	1,271		
United Kingdom	1.00%	24,383		
Sum		35,724		
Total		¥1,778,639	0.02%	¥355

* Basically, Risk-weighted assets used in the computation of the countercyclical capital buffer are calculated on an "ultimate risk" basis. For a part of assets which are difficult to allocate jurisdictions by ultimate risk method, we adopt the jurisdictions which are recorded in balance sheet to the calculation.

Consolidated Leverage Ratio

1. Composition of consolidated leverage ratio

Basel III template number (2)		Basel III template number (1)		Items	Millions of yen, %	
					March 2019	March 2018
On-balance sheet exposures					(1)	
1				On-balance sheet items before adjustments	¥12,041,187	¥11,659,677
1a	1			Total assets in the consolidated balance sheet	21,126,706	21,141,743
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	9,085,519	9,482,066
2	7			Common Equity Tier 1 capital: regulatory adjustments	146,287	115,303
3				Total on-balance sheet exposures (excluding derivatives and SFTs)	(A) 11,894,900	11,544,374
Derivative exposures					(2)	
4				Replacement cost associated with all derivatives transactions (with the 1.4 alpha factor applied)	489,419	—
				Replacement cost associated with all derivatives transactions	—	432,448
5				Add-on amounts for PFE associated with all derivatives transactions (with the 1.4 alpha factor applied)	395,086	—
				Add-on amounts for PFE associated with all derivatives transactions	—	1,310,291
				Gross-up for collateral posted in derivative transactions	—	264,892
6				Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	—	—
				Gross-up for derivatives cash margin 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	106,899	118,441
8				Exempted CCP leg of client-cleared trade exposures	—	—
9				Adjusted effective notional amount of written credit derivatives	1,110,451	1,551,276
10				Adjusted effective notional offsets and add-on deductions for written credit derivatives	830,277	1,253,152
11	4			Total derivative exposures	(B) 1,057,780	2,187,314
Securities financing transaction exposures					(3)	
12				Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	6,540,957	7,517,198
13				Netted amounts of cash payables and cash receivables of gross SFT assets	668,826	1,156,495
14				CCR exposure for SFT assets	163,474	211,873
15				Agent transaction exposures	—	—
16	5			Total securities financing transaction exposures	(C) 6,035,605	6,572,576
Other off-balance sheet exposures					(4)	
17				Off-balance sheet exposure at gross notional amount	122,854	80,259
18				Adjustments for conversion to credit equivalent amounts	43,528	26,485
19	6			Off-balance sheet items	(D) 79,326	53,774
Capital and total exposures					(5)	
20				Tier 1 capital	(E) 1,092,835	1,142,340
21	8			Total exposures (A)+(B)+(C)+(D)	(F) 19,067,611	20,358,038
22				Leverage ratio on a consolidated basis (E) / (F)	5.73%	5.61%

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
3a	Other TLAC-eligible instruments governed by foreign 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	1,182,379 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	—
34a	Type of subordination	—
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
3a	Other TLAC-eligible instruments governed by foreign 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	162 million Yen	209 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	—	—
34a	Type of subordination	—	—
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
3a	Other TLAC-eligible instruments governed by foreign 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 issued in July 2009
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	196 million Yen	261 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	July 1, 2009
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 30, 2028	June 30, 2029
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	—	—
34a	Type of subordination	—	—
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
3a	Other TLAC-eligible instruments governed by foreign 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 series 6	Stock subscription right issued in July 2010
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	210 million Yen	307 million Yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Stock subscription right	Stock subscription right
11	Original date of issuance	November 9, 2009	July 1, 2010
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 19, 2019	June 30, 2030
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	—	—
34a	Type of subordination	—	—
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
3a	Other TLAC-eligible instruments governed by foreign 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 series 7	Stock subscription right issued in July 2011
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	215 million Yen	370 million Yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Stock subscription right	Stock subscription right
11	Original date of issuance	September 1, 2010	July 1, 2011
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 25, 2020	June 30, 2031
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	—	—
34a	Type of subordination	—	—
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
3a	Other TLAC-eligible instruments governed by foreign 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 series 8	Stock subscription right issued in February 2013
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	218 million Yen	419 million Yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Stock subscription right	Stock subscription right
11	Original date of issuance	September 5, 2011	February 12, 2013
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 24, 2021	June 30, 2032
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	—	—
34a	Type of subordination	—	—
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
3a	Other TLAC-eligible instruments governed by foreign 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 series 9	Stock subscription right issued in February 2014
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	975 million Yen	358 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 10, 2014
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 26, 2022	June 30, 2033
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	—	—
34a	Type of subordination	—	—
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
3a	Other TLAC-eligible instruments governed by foreign 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 series 10	Stock subscription right issued in February 2015
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	1,157 million Yen	375 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 9, 2015
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 25, 2023	June 30, 2034
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	—	—
34a	Type of subordination	—	—
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
3a	Other TLAC-eligible instruments governed by foreign 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 series 11	Stock subscription right issued in February 2016
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	954 million Yen	376 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 16, 2016
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 25, 2024	June 30, 2035
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	—	—
34a	Type of subordination	—	—
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
3a	Other TLAC-eligible instruments governed by foreign 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 series 12	Stock subscription right issued in February 2017
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	357 million Yen	404 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 8, 2017
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 24, 2025	June 30, 2036
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	—	—
34a	Type of subordination	—	—
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
3a	Other TLAC-eligible instruments governed by foreign 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 series 13	Stock subscription right issued in February 2018
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	432 million Yen	435 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, 2018
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 27, 2026	June 30, 2037
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	—	—
34a	Type of subordination	—	—
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
3a	Other TLAC-eligible instruments governed by foreign 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 series 14	Stock subscription right series 15
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	238 million Yen	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 8, 2018	August 10, 2018
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 27, 2027	June 26, 2028
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	—	—
34a	Type of subordination	—	—
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, 2019 and 2018

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Cash and cash deposits:			
Cash and cash equivalents (Note 5)	¥1,437,027	¥ 1,317,548	\$13,063,882
Cash segregated as deposits for regulatory purposes (Note 5)	304,071	327,070	2,764,282
	1,741,098	1,644,618	15,828,164
Receivables:			
Loans receivable from customers (Note 5)	117,041	95,944	1,064,009
Loans receivable from other than customers (Notes 5 and 18)	292,831	224,957	2,662,100
Receivables related to margin transactions (Notes 3 and 5)	171,124	256,387	1,555,673
Short-term guarantee deposits (Note 5)	386,977	307,890	3,517,973
Other (Note 18)	54,951	59,701	499,553
Less: Allowance for doubtful accounts	(114)	(149)	(1,036)
	1,022,810	944,730	9,298,272
Collateralized short-term financing agreements (Notes 4, 5 and 18)	2,157,871	3,811,926	19,617,009
Trading assets (Notes 5, 6, 8 and 18)	4,585,634	5,163,208	41,687,582
Trading account receivables, net (Note 5)	196,596	—	1,787,236
Other assets:			
Property and equipment, at cost	23,207	19,128	210,973
Less: Accumulated depreciation	(15,919)	(16,045)	(144,718)
	7,288	3,083	66,255
Intangible fixed assets	74,795	65,671	679,955
Lease deposits	15,417	15,299	140,155
Investment securities (Notes 5 and 7)	10,592	15,579	96,291
Deferred tax assets (Note 13)	7,918	8,849	71,982
Other (Note 18)	15,709	12,852	142,808
Less: Allowance for doubtful accounts	(2,902)	(2,914)	(26,382)
	128,817	118,419	1,171,064
	¥9,832,826	¥11,682,901	\$89,389,327

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
LIABILITIES AND NET ASSETS	2019	2018	2019
Debt:			
Short-term borrowings (Notes 5, 8 and 18)	¥1,224,396	¥ 1,207,496	\$11,130,873
Commercial paper (Note 5)	100,000	105,000	909,091
Long-term debt (Notes 5, 11 and 18)	1,625,148	1,641,975	14,774,073
	2,949,544	2,954,471	26,814,037
Payables:			
Payables to customers and counterparties (Notes 5 and 10)	567,990	603,973	5,163,545
Payables related to margin transactions (Notes 3 and 5)	68,613	70,599	623,755
	636,603	674,572	5,787,300
Collateralized short-term financing agreements (Notes 4, 5 and 18)	1,757,346	2,920,274	15,975,873
Trading liabilities (Notes 5, 6 and 18)	3,593,928	3,850,446	32,672,073
Trading account payables, net (Note 5)	—	329,873	—
Accrued and other liabilities:			
Income taxes payable	2,316	5,026	21,055
Accrued bonuses	10,970	16,585	99,727
Retirement benefits (Note 12)	31,742	30,529	288,564
Other (Note 18)	74,170	96,171	674,272
	119,198	148,311	1,083,618
Statutory reserves (Note 14)	3,925	3,932	35,682
Total liabilities	9,060,544	10,881,879	82,368,583
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	909,091
Capital surplus	349,920	349,920	3,181,091
Retained earnings	320,112	346,250	2,910,109
	770,032	796,170	7,000,291
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	2,250	4,852	20,453
Total net assets	772,282	801,022	7,020,744
	¥9,832,826	¥11,682,901	\$89,389,327

See accompanying notes.

Statements of Income

DAIWA SECURITIES Co. Ltd.
Years ended March 31, 2019 and 2018

	2019	Millions of yen 2018	Thousands of U.S. dollars (Note 1) 2019
Operating revenues:			
Commissions (Note 18)	¥185,742	¥ 209,184	\$1,688,564
Net gain on trading (Note 20)	89,169	99,962	810,627
Interest and dividend income (Note 18)	57,464	49,689	522,400
	332,375	358,835	3,021,591
Interest expense (Note 18)	39,546	32,742	359,509
Net operating revenues (Note 17)	292,829	326,093	2,662,082
Selling, general and administrative expenses (Notes 12 and 21)	239,493	240,538	2,177,209
Operating income	53,336	85,555	484,873
Other income (expenses):			
Provision for statutory reserves, net (Note 14)	7	(16)	64
Other, net (Note 22)	3,224	3,599	29,308
	3,231	3,583	29,372
Income before income taxes	56,567	89,138	514,245
Income taxes (Note 13):			
Current	16,218	25,289	147,436
Deferred	2,051	(587)	18,645
	18,269	24,702	166,081
Profit	¥ 38,298	¥ 64,436	\$ 348,164
		Yen	U.S. dollars (Note 1)
Per share amounts:			
Net income	¥47,269.49	¥79,531.48	\$430
Cash dividends applicable to the year (Note 16)	47,269	79,531	427

See accompanying notes.

Statements of Changes in Net Assets

DAIWA SECURITIES Co. Ltd.
Years ended March 31, 2019 and 2018

	Number of shares of common stock	Owners' equity			Millions of yen
		Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income
					Valuation difference on available-for-sale securities
Balance at April 1, 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
Profit				38,298	
Cash dividends paid				(64,436)	
Net changes of items other than owners' equity					(2,602)
Balance at March 31, 2019	810,200	¥100,000	¥349,920	¥ 320,112	¥ 2,250

	Common stock	Capital surplus	Retained earnings	Thousands of U.S. dollars (Note 1)		
				Owners' equity		Accumulated other comprehensive income
						Valuation difference on available-for-sale securities
Balance at April 1, 2018	\$909,091	\$3,181,091	\$3,147,727		\$ 44,109	
Profit			348,164			
Cash dividends paid			(585,782)			
Net changes of items other than owners' equity					(23,656)	
Balance at March 31, 2019	\$909,091	\$3,181,091	\$2,910,109		\$ 20,453	

See accompanying notes.

Statements of Cash Flows

DAIWA SECURITIES Co. Ltd.

Years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Cash flows from operating activities:			
Profit	¥ 38,298	¥ 64,436	\$ 348,164
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	17,483	16,372	158,936
Allowance for doubtful accounts, net	(47)	(284)	(427)
Provision for retirement benefits, net	1,199	1,425	10,900
Losses (gains) related to investment securities	(3,485)	(3,699)	(31,682)
Deferred income taxes	2,051	(587)	18,645
Changes in operating assets and liabilities:			
Receivables and payables related to margin transactions	83,277	(49,456)	757,064
Short-term guarantee deposits	(79,086)	21,973	(718,964)
Other receivables and other payables	(121,191)	(1,408)	(1,101,736)
Collateralized short-term financing agreements	491,127	(392,579)	4,464,791
Trading assets and liabilities	(205,413)	183,044	(1,867,391)
Other, net	2,914	(64,930)	26,491
Total adjustments	188,829	(290,129)	1,716,627
Net cash flows provided by (used in) operating activities	227,127	(225,693)	2,064,791
Cash flows from investing activities:			
Payments for purchases of property and equipment	(1,500)	(328)	(13,636)
Payments for purchases of intangible fixed assets	(28,468)	(23,943)	(258,800)
Payments for purchases of investment securities	(18)	(147)	(164)
Proceeds from sales and redemption of investment securities	4,476	9,088	40,691
Payments for guarantee deposits	(548)	(512)	(4,982)
Proceeds from collection of guarantee deposits	429	361	3,900
Other, net	(302)	(88)	(2,745)
Net cash flows provided by (used in) investing activities	(25,931)	(15,569)	(235,736)
Cash flows from financing activities:			
Increase or Decrease in short-term borrowings and commercial paper	11,900	217,620	108,182
Increase in long-term debt	267,588	609,195	2,432,618
Decrease in long-term debt	(296,769)	(328,126)	(2,697,900)
Payments of cash dividends	(64,436)	(100,465)	(585,782)
Net cash flows provided by (used in) financing activities	(81,717)	398,224	(742,882)
Net increase in cash and cash equivalents	119,479	156,962	1,086,173
Cash and cash equivalents at beginning of year	1,317,548	1,160,586	11,977,709
Cash and cash equivalents at end of year	¥1,437,027	¥1,317,548	\$13,063,882

See accompanying notes.

Notes to Financial Statements

DAIWA SECURITIES Co. Ltd.
Years ended March 31, 2019 and 2018

1. Basis of financial statements

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 the 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, 2019, which was ¥110 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 "Cash and cash equivalents," "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 carry-forwards, if any. A valuation allowance is recognized for any portion of the deferred tax assets if it is considered not realizable based on the Company's planning, other studies, and reference to certain set requirements under Japanese GAAP.

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

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

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

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 the 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 the securities report.

(c) Impact of application

The impact is under evaluation as of the filing date of the securities report.

3. Margin transactions

Margin transactions at March 31, 2019 and 2018 consisted of the following:

	2019	Millions of yen 2018	Thousands of U.S. dollars 2019
Assets:			
Loans on margin transactions	¥153,580	¥224,934	\$1,396,182
Cash collateral pledged for securities borrowing on margin transactions	17,544	31,453	159,491
	¥171,124	¥256,387	\$1,555,673
Liabilities:			
Borrowings on margin transactions	¥ 2,537	¥ 2,348	\$ 23,064
Cash received for securities lending on margin transactions	66,076	68,251	600,691
	¥ 68,613	¥ 70,599	\$ 623,755

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 is stated at the sales amounts.

4. Collateralized short-term financing agreements

Collateralized short-term financing agreements at March 31, 2019 and 2018 consisted of the following:

	2019	Millions of yen 2018	Thousands of U.S. dollars 2019
Assets:			
Securities purchased under agreements to resell	¥ 897,413	¥ 125,353	\$ 8,158,300
Securities borrowed	1,260,458	3,686,573	11,458,709
	¥2,157,871	¥3,811,926	\$19,617,009
Liabilities:			
Securities sold under agreements to repurchase	¥1,452,218	¥1,196,089	\$13,201,982
Securities loaned	305,128	1,724,185	2,773,891
	¥1,757,346	¥2,920,274	\$15,975,873

5. Financial instruments

Concerning the situation of 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, dealing in public offerings, secondary offering and private placement of securities and other securities-related business, banking business and other financial businesses.

The Company holds financial assets and liabilities such

as "trading securities and other," "derivatives," and "investment securities," etc., in its businesses and raises funds with corporate bonds, medium-term notes, borrowing from financial institutions, commercial paper, call money, deposit acceptance, repurchase agreements, etc. In fundraising, under the basic policy for financing such that enough liquidity for continuing business should be effectively secured, the Company tries to realize efficient and stable financing by diversifying financial measures and maturity dates and maintaining an appropriate balance between assets and liabilities. Also, the Company utilizes

interest rate swaps and foreign currency swaps, etc., for the purpose of hedging fluctuations in interest rates and foreign currencies in terms of financial assets and liabilities.

The Company tries to secure financial soundness by managing entirely and efficiently the variety of risks incurred by holding financial assets and liabilities in accordance with the characteristics of such risks.

(2) Contents and risk of financial instruments

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

Among the various risks associated with these financial instruments, the major risks are market risk and credit risk. Market risk means the risks of suffering losses from fluctuations in the value of holding financial instruments and transactions in accordance with changes of market prices or rate of stock prices, interest rates, foreign exchange rates and commodities prices, etc., and from the market environment in which no transaction can be executed because of an excessive decrease of liquidity or one in which market participants are forced to trade in extremely unfavorable conditions. Credit risk means the risk of suffering losses from defaults or creditworthiness changes, etc., of counterparts or issuers of financial instruments which the Company holds.

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

The Company, holding the financial instruments as

above, also raises funds utilizing corporate bonds, medium-term notes, borrowing from financial institutions, commercial paper, call money, deposits acceptance, repurchase agreements, etc., and is exposed to liquidity risk. Liquidity risk means the risk of suffering losses such that cash management may be impossible or require remarkably higher financing costs than usual as a result of an abrupt change of market environment or deterioration of financial conditions of the Company, etc.

The Company utilizes derivative transactions as brokers and end-users in the derivatives market. Derivative products have been necessary to deal with a variety of customers' financial needs and subsidiaries provide customers with financial instruments to meet customers' requests in many ways as brokers. For instance, the Company provides customers with foreign currency futures to hedge the exchange rate risk of foreign currency of foreign bonds held by customers and also with interest rate swaps to hedge interest rate risk when customers issue corporate bonds, etc. As end-users, the Company utilizes interest rate swaps to hedge interest rate risk regarding financial assets and liabilities of the Company and utilizes many kinds of futures and options to hedge the trading positions.

(3) Risk management system concerning financial instruments

The Company adopted the "Risk Management Rule" at the meeting of the Board of Directors which states the basic policy of risk management, 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 Value at Risk (which indicates the estimate of the maximum loss amount under a certain confidence level, hereinafter "VaR"), position and sensitivity, etc., considering the financial situation, the business plan and budget of each division. The risk management department of the Company monitors and reports the market risk to the management of the Company on a daily basis. In order to cover the capacity limit of VaR calculated by the statistical hypothesis based on the data obtained for a certain period, the Company applies the stress test with a scenario assuming the impact of abrupt change in the market and hypothetical stress events.

(Quantitative information concerning market risk)

The Company utilizes the historical simulation method (holding period: 1 day, confidence interval: 99%, observation period: 520 business days) for calculating VaR of trading products.

The VaR as of March 31, 2019 (fiscal year end) was ¥0.9 billion (\$8.2 million) in total.

In the meantime, the Company verifies the model by executing back tests which compare calculated VaR and the actual profit/loss. Please note that as the VaR statistically estimates the risk based on historical market fluctuation, it may be unable to completely grasp the risk in an environment in which the market unexpectedly changes beyond the estimation.

(b) Management of credit risk

The credit risk generated in the trading business of the Company consists of counterparty risk and issuer risk. In regards to counterparty risk, the Company has established the upper limit on the credit-equivalent exposure that can be tolerated for each counterparty and periodically monitors such credit-equivalent exposure. The Company monitors risk amount related to the issuer risk of financial instruments held for market-making. In addition, the Company is periodically monitoring the influence from the large-lot credit.

Because margin transactions generate credit to customers, we require customers to set deposits as collateral. In connection with securities loan transactions, the Company has tried to reduce credit risk by establishing credit limit for counterparties, charging necessary collateral, and daily mark-to-market.

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

The Company holds financial instruments for other than trading business such as investment securities for business relationships. In connection with investment securities for business relationships, 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, 2019, if the index, such as TOPIX, were to change by 10%, market prices of the listed equities in "Investment securities" would fluctuate

by ¥0.2 billion (\$1.8 million).

Also, the main financial liabilities in the Company that are influenced by market risk are "bonds and notes" and "long-term borrowings." As of March 31, 2019, if all other risk variables were assumed to be unchanged and the interest rate was supposed to change by 10 basis points (0.1%), the market prices of "bonds and notes" and "long-term borrowings" would fluctuate by ¥0.1 billion (\$0.9 million) and ¥1.2 billion (\$10.9 million), respectively.

(iii) Management of liquidity

The Company conducts its business with a core focus on the securities-related business by utilizing a variety of assets and liabilities, it has the basic policy of fundraising to efficiently and stably secure enough liquidity for continuing its business.

Methods of raising funds of the Company include unsecured fundraising such as corporate bonds, medium-term notes, borrowing from financial institutions, commercial paper, call money and deposits acceptance, etc., and secured fundraising such as repurchase agreements, etc. The Company intends to realize effective and stable fundraising by combining these various methods.

In terms of financial stability, the Company, preparing for the case that the environment vastly changes, endeavors even in ordinary times to secure a stable reserve to prevent the business from suffering difficulties. Also, the Company tries to diversify the maturity and sources of funds in preparation for the event where it becomes difficult to raise new funds and to reschedule the existing funds due to a financial crisis.

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 also established a contingency funding plan as one of the measures of dealing with liquidity risk. This plan states the basic policy concerning the reporting lines and the method of fundraising, etc., depending upon the urgency of stress by internal factors such as decrease in creditworthiness and external

factors such as abrupt change of market environment. The contingency funding plan enables the 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

Fair value of financial instruments includes the price based on market value and the theoretical price reasonably calculated in the case of no market value. As such, theoretical prices are calculated based on certain assumptions and may be changed under different assumptions.

Fair values of financial instruments

The figures stated on the balance sheets as of March 31, 2019 and 2018, fair value and the difference of the two are as below. Any items for which it is extremely difficult to obtain fair value are not included in the statement below (see Note 2).

	Millions of yen					
	2019			2018		
	Amounts on balance sheets	Fair value	Difference	Amounts on balance sheets	Fair value	Difference
Assets						
(1) Cash and cash equivalents	¥1,437,027	¥1,437,027	¥ —	¥ 1,317,548	¥ 1,317,548	¥ —
(2) Cash segregated as deposits for regulatory purposes	304,071	304,071	—	327,070	327,070	—
(3) Trading assets	4,585,634	4,585,634	—	5,163,208	5,163,208	—
(4) Receivables related to margin transactions	171,124	171,124	—	256,387	256,387	—
(5) Trading account receivables, net	196,596	196,596	—	—	—	—
(6) Collateralized short-term financing agreements	2,157,871	2,157,871	—	3,811,926	3,811,926	—
(7) Short-term guarantee deposits	386,977	386,977	—	307,890	307,890	—
(8) Loans receivable from customers	117,041	117,041	—	95,944	95,944	—
(9) Loans receivable from other than customers	292,831	292,831	—	224,957	224,957	—
(10) Investment securities						
Other securities	3,629	3,629	—	7,504	7,504	—
Total Assets	¥9,652,801	¥9,652,801	¥ —	¥11,512,434	¥11,512,434	¥ —
Liabilities						
(11) Trading liabilities	¥3,593,928	¥3,593,928	¥ —	¥ 3,850,446	¥ 3,850,446	¥ —
(12) Payables related to margin transactions	68,613	68,613	—	70,599	70,599	—
(13) Trading account payables, net	—	—	—	329,873	329,873	—
(14) Collateralized short-term financing agreements	1,757,346	1,757,346	—	2,920,274	2,920,274	—
(15) Payables to customers and counterparties	567,990	567,990	—	603,973	603,973	—
(16) Short-term borrowings	1,224,396	1,224,396	—	1,207,496	1,207,496	—
(17) Commercial paper	100,000	100,000	—	105,000	105,000	—
(18) Long-term debt	1,625,148	1,632,106	(6,958)	1,641,975	1,646,775	(4,800)
Total Liabilities	¥8,937,421	¥8,944,379	¥(6,958)	¥10,729,636	¥10,734,436	¥(4,800)

				Thousands of U.S. dollars			
				2019			
				Amounts on balance sheets	Fair value	Difference	
Assets							
(1)	Cash and cash equivalents			\$13,063,882	\$13,063,882	\$	—
(2)	Cash segregated as deposits for regulatory purposes			2,764,282	2,764,282		—
(3)	Trading assets			41,687,582	41,687,582		—
(4)	Receivables related to margin transactions			1,555,673	1,555,673		—
(5)	Trading account receivables, net			1,787,236	1,787,236		—
(6)	Collateralized short-term financing agreements			19,617,009	19,617,009		—
(7)	Short-term guarantee deposits			3,517,973	3,517,973		—
(8)	Loans receivable from customers			1,064,009	1,064,009		—
(9)	Loans receivable from other than customers			2,662,100	2,662,100		—
(10)	Investment securities						
	Other securities			32,991	32,991		—
Total assets				\$87,752,737	\$87,752,737	\$	—
Liabilities							
(11)	Trading liabilities			\$32,672,073	\$32,672,073	\$	—
(12)	Payables related to margin transactions			623,755	623,755		—
(13)	Trading account payables, net			—	—		—
(14)	Collateralized short-term financing agreements			15,975,873	15,975,873		—
(15)	Payables to customers and counterparties			5,163,545	5,163,545		—
(16)	Short-term borrowings			11,130,873	11,130,873		—
(17)	Commercial paper			909,091	909,091		—
(18)	Long-term debt			14,774,073	14,837,327		(63,254)
Total liabilities				\$81,249,283	\$81,312,537	\$	\$(63,254)

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

(1) Cash and cash equivalents

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

(2) Cash segregated as deposits for regulatory purposes

Cash segregated as deposits for regulatory purposes mainly consist of the trust of cash segregated for customers. The price of those which are invested in securities like government bonds are calculated based on reasonably calculated prices utilizing yield spread with index interest rates for each term which are defined by immediately previous traded prices including those of similar bonds. Other investment

products are recorded as their book value because the fair value closely resembles the book value and they are settled in the short term.

(3) Trading assets and (11) Trading liabilities

Trading securities and other

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

Derivatives	
Derivatives traded on exchange	Mainly settlement price on exchange or standard price for margin calculation
Interest rate swaps, etc.	Prices calculated by price valuation models (models generally acknowledged in the market or a model expanding such models), based on expected cash flow calculated from yield curve, price and coupon rate of underlying bond, interest rates, discount rates, volatility, correlation, etc.
OTC equity derivatives	Prices calculated by price valuation models (models generally acknowledged in the market or a model expanding such models), based on price of equities or equities indices, interest rates, dividends, volatility, discount rates, correlation, etc.
Credit derivatives	Prices calculated by price valuation models (models generally acknowledged in the market or a model expanding such models), based on interest rates, credit spread of referents, etc.

Concerning OTC derivatives, the amount equivalent to 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 accompanied by margin transactions and cash collateral to securities finance companies. Those are recorded at their book value as deemed to be settled in the short term because the former is settled by reversing trades by customers' decisions and the latter is collateral marked-to-market on lending and borrowing transactions.

Payables related to margin transactions consist of borrowed money from securities finance companies accompanied by customers' margin transactions and the amount equivalent to sales price of securities as to customers' margin transactions. Those are recorded at their book value as deemed to be settled in the short term because the former is marked-to-market and the latter is settled by reversing trades by customers' decision.

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

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

(6), (14) Collateralized short-term financing agreements

These are recorded at their book value because fair values are similar to book value as those are mostly settled in the short term.

(7) Short-term guarantee deposits and (15) Payables to customers and counterparties

These are mainly guarantee deposits relating to derivative transactions. They are recorded at their book value as they can be deemed to be settled in the short term because of those characteristics which are marked-to-market for each transaction. Concerning other guarantee deposits received from customers, the payment amount when settled at the end of this fiscal year (book value) is deemed as fair value.

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

These are recorded at their book value because fair values are similar to book value as those are mostly settled in the short term.

(10) Investment securities

Equities, etc.	Closing price or closing quotation on the main stock exchange
Bonds	Price reasonably calculated by utilizing spread with index interest rate based on immediately previous traded price including similar bonds (OTC and broker screen, etc.) or market value information (trading price statistics, etc.), or reasonably calculated price based on the value of collateralized assets
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 each calculated period

(16) Short-term borrowings and (17) Commercial paper

These are recorded at their book value because fair value is similar to book value as they are settled in the short term.

(18) Long-term debt

The fair values of bonds and notes due within one year are recorded at their book value because fair value is similar to book value as they are settled in the short term.

On the other hand, concerning the fair value of bonds whose maturity is longer than one year, in the case that

market price (trading price statistics, etc.) is available in the market, fair value is calculated from the market price. If the market price is not available, fair value is calculated from book value which is adjusted based on the amount equivalent to the fluctuation of interest rate and credit spread of the Company since the issuance. As to the credit spread of the Company, we refer to the interest rate of the immediately previous fundraising, market prices of similar bonds issued

by the Company, etc.

Concerning fair values of long-term borrowings, fair value is calculated from book value which is adjusted based on the amount equivalent to the fluctuation of interest rate and credit spread of the Company from initial lending. As to the credit spread of the Company, we refer to the interest rate of the immediately previous fundraising, market prices of similar bonds issued by the Company, etc.

(Note 2) Any financial instruments for which it is extremely difficult to obtain their fair value at March 31, 2019 and 2018 are as below and are 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
	2019	2018	2019
Subsidiaries' stocks and related companies' stocks			
Unlisted equities	¥1,135	¥1,135	\$10,318
Other securities			
Unlisted equities	3,007	3,016	27,337
Investments in limited partnership and other similar partnerships	1,315	2,380	11,955
Others	1,506	1,544	13,690

It is deemed to be extremely difficult to determine fair values of the above 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, 2019

	Millions of yen			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and cash equivalents	¥1,437,027	¥—	¥—	¥—
Cash segregated as deposits for regulatory purposes	304,071	—	—	—
Receivables related to margin transactions	171,124	—	—	—
Collateralized short-term financing agreements	2,157,871	—	—	—
Short-term guarantee deposits	386,977	—	—	—
Investment securities:				
Other securities with a maturity date	—	—	—	—
Other securities	—	—	—	—
Total	¥4,457,070	¥—	¥—	¥—

* 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 the 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	\$13,063,882	\$—	\$—	\$—
Cash segregated as deposits for regulatory purposes	2,764,282	—	—	—
Receivables related to margin transactions	1,555,673	—	—	—
Collateralized short-term financing agreements	19,617,009	—	—	—
Short-term guarantee deposits	3,517,973	—	—	—
Investment securities:				
Other securities with a maturity date	—	—	—	—
Other securities	—	—	—	—
Total	\$40,518,819	\$—	\$—	\$—

* 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 the short term.

(Note 4) Scheduled redemption amount of commercial paper and long-term debt after March 31, 2019

	Millions of yen			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Commercial paper	¥100,000	¥ —	¥ —	¥ —
Long-term debt	168,452	684,800	402,889	369,007
Total	¥268,452	¥684,800	¥402,889	¥369,007

	Thousands of U.S. dollars			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Commercial paper	\$ 909,091	\$ —	\$ —	\$ —
Long-term debt	1,531,382	6,225,455	3,662,627	3,354,609
Total	\$2,440,473	\$6,225,455	\$3,662,627	\$3,354,609

6. Trading assets and trading liabilities

Trading assets and trading liabilities at March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Trading assets:			
Trading securities:			
Equities	¥ 127,835	¥ 285,590	\$ 1,162,136
Government, corporate and other bonds	1,435,133	2,125,282	13,046,664
Investment trusts	89,256	254,654	811,418
Commercial paper, certificates of deposits and others	5,956	2,529	54,146
Derivatives:			
Option transactions	376,124	424,524	3,419,309
Futures and forward transactions	42,848	59,060	389,527
Swap agreements	2,492,998	1,992,381	22,663,618
Other derivatives	19,355	23,957	175,955
Risk reserves	(3,871)	(4,769)	(35,191)
	¥4,585,634	¥5,163,208	\$41,687,582
Trading liabilities:			
Trading securities:			
Equities	¥ 155,142	¥ 226,059	\$ 1,410,382
Government, corporate and other bonds	739,491	1,425,583	6,722,646
Investment trusts	169	16	1,536
Derivatives:			
Option transactions	350,842	375,796	3,189,473
Futures and forward transactions	39,299	58,639	357,264
Swap agreements	2,286,990	1,741,600	20,790,818
Other derivatives	21,995	22,753	199,954
	¥3,593,928	¥3,850,446	\$32,672,073

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, 2019 and 2018 consisted of the following:

	Millions of yen		
	Cost	Fair value	Difference
March 31, 2019:			
Equities	¥1,034	¥3,629	¥2,595
Bonds	—	—	—
	¥1,034	¥3,629	¥2,595
March 31, 2018:			
Equities	¥1,245	¥7,504	¥6,259
Bonds	—	—	—
	¥1,245	¥7,504	¥6,259
	Thousands of U.S. dollars		
	Cost	Fair value	Difference
March 31, 2019:			
Equities	\$9,400	\$32,991	\$23,591
Bonds	—	—	—
	\$9,400	\$32,991	\$23,591

Cost/amortized cost of held-to-maturity securities and non-marketable securities as of March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Other securities:			
Unlisted equities	4,142	4,151	37,655
Investments in limited partnership and other similar partnerships	1,315	2,380	11,955
Other	1,506	1,544	13,690
	¥6,963	¥8,075	\$63,300

8. Pledged assets

Secured obligations at March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Short-term borrowings	¥250,000	¥10,000	\$2,272,727
	¥250,000	¥10,000	\$2,272,727

The above obligations at March 31, 2019 and 2018 were secured by the following assets:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Trading assets	¥553,284	¥638,006	\$5,029,855
	¥553,284	¥638,006	\$5,029,855

In addition to the above, securities borrowed amounting to ¥17,361 million (\$157,827 thousand) and ¥36,769 million were pledged as guarantees at March 31, 2019 and 2018, respectively.

Total fair value of the securities pledged as collateral at March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Securities loaned	¥ 304,475	¥1,726,035	\$ 2,767,955
Securities sold under agreements to repurchase	1,464,754	1,200,335	13,315,945
Other	418,943	498,487	3,808,573
	¥2,188,172	¥3,424,857	\$19,892,473

Total fair value of the securities received as collateral at March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Securities borrowed	¥1,317,322	¥3,862,244	\$11,975,655
Securities purchased under agreements to resell	897,742	121,531	8,161,291
Other	248,076	358,096	2,255,236
	¥2,463,140	¥4,341,871	\$22,392,182

9. Lease transactions

The information concerning operating leases at March 31, 2019 and 2018 is as follows:

Lessee:	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Operating leases:			
Future lease payments in respect of operating leases	¥45,207	¥49,704	\$410,973
Due within one year	7,857	7,811	71,427

10. Payables to customers and counterparties

Payables to customers and counterparties at March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Deposits from customers	¥195,938	¥179,301	\$1,781,255
Guarantee deposits received	367,143	413,997	3,337,664
Other	4,909	10,675	44,626
	¥567,990	¥603,973	\$5,163,545

11. Long-term debt

Long-term debt as of March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Bond payable in yen: 1.72% due CY2020	¥ 18,400	¥ 18,400	\$ 167,273
Bond payable in yen: 2.16% due CY2025	7,800	7,800	70,909
Bond payable in yen: 2.41% due CY2026	3,000	3,000	27,273
Bond payable in yen: 2.24% due CY2026	5,000	5,000	45,455
Bond payable in yen: 0.14% due CY2034	5,000	5,000	45,455
Bond payable in yen: 0.20% due CY2038	2,000	—	18,182
Medium-term notes maturing through CY2048	707,742	723,158	6,434,018
Subordinated medium-term notes maturing through CY2021	6,425	6,525	58,409
Subordinated borrowings in yen maturing through CY2025	50,000	50,000	454,545
Long-term borrowings in yen maturing through CY2047	819,781	823,092	7,452,554
	¥1,625,148	¥1,641,975	\$14,774,073

The amount for medium-term notes as of March 31, 2019 includes US\$402,429 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, 2019 and 2018 are ¥31,677 million (\$287,973 thousand)

and ¥30,478 million, respectively. Benefit expenses stated in the statements of income for the years ended March 31, 2019 and 2018 were ¥2,707 million (\$24,609 thousand) and ¥2,599 million, respectively.

Movement in retirement benefit obligations consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
At beginning of period	¥30,478	¥29,053	\$277,073
Service cost	2,707	2,599	24,609
Benefits paid	(1,780)	(1,440)	(16,182)
Other	272	266	2,473
At end of period	¥31,677	¥30,478	\$287,973

(2) Defined Contribution plan

Benefit expenses to "Defined contribution" for the years ended March 31, 2019 and 2018 were ¥2,316 million (\$21,055 thousand) and ¥2,227 million, respectively.

Retirement benefits for directors

Directors' and corporate auditors' retirement benefits of ¥65 million (\$591 thousand) and ¥51 million are included in "Retirement benefits" in the accompanying balance sheets as of March 31, 2019 and 2018. Benefit expenses stated in the statements of income for the years ended March 31, 2019 and 2018 were ¥14 million (\$127 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, 2019 and 2018 is as follows:

	2019	2018
Statutory tax rate:	30.6%	30.9%
Valuation allowance	0.9	(1.5)
Other	0.8	(1.7)
Effective tax rate	32.3%	27.7%

Details of deferred tax assets and liabilities as of March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Deferred tax assets:			
Retirement benefits	¥ 9,719	¥ 9,348	\$ 88,355
Compensation and bonuses	3,251	4,928	29,555
Loss on trading	2,105	2,405	19,136
Asset retirement obligations	1,730	677	15,727
Statutory reserves	1,202	1,204	10,927
Enterprise tax and office taxes	661	1,084	6,009
Write-down of investment securities	594	562	5,400
Depreciation	348	327	3,164
Other	5,554	5,474	50,491
Gross deferred tax assets	25,164	26,009	228,764
Less: Valuation allowance	(15,048)	(14,524)	(136,800)
Total deferred tax assets	10,116	11,485	91,964
Deferred tax liabilities	2,198	2,636	19,982
Net deferred tax assets	¥ 7,918	¥ 8,849	\$ 71,982

The Company provided a 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 ¥47 million (\$427 thousand) and ¥68 million at March 31, 2019 and 2018, respectively. The

outstanding balances of the guarantees obligated by the Company arising as guarantors of derivative transactions of fellow subsidiaries were ¥1,970 million (\$17,909 thousand) and ¥339 million at March 31, 2019 and 2018, 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 ¥47,269 (\$427) per share amounting to ¥38,297 million (\$348,155 thousand) were approved by the shareholders' meeting on June 18, 2019.

17. Segment information

The Company defines reportable segments as a group of operating segments whose discrete financial information is available and reviewed by the Company's management regularly in order to make decisions about resources to be allocated and assess their performance. The Company decides operating segments by business market and business category based on organization structure and aggregates to two reporting segments "Retail sales" and "Domestic wholesale."

"Retail sales" provides broad types of products and

services mainly to individual and unlisted-corporate customers. "Domestic wholesale" consists of "Global markets" and "Global investment banking." "Global markets" sells and trades stock, bonds, foreign exchange and the other derivatives mainly to institutional investors and investors of business, financial and public-interest corporations both at home and abroad. "Global investment banking" provides various investment banking services such as underwriting of securities and advisory of M&A, etc., at home and abroad.

(Net operating revenues by reportable segment)

	Millions of yen				Total
	Retail sales	Domestic wholesale	Reportable segment total	Others	
Year ended March 31, 2019:					
Net operating revenues:					
Sales to customers	¥182,361	¥103,993	¥286,354	¥2,269	¥288,623
Intersegment sales and transfers	—	—	—	—	—
Total	¥182,361	¥103,993	¥286,354	¥2,269	¥288,623

	Millions of yen				Total
	Retail sales	Domestic wholesale	Reportable segment total	Others	
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

	Thousands of U.S. dollars				Total
	Retail sales	Domestic wholesale	Reportable segment total	Others	
Year ended March 31, 2019:					
Net operating revenues:					
Sales to customers	\$1,657,827	\$945,391	\$2,603,218	\$20,627	\$2,623,845
Intersegment sales and transfers	—	—	—	—	—
Total	\$1,657,827	\$945,391	\$2,603,218	\$20,627	\$2,623,845

* "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
	2019	2018	2019
Net operating revenues			
Reportable segment total	¥286,354	¥324,164	\$2,603,218
Net operating revenues from "Others"	2,269	(1,147)	20,627
Commission fee deducted from net operating revenues	6,371	5,296	57,918
Other adjustments	(2,165)	(2,220)	(19,681)
Net operating revenues of financial statements	¥292,829	¥326,093	\$2,662,082

(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, 2019 and 2018, 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	
Daiwa Securities Group Inc.	¥247,397 million	Proceeds from Borrowings		Short-term borrowings	¥314,396
		Interest expense (Note 1)	¥10,942	Long-term debt	441,181
				Accrued and other liabilities—Other	2,373
Daiwa Capital Markets Europe Limited	£732 million	Continual transactions of collateralized short-term financial agreements		Collateralized short-term financing agreements (Assets)	¥ 500
		Interest income (Note 3)	¥ 109	Collateralized short-term financing agreements (Liabilities)	172,697
		Interest expense (Note 3)	968		
		Continual transactions of loans		Loans receivable from other than customers	¥243,623
		Interest income (Note 3)	¥ 5,633	Receivables—Other	2,162
		Continual transactions of purchase and sale of securities (Notes 2, 3)	—		
		Continual transactions of derivatives (Notes 2, 3)		Trading assets	¥ 43,596
				Trading liabilities	47,860
Daiwa Capital Markets America Inc.	\$100 million	Continual transactions of collateralized short-term financial agreements		Collateralized short-term financing agreements (Assets)	¥ 65,813
		Interest income (Note 3)	¥ 879	Collateralized short-term financing agreements (Liabilities)	278,933
		Interest expense (Note 3)	11,608		
		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	¥ 3,401
		Commissions (Note 4)	¥19,976		
Daiwa Next Bank, Ltd.	¥50,000 million	Continual transactions of collateralized short-term financial agreements		Collateralized short-term financing agreements (Assets)	¥ 22,236
		Interest income (Note 3)	¥ 1,891		
		Interest expense (Note 3)	—		
		Continual transactions of purchase and sale of securities(Notes 2, 3)	—		
		Continual transactions of derivatives (Notes 2, 3)		Trading assets	¥ 868
				Trading liabilities	174

* "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
				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

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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
				2019
Daiwa Securities Group Inc.	¥247,397 million	Proceeds from Borrowings	Short-term borrowings	\$ 2,858,145
		Interest expense (Note 1) \$ 99,473	Long-term debt	4,010,736
			Accrued and other liabilities—Other	21,573
Daiwa Capital Markets Europe Limited	£732 million	Continual transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	\$ 4,545
		Interest income (Note 3) \$ 991	Collateralized short-term financing agreements (Liabilities)	1,569,973
		Interest expense (Note 3) 8,800		
		Continual transactions of loans	Loans receivable from other than customers	\$ 2,214,755
		Interest income (Note 3) \$ 51,209	Receivables—Other	19,655
		Continual transactions of purchase and sale of securities (Notes 2, 3)		
		Continual transactions of derivatives (Notes 2, 3)	Trading assets	\$ 396,327
			Trading liabilities	435,091
Daiwa Capital Markets America Inc.	\$100 million	Continual transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	\$ 598,300
		Interest income (Note 3) \$ 7,991	Collateralized short-term financing agreements (Liabilities)	2,535,755
		Interest expense (Note 3) 105,527		
		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	\$ 30,918
		Commissions (Note 4) \$ 181,600		
Daiwa Next Bank, Ltd.	¥50,000 million	Continual transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	\$ 202,145
		Interest income (Note 3) \$ 17,191		
		Interest expense (Note 3) —		
		Continual transactions of purchase and sale of securities (Notes 2, 3)		
		Continual transactions of derivatives (Notes 2, 3)	Trading assets	\$ 7,891
			Trading liabilities	1,582

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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 eight special purpose entities for the year ended March 31, 2019 (seven for the year ended March 31, 2018) 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, 2019 and 2018 are ¥621,348 million (\$5,648,618 thousand) and ¥589,153 million, respectively.

20. Net gain on trading

Net gain on trading for the years ended March 31, 2019 and 2018 is as follows:

	2019	Millions of yen 2018	Thousands of U.S. dollars 2019
Equities and others	¥39,847	¥40,414	\$362,245
Bonds, forex and others	49,322	59,548	448,382
	¥89,169	¥99,962	\$810,627

21. Selling, general and administrative expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2019 and 2018 are summarized as follows:

	2019	Millions of yen 2018	Thousands of U.S. dollars 2019
Employees' compensation and benefits	¥ 98,021	¥102,746	\$ 891,100
Commissions and brokerage	17,963	17,097	163,300
Communications	12,425	12,387	112,955
Occupancy and rental	25,089	24,834	228,082
Data processing and office supplies	46,934	46,506	426,673
Taxes other than income taxes	4,426	4,576	40,236
Depreciation	17,483	16,372	158,936
Other	17,152	16,020	155,927
	¥239,493	¥240,538	\$2,177,209

22. Other income (expenses)

Details of "Other, net" in the accompanying statements of income for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Gains on sales of investment securities	¥3,485	¥ 3,699	\$31,682
Compensation for transfer	—	688	—
Office transfer expenses	(575)	(2,034)	(5,227)
Other	314	1,246	2,853
	¥3,224	¥ 3,599	\$29,308

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, 2019 and 2018, 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, 2019 and 2018, 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, 2019 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 27, 2019
Tokyo, Japan

Daiwa Securities Group Inc. Corporate Data

Head Office

GranTokyo North Tower
9-1, Marunouchi 1-chome, Chiyoda-ku,
Tokyo 100-6751, Japan
Tel: (81) 3-5555-1111

Website

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

Commencement of Operations

May 1, 1902

Date of Founding

December 27, 1943

Common Stock

Issued and Outstanding
1,699,378,772 shares
(as of March 31, 2019)

Number of Shareholders

157,073 (as of March 31, 2019)

Independent Public Accountant

KPMG AZSA LLC

Stock Exchange Listings

Tokyo, Nagoya

Transfer Agent and Registrar

Sumitomo Mitsui Trust Bank, Limited
Stock Transfer Agency Department
1-4-1, Marunouchi, Chiyoda-ku,
Tokyo 100-8233, Japan

For further information, please contact: Daiwa Securities Group Inc.

Investor Relations Office

Tel: (81) 3-5555-1300

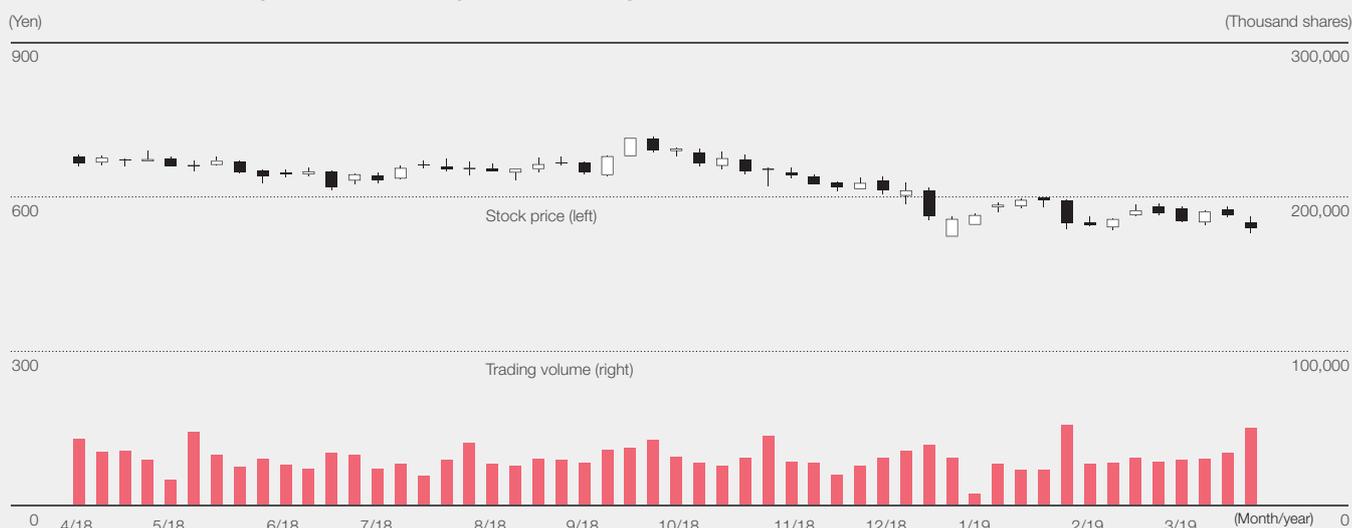
Fax: (81) 3-5555-0661

Email: ir-section@daiwa.co.jp

URL: <http://www.daiwa-grp.jp/english/ir/>

Stock Information

1. Stock Price and Trading Volume on the Tokyo Stock Exchange (April 1, 2018–March 31, 2019)



2. Major Shareholders (As of March 31, 2019)

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

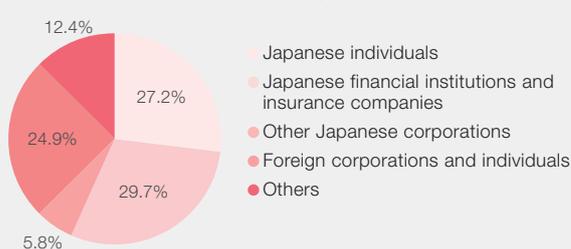
Note: Treasury stock of 133,081,441 shares is excluded for calculating the percentage of the above list of major shareholders.

3. Stock Price on the Tokyo Stock Exchange

(April 1, 2018–March 31, 2019)

Open	High	Low	Close	Average daily trading volume
¥678.3	¥716.9	¥523.7	¥539.0	6,639 thousand shares

4. Breakdown of Shareholders (As of March 31, 2019)



Officers

(As of August 1, 2019)

Daiwa Securities Group Inc.

Directors

(Members of the Board)

Chairman of the Board

Takashi Hibino

Outside Directors

Tadashi Onodera
Michiaki Ogasawara

Directors

Seiji Nakata
Toshihiro Matsui
Kazuo Takahashi
Keiko Tashiro
Mikita Komatsu
Masahisa Nakagawa
Sachiko Hanaoka

Hiroataka Takeuchi

Ikuo Nishikawa
Eriko Kawai
Katsuyuki Nishikawa

Corporate Executive Officers

President and CEO

Seiji Nakata*

Deputy Presidents

Toshihiro Matsui* (COO)
Kazuo Takahashi
Keiko Tashiro
Koichi Matsushita
Yoriyuki Kusaki

Senior Executive Managing Directors

Mikita Komatsu
Masahisa Nakagawa (CIO)
Shinsuke Niizuma
Akihiko Ogino

* Representative Corporate Executive Officers

Executive Managing Directors

Junichi Arihara (CRO and CDO)
Yoshifumi Otsuka
Kana Shirakawa (CHO)

Senior Managing Director

Eiji Sato (CFO)

Corporate Executive Officer

Takashi Hibino

Executive Officers

Senior Executive Managing Directors

Shinji Kawakami
Hironori Oka

Executive Managing Directors

Takayuki Sawano
Hideki Araki
Tomoyuki Murase
Shiko Yanagisawa

Senior Managing Directors

Yukiko Takeuchi
Naoki Suzuki
Atsushi Itaya

Daiwa Securities Co. Ltd.

Directors

(Members of the Board)

Chairman of the Board

Takashi Hibino*

Senior Executive Managing Directors

Masahiro Kobayashi
Keisuke Natsume
Yoshinori Matsumoto
Naoto Shimomura
Shinsuke Niizuma
Akihiko Ogino

President

Seiji Nakata*

Deputy Presidents

Toshihiro Matsui*
Kazuo Takahashi*
Keiko Tashiro*

Executive Managing Directors

Hiromi Uemura
Masataka Tsujimoto
Hiroyuki Nomura
Hiroshi Hara
Yasushi Iwasaki
Yoshihisa Kaneko
Atsushi Mochizuki
Junichi Arihara

Audit & Supervisory Board Members

Shuzo Takami
Sumiyuki Akaiwa*
Sachiko Hanaoka
Hiroshi Obayashi*

* Outside Audit & Supervisory Board Members

Executive Officers

Executive Managing Directors

Yoshifumi Otsuka
Tomoo Fujioka
Kana Shirakawa
Hiroataka Shirokawa
Mitsuru Fujita
Tomoyuki Murase
Sungho Kang
Toshiya Tadokoro
Hiroko Sakurai
Hiroyuki Ikeda

Senior Managing Directors

Tomoki Igura
Kei Sano
Futoshi Sekine
Tomonori Tsuji
Eiji Sato
Toru Yamamoto
Junichi Serizawa
Hidenobu Shirota
Isao Tsujioka
Tsutomu Kobayashi

Senior Managing Directors

Mineo Takatsuka
Tsutomu Takahashi
Yoshiaki Tanaka
Takaaki Narieda
Yukiko Takeuchi
Tomohide Wakayama
Takashi Yamada
Atsushi Itaya
Kenichi Ueno

* Representative Directors

Domestic Group Companies

(As of August 1, 2019)

Daiwa Securities Co. Ltd.

GranTokyo North Tower
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6752, Japan
Tel: +(81) 3-5555-2111

Daiwa Asset Management Co. Ltd.

GranTokyo North Tower
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6753, Japan
Tel: +(81) 3-5555-3111

Daiwa Institute of Research Holdings Ltd.

15-6, Fuyuki, Koto-ku, Tokyo 135-8460, Japan
Tel: +(81) 3-5620-5501

Daiwa Institute of Research Ltd.

15-6, Fuyuki, Koto-ku, Tokyo 135-8460, Japan
Tel: +(81) 3-5620-5100

Daiwa Institute of Research Business Innovation Ltd.

1-14-5 Eitai, Koto-ku, Tokyo 135-0034, Japan
Tel: +(81) 3-5931-8600

Daiwa Securities Business Center Co. Ltd.

3-2, Toyo 2-chome, Koto-ku, Tokyo 135-0016, Japan
Tel: +(81) 3-5633-6100

Daiwa Property Co., Ltd.

2-1, Kyobashi 1-chome, Chuo-ku, Tokyo 104-0031, Japan
Tel: +(81) 3-5555-4700

Daiwa Next Bank, Ltd.

GranTokyo North Tower
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6756, Japan
Tel: +(81) 3-5555-6500

Daiwa Corporate Investment Co., Ltd.

GranTokyo North Tower
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6756, Japan
Tel: +(81) 3-5555-6300

Daiwa PI Partners Co. Ltd.

GranTokyo North Tower
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6730, Japan
Tel: +(81) 3-5555-6001

Daiwa Energy & Infrastructure Co. Ltd.

GranTokyo North Tower
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6730, Japan
Tel: +(81) 3-5555-6100

Daiwa Fund Consulting Co. Ltd.

GranTokyo North Tower
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6756, Japan
Tel: +(81) 3-5555-6550

Daiwa Real Estate Asset Management Co. Ltd.

2-1, Ginza 6-chome, Chuo-ku, Tokyo 104-0061, Japan
Tel: +(81) 3-6215-9500

Daiwa Investor Relations Co. Ltd.

2-1, Kyobashi 1-chome, Chuo-ku, Tokyo 104-0031, Japan
Tel: +(81) 3-5555-4111

Daiwa Office Services Co., Ltd.

2-1, Kyobashi 1-chome, Chuo-ku, Tokyo 104-0031, Japan
Tel: +(81) 3-5555-6200

Retela Crea Securities Co., Ltd.

2-1, Kyobashi 1-chome, Chuo-ku, Tokyo 104-0031, Japan
Tel: +(81) 3-6385-0611

Fintertech Co. Ltd.

6th floor, Atlas building
5, Ichibancho, Chiyoda-ku, Tokyo, 102-0082, Japan
Tel: +(81) 3-3222-7333

Overseas Group Companies

(As of August 2019)

Daiwa Securities Group Inc.

Daiwa Capital Markets America Inc.

New York Head Office
Financial Square, 32 Old Slip, New York, NY 10005
Tel: +(1) 212-612-7000

San Francisco Branch
555 California Street, Suite 4325, San Francisco, CA 94104
Tel: +(1) 415-955-8100

Daiwa Corporate Advisory LLC (New York)

605 Third Avenue 11th Floor New York, NY 10158
Tel: +(1) 212-904-9400

Daiwa Capital Markets Europe Limited

London Head Office
5 King William Street, London EC4N 7AX
Tel: +(44) 20-7597-8000

Geneva Branch
50, rue du Rhône, P.O. Box 3198, 1211 Geneva 3
Tel: +(41) 22-818-74-00

Bahrain Branch
31st Floor, East Tower, Bahrain World Trade Center,
P.O. Box 30069, Manama
Tel: +(973) 1753-4452

Paris Representative Office
17, rue de Surène 75008 Paris
Tel: +(33) 1-56-26-22-00

Moscow Representative Office
11, Gogolevsky boulevard, 2nd Floor, Moscow, 119019
Tel: +(7) 495-641-3416

Daiwa Capital Markets Deutschland GmbH

Neue Mainzer Str. 1, 60311 Frankfurt am Main
Tel: +(49) 69-27139-8100

Daiwa Corporate Advisory Limited (UK)

5 King William Street, London EC4N 7DA
Tel: +(44) 20-7856-0999

Daiwa Corporate Advisory GmbH (Germany)

Neue Mainzer Str. 1, 60311 Frankfurt am Main
Tel: +(49) 69-9720-040

Daiwa Corporate Advisory SAS (France)

17, rue de Surène 75008 Paris
Tel: +(33) 1-4212-4900

Daiwa Securities Co. Ltd.

Beijing Representative Office

Room 301/302, North Tower, Beijing Kerry Centre, No. 1 Guanghua Road,
Chaoyang District, Beijing
Tel: +(86) 10-6500-6688

Bangkok Representative Office

18th Floor, M.Thai Tower, All Seasons Place, 87 Wireless Road, Lumpini,
Pathumwan, Bangkok 10330
Tel: +(66) 2-252-5650

Daiwa Capital Markets Hong Kong Limited

One Pacific Place, 88 Queensway, Hong Kong
Tel: +(852) 2525-0121

Daiwa Capital Markets Singapore Limited

Singapore Head Office
7 Straits View, Marina One East Tower #16-05/06, Singapore 018936
Tel: +(65) 6387-8888

Sydney Branch

Aurora Place (15th Floor) 88 Phillip St., Sydney NSW 2000
Tel: +(61) 2-8199-1500

Daiwa Securities Capital Markets Korea Co., Ltd.

21 Fl. One IFC, 10 Gukjegeumyung-Ro, Yeongdeungpo-Gu, Seoul, 07326
Tel: +(82) 2-787-9100

Daiwa Capital Markets Australia Limited

Level 34, Rialto North Tower, 525 Collins Street, Melbourne, Victoria 3000
Tel: +(61) 3-9916-1300

Daiwa Capital Markets India Private Limited

10th Floor, 3 North Avenue, Maker Maxity, Bandra-Kurla Complex,
Bandra East, Mumbai 400051
Tel: +(91) 22-6622-1000

Daiwa-Cathay Capital Markets Co., Ltd.

14th Floor, 200 Keelung Road, Sec. 1, Taipei
Tel: +(886) 2-2723-9698

DBP-Daiwa Capital Markets Philippines, Inc.

18th Floor, Citibank Tower, 8741 Paseo de Roxas, Salcedo Village, Makati
City
Tel: +(632) 737-3000

Daiwa (Shanghai) Corporate Strategic Advisory Co. Ltd.

44/F, Hang Seng Bank Tower, 1000 Lujiazui Ring Road,
Pudong, Shanghai
Tel: +(86) 21-6841-3292

Myanmar Securities Exchange Centre Co., Ltd.

21-25 Sule Pagoda Road, Yangon
Tel: +(95) 1-374894

Hanoi Representative Office

Suite 1306, Pacific Place Building, 83B Ly Thuong Kiet Street, Hanoi
Tel: +(84) 24-3946-0460

Daiwa Securities Group

<http://www.daiwa-grp.jp>