

April 25, 2019

Daiwa Securities Group Inc.

**Report Regarding Consolidated Liquidity Coverage Ratio**

**Situation of Soundness in Liquidity Management as of Fourth Quarter in Fiscal Year 2018**

In accordance with the Financial Instruments and the Exchange Act Article 57-17, “Notification, etc. of Documents Describing Status of Soundness in Management”, Daiwa Securities Group Inc. reports situation of soundness in liquidity management as of fourth quarter in fiscal year 2018.

## Quantitative disclosure of consolidated Liquidity Coverage Ratio

(Unit :1 Million Yen,%)

Items		Fourth Quarter in Fiscal Year 2018		Third Quarter in Fiscal Year 2018	
<b>High Quality Liquid Assets (1)</b>					
1	Total high quality liquid assets	2,528,417		2,501,861	
<b>Cash Outflows (2)</b>		Unweighted Value	Weighted Value	Unweighted Value	Weighted Value
2	Retail deposits and deposits from small business customers	1,757,279	175,727	1,791,902	179,190
3	Stable deposits	-	-	-	-
4	Less stable deposits	1,757,279	175,727	1,791,902	179,190
5	Unsecured wholesale funding	2,646,411	1,545,852	2,393,304	1,276,488
6	Operational deposits	-	-	-	-
7	Unsecured wholesale funding other than operational deposits and unsecured debt	2,581,951	1,481,392	2,328,102	1,211,285
8	Unsecured debt	64,460	64,460	65,202	65,202
9	Secured funding	6,799,261	433,523	7,327,300	416,314
10	Outflows related to derivative exposures, loss of funding on debt products, committed credit and liquidity facilities	226,236	226,236	265,317	265,317
11	Outflows related to derivative exposures	215,618	215,618	254,782	254,782
12	Outflows related to loss of funding on debt products	-	-	-	-
13	Outflows related to credit and liquidity facilities	10,618	10,618	10,535	10,535
14	Other contractual funding obligations	4,095,100	1,072,910	4,357,483	1,202,602
15	Other contingent funding obligations	86,791	86,405	174,789	174,399
16	Total cash outflows	3,540,657		3,514,313	
<b>Cash Inflows (3)</b>		Unweighted Value	Weighted Value	Unweighted Value	Weighted Value
17	Secured lending	5,451,550	188,070	5,949,504	155,634
18	Inflows from fully performing exposures	502,341	408,594	376,708	353,289
19	Other cash inflows	3,828,179	1,157,918	3,980,981	1,197,075
20	Total cash inflows	1,754,582		1,705,999	
<b>Consolidated Liquidity Coverage Ratio (4)</b>					
21	Total high quality liquid assets	2,528,417		2,501,861	
22	Total net cash outflows	1,786,074		1,808,314	
23	Consolidated liquidity coverage ratio	141.5%		138.3%	
24	Number of data used for calculation of average value	58		62	

(Unit :1 Million Yen,%)

		Fourth Quarter in Fiscal Year 2018	Third Quarter in Fiscal Year 2018	Second Quarter in Fiscal Year 2018	First Quarter in Fiscal Year 2018	Fourth Quarter in Fiscal Year 2017
<b>Consolidated liquidity coverage ratio</b>						
15	Total high quality liquid assets	2,528,417	2,501,861	2,675,608	2,688,055	2,687,674
16	Total net cash outflows	1,786,074	1,808,314	1,883,117	1,896,228	1,832,879
17	Consolidated liquidity coverage ratio	141.5%	138.3%	142.0%	141.7%	146.6%

## **Qualitative disclosure of consolidated Liquidity Coverage Ratio**

### **1. Changes in consolidated Liquidity Coverage Ratio over previous quarter**

Daiwa Securities Group Inc.'s (the group) total High Quality Liquid Asset (HQLA) was 2,528,417 million Yen, which has increased by 26,556 million Yen from the previous quarter.

Cash outflow related to unsecured wholesale funding was 1,545,852 million Yen, which has increased by 269,364 million Yen from the previous quarter. Cash outflow related to other contractual funding obligations was 1,072,910 million Yen, which has decreased by 129,692 million Yen from the previous quarter. Cash inflow related to other cash inflows was 1,157,918 million Yen, which has decreased by 39,157 million Yen from the previous quarter. And total net cash out flow was 1,786,074 million Yen, which has decreased by 22,240 million Yen from the previous quarter.

As a result of above mentioned conditions, Daiwa Securities Group Inc.'s consolidated Liquidity Coverage Ratio was 141.5%, which has increased by 3.2 points. Since the first quarter in fiscal year 2015, changes in the ratio are relatively stable.

### **2. Evaluation of the group's consolidated Liquidity Coverage Ratio**

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

The group's consolidated Liquidity Coverage Ratio is above the minimum requirement.

### **3. Composition of HQLA**

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

### **4. Other issues related to the consolidated Liquidity Coverage Ratio**

With regard to the Other contingent funding obligations in Cash Outflows, its calculation method has been revised for capital call within fund investment limit and buyback of bonds. The amount has decreased by 100,500 million Yen from the previous quarter.

## **Disclosure of consolidated liquidity risk management**

### **1. Overview of liquidity risk management policy and procedure**

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

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

The risk management department is designated as the division manages the group's liquidity risk, monitors status of liquidity risk through utilization of short to long term liquidity management indicators, and reports to the managements daily. The indicators are set forth at the board meeting as a risk appetite indicator, and its compliance is reviewed periodically.

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

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

### I. Risk appetite indicators

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

#### The Long Term Funding Ratio

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

### II. Contingency funding plan

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

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