

**Daiwa Securities Group**

**Integrated Report 2018**

Year ended March 31, 2018



**Sustainability &  
Innovation**

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## Forward-Looking Statements

This Integrated Report contains forward-looking statements about the Daiwa Securities Group. You can identify these statements by the fact that they do not relate strictly to historic or current facts. These statements discuss future expectations, identify strategies, contain projections of results of operations or of financial condition, or state other "forward-looking" information. These statements are based on currently available information and represent the beliefs of the management of the Daiwa Securities Group. These statements are subject to numerous risks and uncertainties that could cause the Daiwa Securities Group's actual results, performance, achievements or financial condition to differ materially from those described or implied in the forward-looking statements. The Daiwa Securities Group undertakes no obligation to publicly update any forward-looking statements after the date of issuance of this report. These potential risks and uncertainties include, but are not limited to: competition within the financial services industries in Japan and overseas, our ability to adjust our business focus and to maintain profitable strategic alliances, volatile and sudden movements in the international securities markets, and foreign exchange and global economic situations affecting the Daiwa Securities Group. "FY2017" refers to the fiscal year ended March 31, 2018, and other fiscal years are referred to in a corresponding manner.

## 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 2018 Bloomberg Gender-Equality Index and the MSCI Japan Empowering Women Index.

MEMBER OF

**Dow Jones  
Sustainability Indices**

In Collaboration with RobecoSAM



## Participation in International Initiatives

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



## Editorial Policy

### Publication of Daiwa Securities Group Integrated Report 2018

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 fund management needs of individuals, corporations and institutional investors and the operating fund procurement needs of companies, national and local governments, public institutions, and international institutions.

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 social value, we have started to publish an integrated report annually as a tool for dialogue.

This fiscal year's report has been restructured so as to highlight the unique values and business model that the Group has built up over the 116 years of its history. In addition, together with providing a briefing on the new Medium-Term Management Plan launched in April 2018, this report features an introduction of our efforts with regard to sustainable development goals (SDGs) that we are working on so as to contribute to the sustainable development of society as well as the sustainable growth of the Group, as is stated in our corporate philosophy. Please be sure to read through this report, and we would appreciate hearing your opinions.

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

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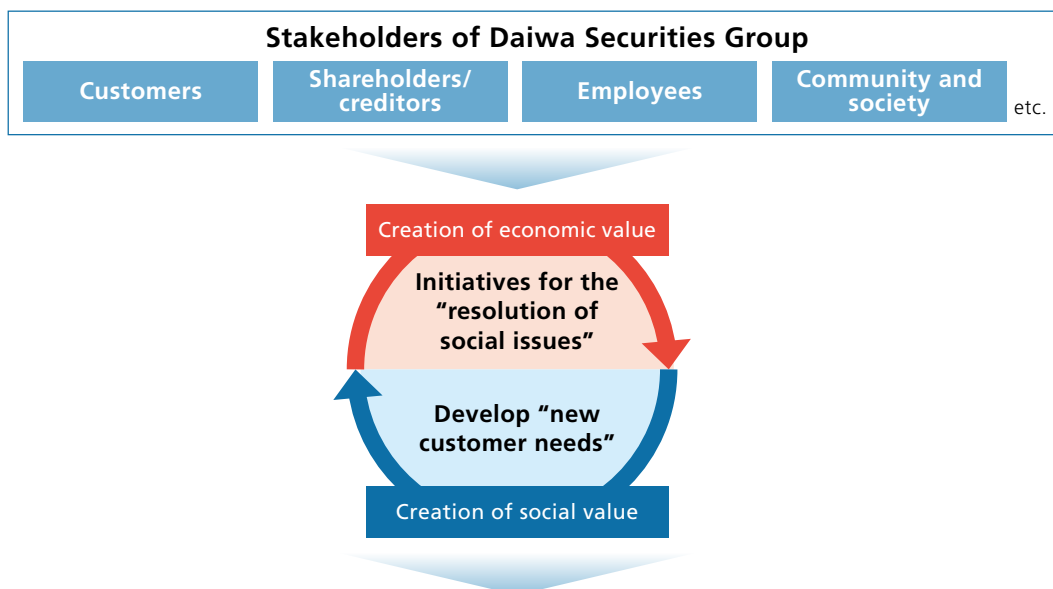
Seiji Nakata

President and CEO  
Daiwa Securities Group Inc.

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



## Cycle of Shared Value Creation



**Contribute to the realization of a prosperous society and an enriched lifestyle**

# To Our Stakeholders



# Our hope is to create an affluent future together with all of our stakeholders.

FY2017 was an important year for Daiwa Securities Group, marking the 115th anniversary of our founding. Under our new management system, this year also served as a fresh start founded on the strategic pillars of having the industry's highest quality and being an integrated securities group with a hybrid business model that leverages the benefits of being independent.

The Retail Division adopted a new sales promotion strategy espousing a bottom-up sales approach with greater emphasis on the customer's perspective, and its sales staff is now devoting more time in proposals that capture the needs of customers. Along with consultant positioning targeted at responding to more finely segmented needs and optimizing sales channels by branch strategies, the Division further bolstered its lineup of products and services designed from the customer's perspective. Meanwhile, the Wholesale Division served as the lead manager for multiple large-scale underwriting deals that were representative of the fiscal year, resulting in our selection as the House of the Year in the DEALWATCH AWARDS 2017 overall category.

An integrated securities group with a hybrid business model involves actively working to diversify our business portfolio, broadening the scope of our real estate asset management business and entering new business fields, such as those that employ FinTech solutions. We strove to enrich the synergies between new areas and traditional securities businesses, as well as cultivate a diverse range of earnings sources.

In FY2017, the Japanese stock market experienced a series of pullbacks sparked by geopolitical risks and

turmoil in US politics. That said, overall, the market environment was solid, with concerns receding over the political climate in Europe and optimism growing over economic policies in Japan and the US. Although the Nikkei Stock Average hit the 24,000 mark in January 2018, with the sharp rise in US long-term interest rates in February, Japanese shares tumbled. Against this backdrop, Daiwa Securities Group reported net operating revenues of ¥505.3 billion and ordinary income of ¥155.6 billion on a consolidated basis for FY2017, along with profit attributable to owners of parent of ¥110.5 billion.

In FY2018, we initiated our New Medium-Term Management Plan "Passion for the Best" 2020. As Japan enters a time when more people will live to the age of 100 and a digital transformation spreads throughout business and society, we foresee major changes in the operating environment surrounding the Group that will serve as opportunities. Based on the strategic policies of delivering high-value-added solutions through the industry's highest quality which leverages the strengths of the Group, and delivering new value as an integrated securities group with a hybrid business model, we are aiming to be a financial and capital market pioneer that creates the future.

Daiwa Securities Group will continue doing its part to create an affluent society in which people can lead fulfilling and prosperous lives. To this end, we will work to generate value for both the economy and society through our efforts to tackle social issues.

We would like to express our deepest appreciation to stakeholders for their continued support.

日比野 隆司

**Takashi Hibino**  
Chairman of the Board  
Daiwa Securities Group Inc.

中田 誠司

**Seiji Nakata**  
President and CEO  
Daiwa Securities Group Inc.

# Our DNA Underpinning Sustainable Growth in Concert with Society

## Daiwa Securities Group's DNA

Values That Underpin the Group's Foundations

Penetration to All Employees

### Corporate Principles

#### Building trust

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

#### Placing importance on personnel

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

#### Contributing to society

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


#### Maintaining healthy earnings results

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

Practicing Its Values

### The Daiwa Spirit

1. Exercises self-discipline and complies fully with the law, recognizing that sustainable growth hinges on winning the trust of customers, financial and capital markets, and society at large.
2. Secures sound profits by contributing to societal and economic development through its actions in financial and capital markets.
3. Exerts unflagging efforts to build strong, sustainable, trust-based customer relations.
4. Continues to pioneer products and services in financial and capital markets, with each employee fulfilling his/her mission with confidence and pride.
5. Cultivates unbeatable competitiveness to overcome challenges, underpinned by strong company-employee trust and solidarity between colleagues.
6. Aims to be the securities group with the highest ambitions, a positive attitude that turns hardships into opportunity, and unmatched speed.

Creating a rewarding company in which employees are satisfied with their job  P.27

Quality No. 1 initiatives  P.28

Customer-first operations  P.48

Medium-Term Management Plan

"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

## Key Issues for Achieving Sustainable Growth in Concert with Society (Three Pillars)

**Key Issue 1** ■ Leveraging financial capabilities to contribute to a sustainable society

**Key Issue 2** ■ Developing sound financial and capital markets for the next generation

Working to develop a work environment which serves as a base for promoting these issues

■ Striving to create a pleasant working environment

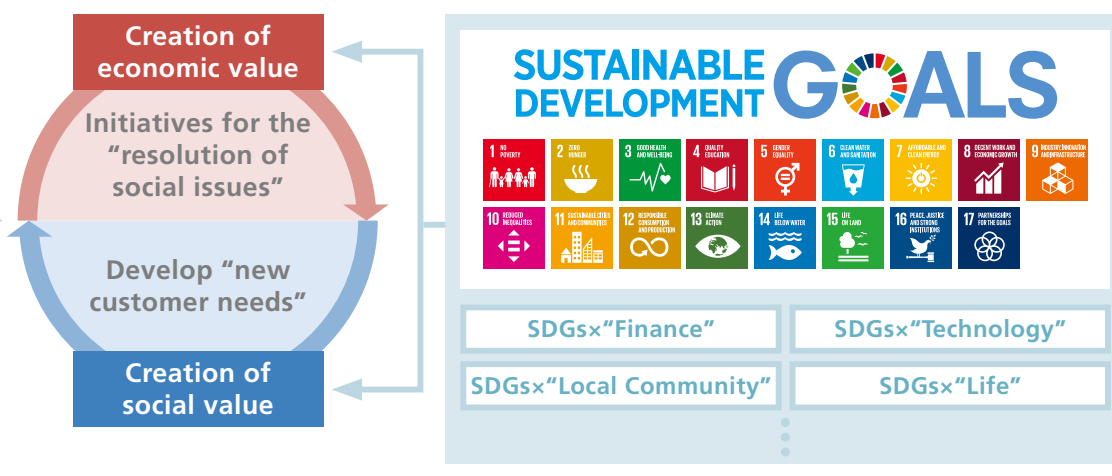
In FY2014, Daiwa Securities Group held hearings with each of its departments to ascertain the expectations of stakeholders and changes in social trends. Drawing from its findings, the Group identified CSR materiality based on its three pillars.

### CSR Materiality of the Daiwa Securities Group

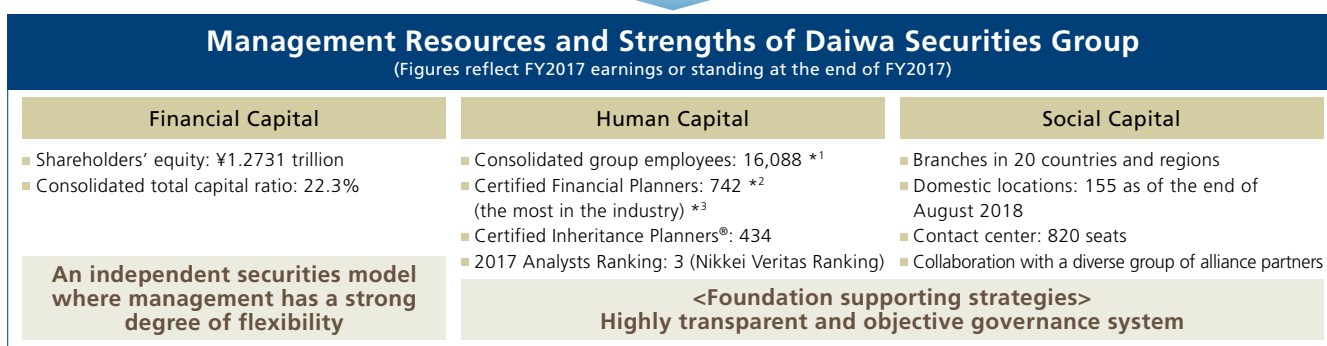
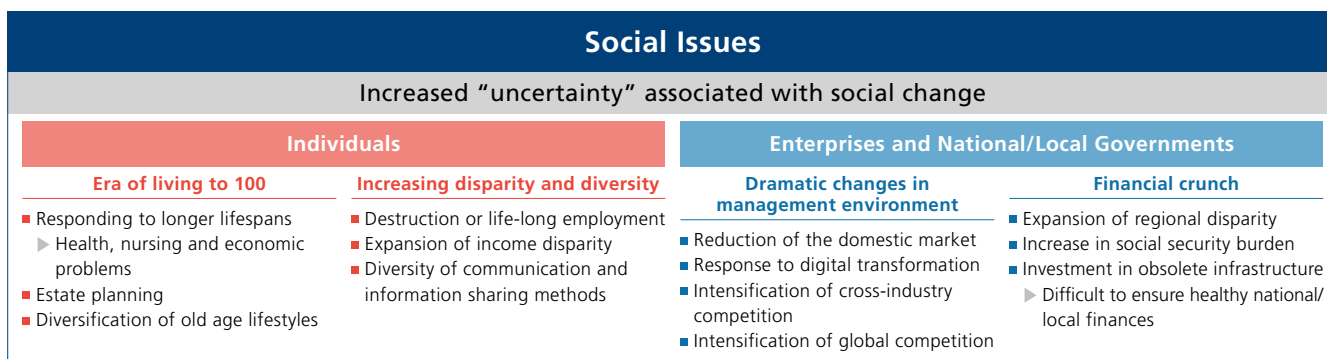
- I. Appropriate proposals and after-sales service in accordance with the characteristics and needs of customers
- II. Customer service with a wealth of hospitality
- III. Development and provision of superior financial and investment products
- IV. Dissemination of analysis and proposals on the economy, society, and investment information
- V. Maintenance and development of financial and capital market functions
- VI. Appropriate risk controls
- VII. Appropriate management of customer information
- VIII. Construction and maintenance of a strong IT system
- IX. Responsible action as an institutional investor
- X. Creation of a workplace that values human resource development and diversity of employees
- XI. Creation of a corporate culture to comply with laws, regulations and codes in Japan and overseas, based on self-discipline (including appropriate anti-corruption and human rights measures)
- XII. Reduction of environmental load and responses to environmental changes
- XIII. Initiatives to address social concerns and contribute to future development of society, and financial and capital markets
- XIV. Contribution to local communities
- XV. Construction and maintenance of an appropriate corporate governance system

Integrate

### Promoting the creation of shared values based on sustainable development goals under the Medium-Term Management Plan



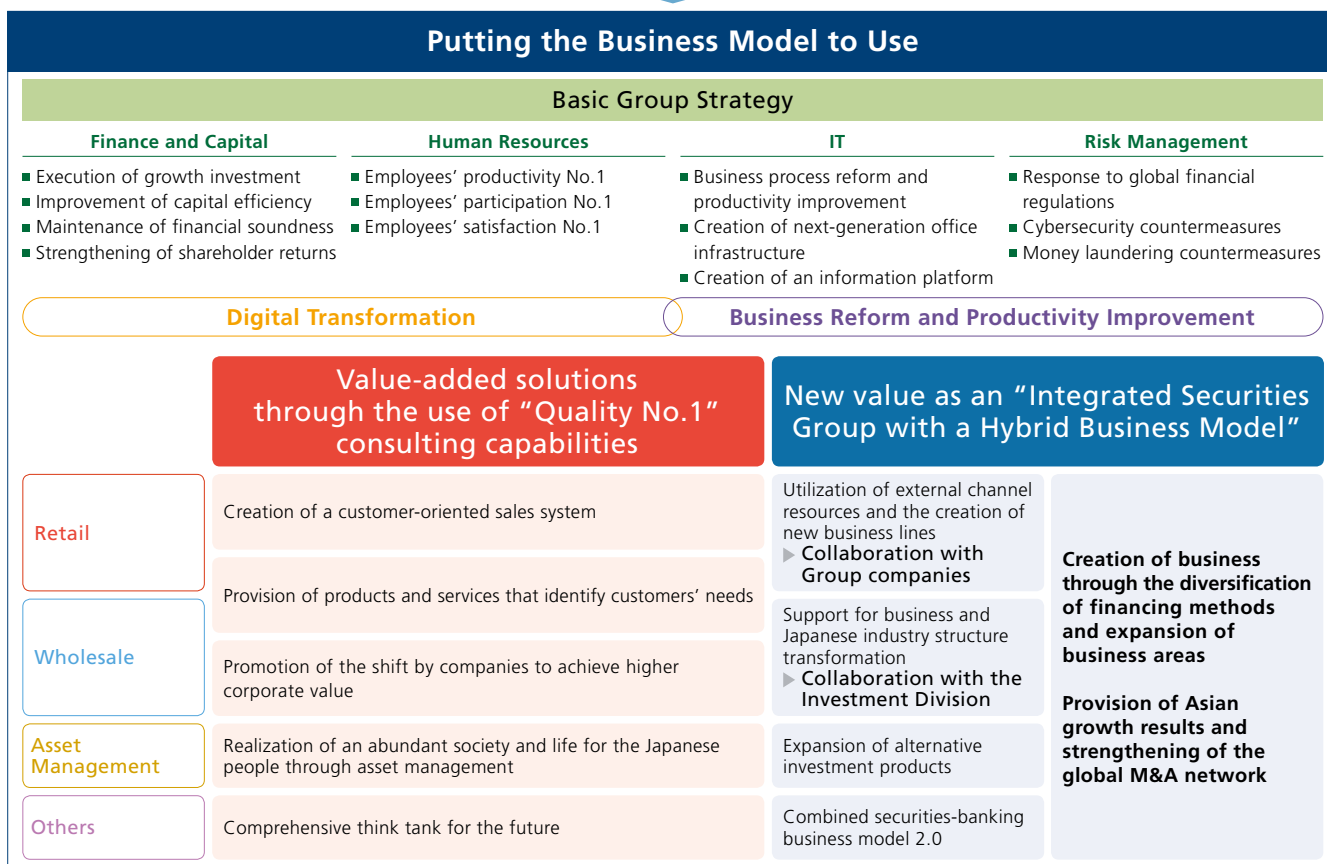
# Daiwa Securities Group Value Creation Model



\*1 The sum of consolidated group companies and Daiwa SB Investments

\*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 FY2017 earnings or standing at the end of FY2017)

### Economic (Financial) Value

### Social Value

#### Retail Division

Net operating revenues  
¥214.2 billion

Ordinary income ¥51.3 billion

#### Wholesale Division

Net operating revenues  
¥171.1 billion

Ordinary income ¥45.3 billion

#### Asset Management Division

Net operating revenues  
¥49.3 billion

Ordinary income ¥29.1 billion

- AUM of publicly offered stock investment trusts  
Daiwa Asset Management ¥14.1 trillion  
Daiwa SB Investments ¥2.2 trillion
- Assets under management of real estate AM business ¥883.2 billion

#### Investment Division

Net operating revenues  
¥27.4 billion

Ordinary income ¥24.4 billion

#### Supporting asset formation to meet the life plan needs of people

- Accounts with balances: 2,989,000
- Online trading accounts: 3,214,000
- NISA accounts (cumulative): 829,000
- Wrap account service customers: 134,000

#### Improve customer satisfaction

- Customer satisfaction: 4.86 (7-point scale, Daiwa Securities FY 2017 customer service survey: 121,000 responses)

#### Providing diversified international investment opportunities

- Balance of foreign currency-based assets (not disclosed)

#### Supporting corporate financing and restructuring

- League Table Primary and secondary equity offerings: 1<sup>st</sup> place  
IPOs: 2<sup>nd</sup> place Straight bonds: 2<sup>nd</sup> place  
M&A (number of deals): 9<sup>th</sup> place

#### Supporting fund raising that contributes to resolving social issues

- Impact Investment Bond sales: ¥685.8 billion (cumulative)\*  
\*March 2008 to the end of March 2018

#### Development of ESG-focused ETFs and investment trusts

- Balance of SRI investment trust funds under management (total of Group companies): ¥146.5 billion

#### Expanding health care facilities in an aging society

- Rooms provided for nursing homes and elderly care facilities by Nippon Healthcare Investment: 1,598 (as of the end of April 2018)

#### Investment in new industries

- Total investment funds at Daiwa Corporate Investment (cumulative): ¥417.3 billion

#### Investment and development in renewable energy

- Solar power plants Output capacity: 50.3MW
- Biomass power plants Output capacity: 6.2MW

#### Improving trust and stability in the capital markets

- Consolidated Total Capital Ratio: 22.3%
- Credit Ratings  
S&P: A- (Daiwa Securities Group Inc.), A (Daiwa Securities Co. Ltd.)  
Moody's: Baa1 (Daiwa Securities Group Inc.), A3 (Daiwa Securities)
- Number of settlement processing transactions: about 2.8 million on an annual basis

#### Job satisfaction reforms

- Efforts aimed at improving productivity
- Introduction of a variety of new systems

Reinvestment

Net operating revenues  
¥505.3 billion

Ordinary income  
¥155.6 billion

Profit attributable to owners  
of parent ¥110.5 billion

Dividend payout ratio  
41.9%

Annual dividends  
per share ¥28

Total payout ratio 75.2%

ROE 8.8%

Assets under custody  
¥68.1 trillion

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

# The culture and DNA of Daiwa Securities Group built up over 116 years of history

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

Founder: Seibei Fujimoto

Location at that time: Yokobori, Higashi-ku, Osaka

Fujimoto Bill Broker began with the aim of establishing itself as a full-fledged, British-style bill broker that could go beyond bill broking and find a niche for itself in the intermediation of funds between financial institutions and business corporations. Since its inception, the company has worked to expand its business and establish a position in the call market based on the procurement of funds from the call market and self-accounting purchase of bills.

Call money markets of that time, as a general rule, secured by government bonds, and in cases where securities companies transacted in government bonds, they were from call money vendors, and in other cases, financing was received from banks. Given this, securities companies were for the most part positioned as members within specified bank groups. However, as this company had the capability to procure sufficient capital from call money markets, there were only nominal relationships with banks, which led to the independence of Daiwa Securities that was to come.



Advertisement announcing launch of business

Determination made to conduct operations as a securities company due to heavy restrictions in place when operating concurrently with banks. (Prior to the conclusion of a five-year grace period, following a 1932 shareholders' meeting, the company changed its name to Fujimoto Bill Broker Securities Co. Ltd., from 1933)

## Social and Economic Environment

1904

Russo-Japanese War

1919

Boom in corporate bond issues for public projects (electric power, railroads, others)

1923

Great Kanto Earthquake

1927

Banking Act announced (enacted in the following year)

1929

The Great Depression

1934

Inflationary boom spurs great activity with public stock offerings and increased capitalization

1939

Outbreak of World War II

1949

Tokyo Stock Exchange founded

1951

Treaty of San Francisco Law for Securities Investment Trust enacted

1900s

1910s

1920s

1930s

1940s

1950s

## Business Activities

1902

Commenced operations as Fujimoto Bill Broker

1907

Fujimoto Bill Broker changed its corporate name to Fujimoto Bill Broker Bank



1910

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

1917

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

1919

Establishment of representative office in New York

1925

Established local subsidiary in the US in accordance with Delaware state law (closed in 1934 due to the impact of the re-imposition of the gold embargo in 1931)



First edition of *Kinyu-Shunpo*, October 1910

1933

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

1937

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

1938

Acquisition of license to conduct securities trading



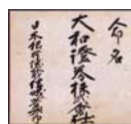
Daiwa Investment Weekly, April 2018

1942

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

1943

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



1948

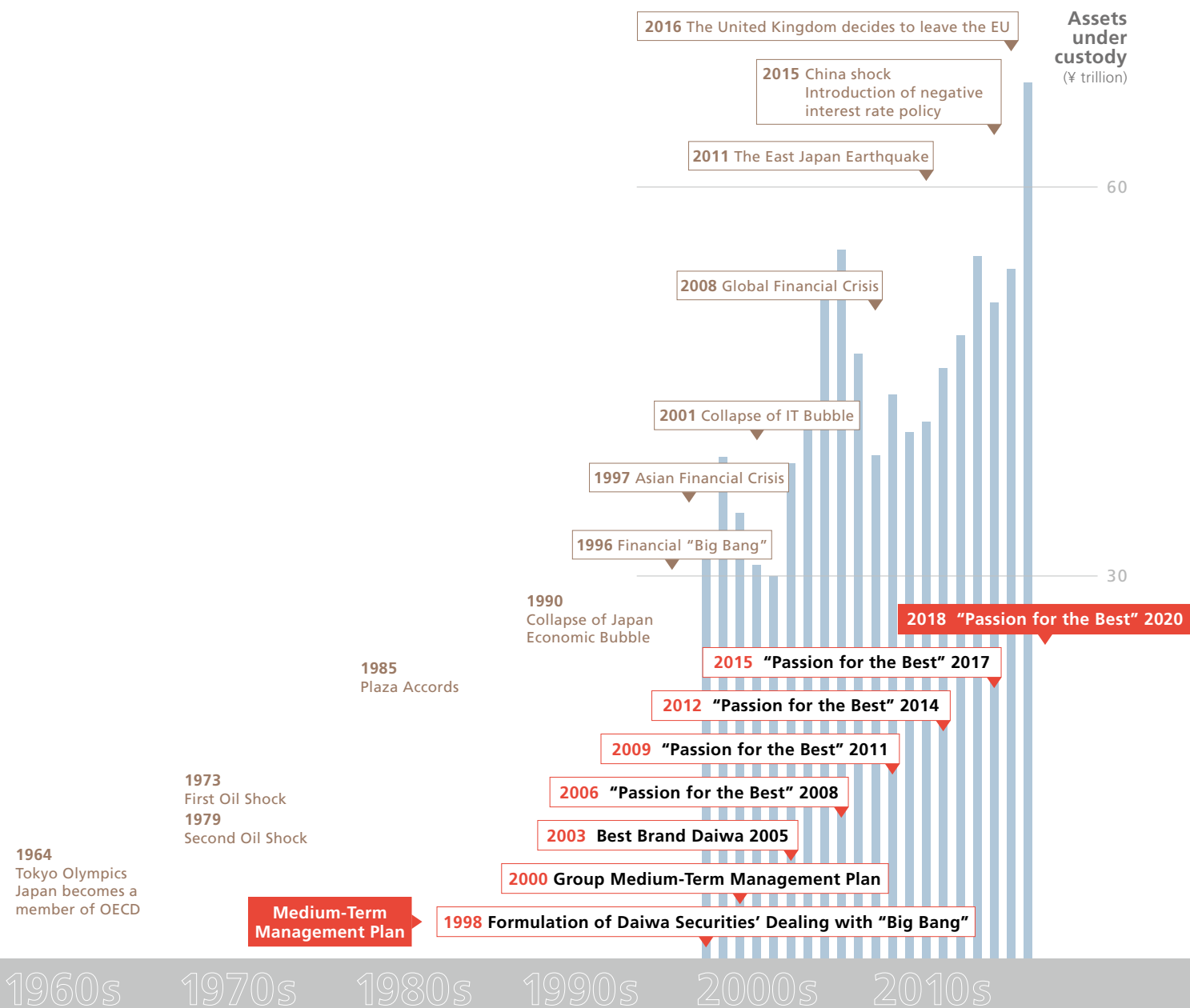
Japan's first issuance of convertible bonds

1951

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

1959

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



1960s    1970s    1980s    1990s    2000s    2010s

**1961**

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

**1964**

Established local subsidiary in New York

**1970**

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

**1971**

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

**1972**

Established local subsidiary in Singapore

**1977**

Issued first Euro/Yen Bond

**1981**

Established local subsidiary in London

**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



**1990**

Listed on seven stock exchanges in Europe

**1996**

Launched online brokerage service

**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.

**2004**

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

**2007**

Relocated the head office to GranTokyo North Tower  
Launch of Daiwa Fund Wrap

**2009**

Daiwa Securities Group and Sumitomo Mitsui Financial Group decided to dissolve the joint venture in wholesale business  
Acquisition of DaVinci Select (currently Daiwa Real Estate Asset Management Co., Ltd.)

**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

**2017**

Acquisition of Sagent Advisors and Signal Hill (integrated into DCS Advisory in March 2018)

# FY2017 Topics

## Management Topics

### April

#### ● Change of President and CEO



Seiji Nakata was appointed as the new CEO. By further refining existing business strategies, Daiwa Securities Group builds a solid standing as the best partner for its customers.

#### ● Investment in COL Financial Group, Inc.

Acquired a 14.9% stake in COL Financial Group, which holds the largest share in terms of number of online securities accounts in the rapidly expanding Philippine securities market. Along with providing an opportunity to participate in the fast-growing Philippine economy, it provides a platform for further expansion of Daiwa Securities Group business in Asian countries.

#### ● Issuance of global US dollar-denominated bonds

Issued global US dollar-denominated bonds on the international market for the first time as Daiwa Securities Group, in order to secure a stable means of procuring foreign currency and to diversify investors. These bonds attracted strong demand from investors throughout the world, including institutional investors in the US.

### June

#### ● Preparation for establishing a new subsidiary in Frankfurt (Germany)



Set out to establish a new subsidiary in Frankfurt am Main (Germany) and to submit a license application to the German regulator accordingly. This arrangement will ensure the continued provision of services for clients in the EU (Europe Union) after the United Kingdom leaves the EU.

### July

#### ● Agreement to acquire two North American M&A advisory firms

Acquired Signal Hill, a North American M&A advisory firm, and agreed to include the Group's existing investee Sagent Advisors in the scope of consolidation as a wholly owned subsidiary. In March 2018, the two companies were merged to launch DCS Advisory as a means of strengthening the M&A advisory business in North America and globally.



2017

April

May

June

July

August

September

## Product-Related Topics

### June

#### ● Announcement of the "Basic Policy on Customer-Oriented Operations"

In support of the intent of the "Principles for Customer-Oriented Business Conduct," announced by the Financial Services Agency in March, declared our acceptance of the Principles, and formulated and announced the Basic Policy on Customer-Oriented Operations.



### September to November

#### ● Strengthening of available asset building schemes and products

[1] Set Daiwa iDeCo defined contribution plan provider commission fees at no charge

[2] Began receiving applications for accumulated-type NISA  
Daiwa Securities is driving expansion in the lineup of schemes and products designed to contribute to stable asset building through long-term deposits and diversified investments.



## January

- New initiative for the real estate asset management business



As a new initiative for the real estate asset management business, set out to partially underwrite third-party allotment investment units issued by Samty Residential Investment Corporation, a listed REIT mainly focused on investments in residential properties located in regional cities, and to acquire shares in Samty Asset Management Co., Ltd., an asset management company. (Payment and share acquisition were executed in February)

## November

- Strategic partnership formed with Finatext, a FinTech startup from The University of Tokyo, and Smartplus

Formed a partnership with Finatext Ltd. and its subsidiary Smartplus Ltd. that aims to establish a next-generation securities platform. Daiwa Securities Group provides system design support and the agency function for order execution.



## February

- Capital and business alliance with KDDI in the asset building field

Entered into a capital and business alliance with KDDI, a major telecommunications company, in the asset building field, and launched KDDI Asset Management as a joint venture. This collaboration vigorously supports the shift from savings to investment by supporting the asset building of customers in a time when people are living to 100 years old.

- Established the Daiwa Securities Group SDGs Promotion Committee
- Selected as a 2018 Health & Productivity Stock and 2018 Certified Productivity Management Organization (White 500)



Daiwa Securities Inc. has been selected four years running as a listed company that excels in initiatives that enhance employee health by the Health & Productivity Stock selection program, organized jointly by the Ministry of Economy, Trade and Industry and Tokyo Stock Exchange.

October

November

December

2018

January

February

March

## November

- Fund Wrap 10-year anniversary

Ten-year anniversary of Fund Wrap services, which have received the support of many customers since their launch in 2007. Since the first services were released, steps have been taken to improve the services and expand the lineup in order to meet the expectations of our customers. The balance as of April 2018 exceeded ¥2 trillion.



ダイワ ファンドラップ

- Daiwa Next Bank "Eraberu Yokin"

Co-creation-type deposits created jointly with customers, corporations, and organizations

Daiwa Next Bank began offering *Eraberu Yokin*, whereby deposit products are structured and delivered to customers based on the requests of customers, corporations, and organizations.




## March

- Begin managing Daiwa Advance Wrap

Began offering a new concept of wrap account services in which portfolios are flexibly reshuffled under our discretion in response to changes in the investment climate.

## Message from the CEO



**In an increasingly uncertain society, Daiwa Securities Group plays a role as a financial and capital market pioneer that creates the future by providing new value through innovation.**

**Seiji Nakata**  
President and CEO  
Daiwa Securities Group Inc.

### Progress made on growth in stable revenues, diversification of revenue sources under previous Medium-Term Management Plan

During the previous Medium-Term Management Plan “Passion for the Best” 2017 (the previous Plan), the shift in individual financial assets from savings to investments did not materialize in the absence of a clear exit from deflation, despite favorable performance on markets confluent with Abenomics. Regrettably, Daiwa Securities Group was one step short of achieving numerical targets in the previous Plan, reaching ROE of 8.8% and a fixed cost coverage ratio of 68.5% versus targets for 10% and 75%, respectively, in FY2017, the final fiscal year of the previous Plan. However, the Group steadily expanded stable revenues that are less exposed to market conditions and diversified sources of revenues through business diversification while paying attention to capital efficiency. In this regard, the Group made considerable progress over the past three years.

After becoming president in April 2017, I raised two strategic themes, one for establishing the industry's highest quality, and another for becoming an integrated securities group with a hybrid business model that leverages the benefits of being independent.

In the Retail Division, we introduced a bottom-up sales system and optimized and subdivided sales channels in accordance with customer attributes and life stages, in order to place more emphasis on customer-oriented operations. Our goal of increasing the ratio of stable revenues, which was set under the previous Plan, is a constant theme in the Group's management. In this context, and in accordance with our basic policy as an integrated securities group with a hybrid business model, we launched new businesses outside the traditional securities business, expanded synergies through collaboration with the traditional securities business and diversified sources of revenues.

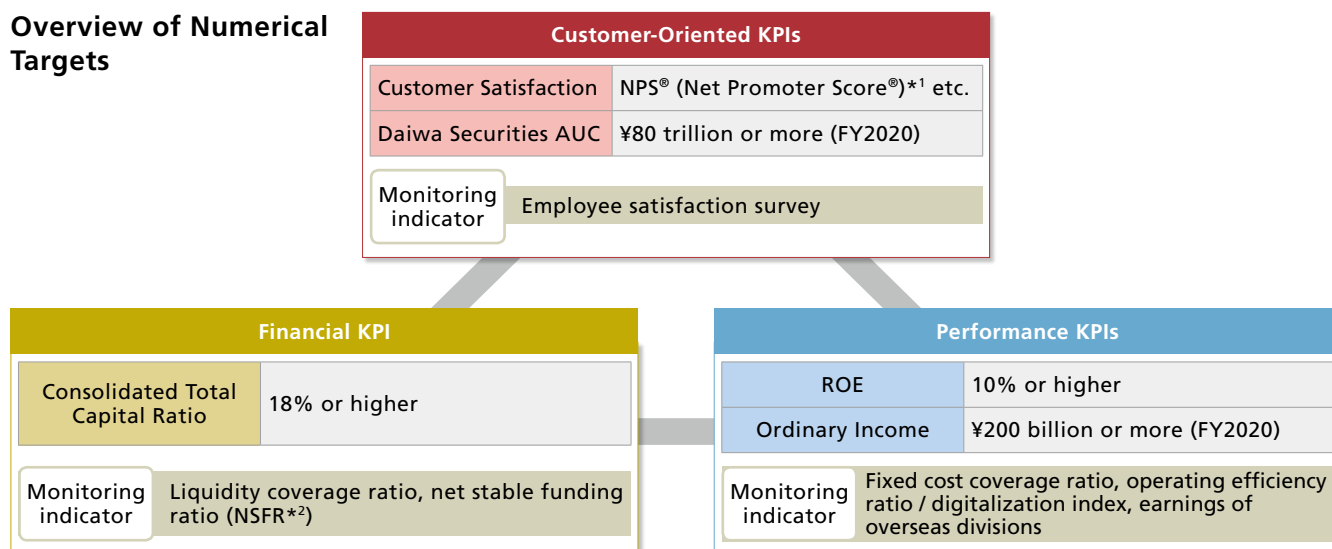
With regard to shareholder returns, the dividend payment policy of Daiwa Securities Group Inc. has been to target a payout ratio of around 40% since FY2015. For FY2017, the Company paid a dividend of ¥28 per share for a payout ratio of 41.9%. As a share repurchase was also implemented, the total payout ratio was 75.2%. For FY2018 onward, management has put in place the policy to increase the targeted dividend payout ratio to 50% or higher.

## Ordinary income and customer satisfaction set as KPIs in the new Medium-Term Management Plan, aiming for growth in the next stage of evolution

In the new Medium-Term Management Plan “Passion for the Best” 2020 (the new Plan), Daiwa Securities Group has set clearly defined targets for ROE of 10%, in continuation from the previous Plan, and ordinary income of at least ¥200 billion, in the belief it has put in place a stable revenue base that has allowed it to enter the next stage of major growth. A major change in the new Plan is that it is framed around customer satisfaction as the main objective upon which advances will be made toward customer-oriented operations. We have set “assets under

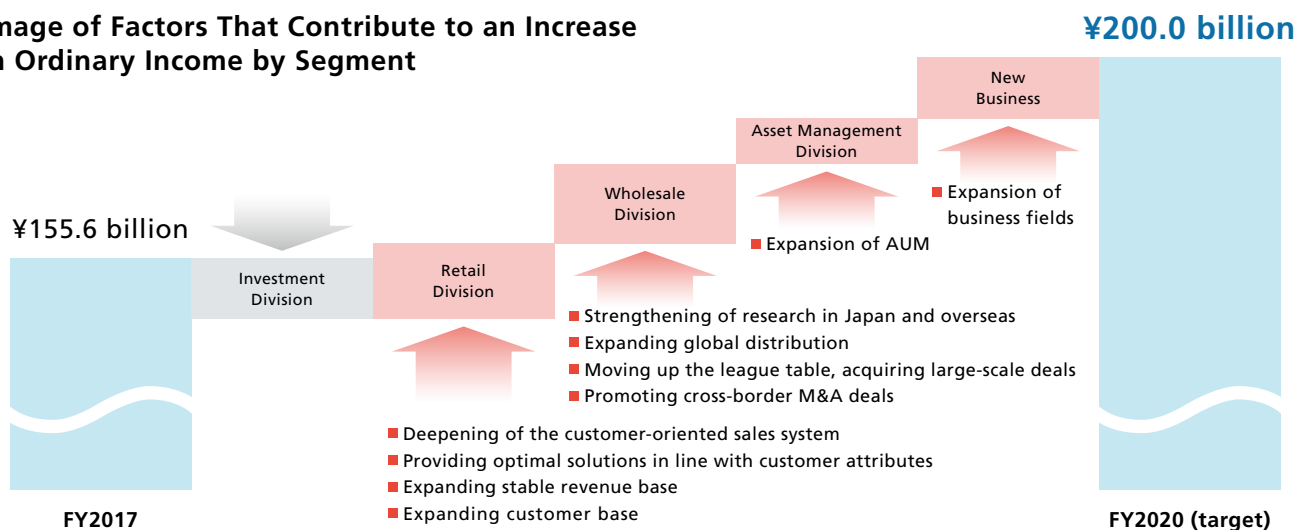
custody” as a numerical target and indicator of customer satisfaction, as we believe customers will decide to put their assets into the Group when they are truly satisfied with its products and services. Our medium-term management plans to date have been based on three-year timeframes. With a long-term goal of ¥100 trillion in assets under custody in six years, or by the last fiscal year of the next medium-term management plan, we have set the target for assets under custody of at least ¥80 trillion in FY2020 as a midpoint goal within this longer timeframe.

### Overview of Numerical Targets



\*1 NPS® is a registered trademark of Bain & Company, Fred Reichheld and SatmetrixSystems.  
 \*2 Net Stable Funding Ratio

### Image of Factors That Contribute to an Increase in Ordinary Income by Segment



Although our target levels are not low, we do not have a rosy outlook for the business environment over the next three years. With the understanding that the global economy and Japanese economy are growing steadily and moderately, our base scenario takes an extension of current conditions and adds our own efforts to grow. Over the next three years of the new Plan, we anticipate the beginnings of a moderate shift in investment from savings to investments, and a gentle flow into asset building through marketable securities. However, our projections do not assume this shift, from savings to investment, will be major and dramatic.

The Group targets a consolidated total capital ratio of at least 18%. A change in how the total capital ratio is calculated as regulations are tightened is likely to push it

down by a maximum of approximately 4 percentage points in 2022. We have therefore set this target at a level so that the total capital ratio is unlikely to dip below the warning level of 14%. We came up with the warning level of 14% by starting with the minimum required level of 11% and adding a buffer based on the outcome of stress tests.

In order to quantitatively evaluate our business strategy, we have defined monitoring indicators in addition to the Group's numerical targets. During the new Plan, the Group continues to monitor benchmarks, such as the fixed cost coverage ratio which was a numerical target in the previous Plan, employee satisfaction surveys to guide work style reforms and job satisfaction innovation, indicators of operating efficiency and digitalization, and earnings of overseas operations as a measure of global presence.

## **Customer satisfaction as the result of efforts to unearth customer needs will be a wellspring for long-term competitiveness**

Customer satisfaction, the most important KPI in the new Plan, is the result of truly understanding the needs of each and every customer, more so than short-term gains for the customer or lower commissions than rivals, in a changing business environment with finely divided customer needs and fierce competition. We believe customer satisfaction is the wellspring of the Group's competitiveness over the long run.

We are introducing Daiwa NPS® as a well-defined quantitative indicator of customer satisfaction. Based on customer questionnaires, NPS® measures loyalty for Daiwa Securities by subtracting the percentage of detractors from the percentage of promoters.

It has been proven that improvement in NPS® scores has a correlation to growth in corporate earnings. After rolling out the NPS® system to all branches in the Retail Division, we will endeavor to continuously improve our NPS® score.

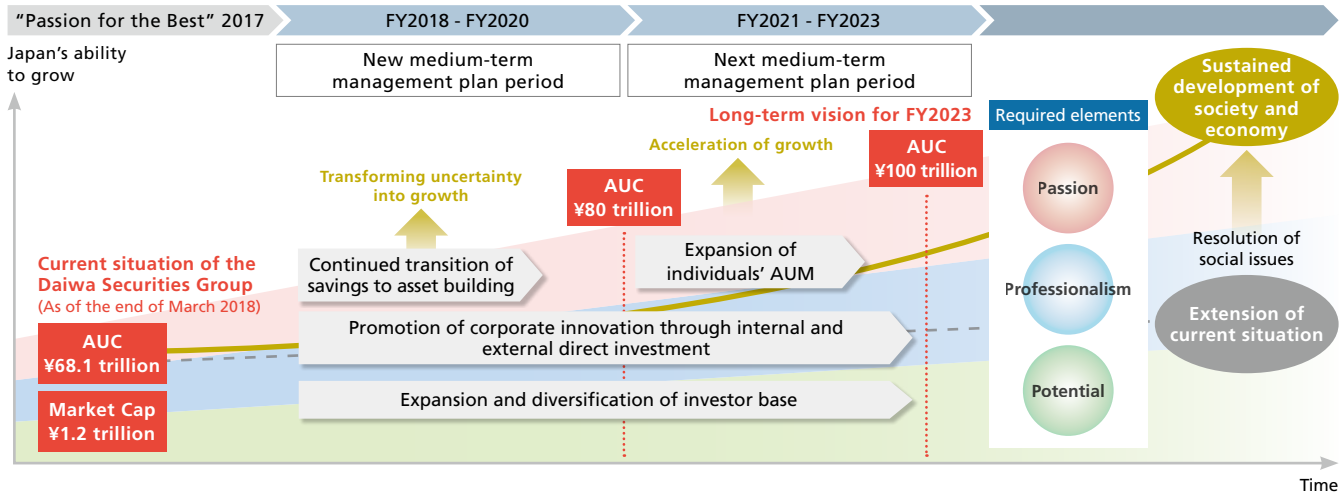
To prevent improving NPS® scores from becoming the only target, we are putting into place systems that encourage sales representatives to focus on identifying the genuine needs of customers from their perspective. The Group has newly created the CCO (Chief Customer Officer) position and also set up the Retail Business Reform Office, which has more than 30 people on staff to advance reforms to the sales structure, including the introduction of NPS®, and provide close support for each individual branch. During the first year of the new Plan, we are focusing foremost on making sure the sales structure is working for customers by introducing NPS® at all branches and raising awareness of it among all employees.

After contemplating what customer satisfaction truly means in the businesses of each division, The Group has identified KPIs for each division that will drive improvements in quality and customer satisfaction.

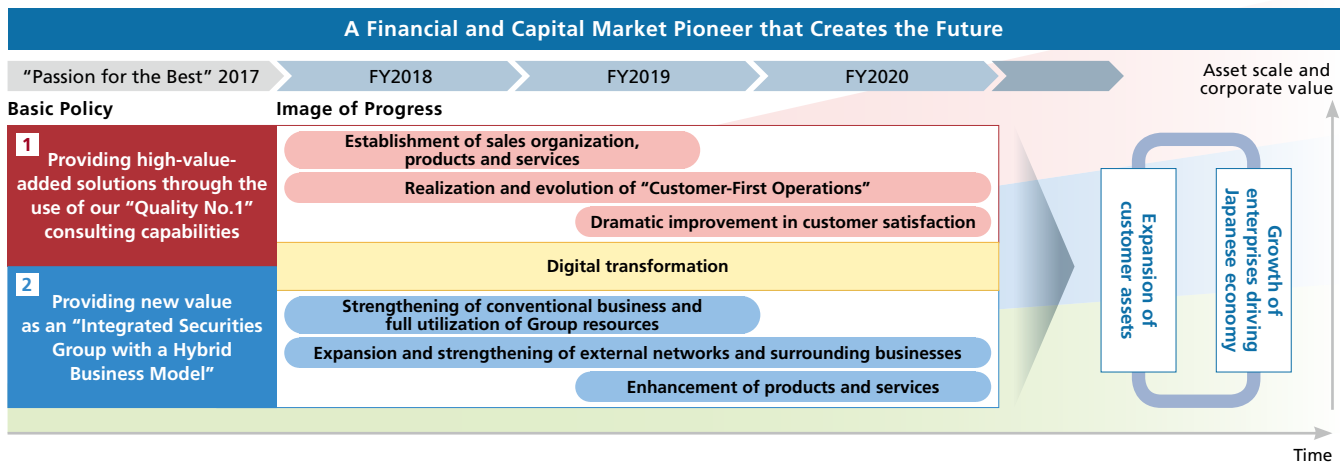


# New Medium-Term Management Plan "Passion for the Best" 2020

## Direction for the Future



## Framework of the New Medium-Term Management Plan



## Basic Policy and Key Themes for Each Business Line

	Retail	Wholesale	Asset Management	Banks	Think Tank
Basic Policy	Creation of a customer-oriented sales system	Promotion of the shift by companies to achieve higher corporate value	Realization of an abundant society and life for the Japanese people through asset management		Comprehensive think tank for the future
	Provision of products and services that identify customers' needs				
New value as an "Integrated Securities Group with a Hybrid Business Model"	Utilization of external channel resources and the creation of new business lines	Support for business and Japanese industry structure transformation	Expansion of alternative investment products	Combined securities-banking business model 2.0	
	Collaboration with Group companies	Collaboration with the Investment Division			
	Creation of business through the diversification of financing methods and expansion of business areas				
	Provision of Asian growth results and strengthening of the global M&A network				
Basic Group Strategy	<b>Finance and capital</b> ■ Execution of growth investment ■ Improvement of capital efficiency ■ Maintenance of financial soundness ■ Strengthening of shareholder returns	<b>Human resources</b> ■ Employees' productivity No.1 ■ Employees' participation No.1 ■ Employees' satisfaction No.1	<b>IT</b> ■ Business process reform and productivity improvement ■ Creation of next-generation office infrastructure ■ Creation of an information platform	<b>Risk management</b> ■ Response to global financial regulations ■ Cybersecurity countermeasures ■ Money laundering countermeasures	
	Digital transformation		Business reform and productivity improvement		
<Foundation supporting strategies> Highly transparent and objective governance system					

## **Growing uncertainty in society is an opportunity for Daiwa Securities Group to provide new value**

A major paradigm shift is underway in the economic and social environment surrounding Daiwa Securities Group. This wave of change will only become bigger as time passes. In Japan, society is aging amid declining birthrates, and people are living longer on average in an era where more people live to the age of 100. Japanese people are becoming more aware of the need to prepare for their golden years. Across generations, needs are increasing for asset building and asset management to fund living needs after retirement. At the same time, individuals who own financial assets are becoming more diverse. Not only a wider income gap, but also a larger gap among individuals with access to information, has led to the subdivision of individual needs for asset management.

Change has been even more dramatic in Asia. The contribution of Asian countries to global GDP continues to increase every year. In contrast to Japan's mature economy, the wealthy and the middle class have grown sharply in Asia, especially in China. While this has increased inbound demand, Japanese companies are being buffeted by tougher competition as markets in Asia become more integrated.

On a global basis, advances in technology have given rise to an IoT society where everything is connected over the Internet, bringing about a digital transformation with

technological innovations in AI, Big Data and robots. As a result, productivity is improving by leaps and bounds, and fundamental change is beginning to crack open industrial structures and employment models. In the financial industry, the competitive landscape is primed for rapid change with the emergence of FinTech companies and companies entering the fray from other sectors.

In such an environment, the world is becoming more convenient while people's lifestyles are also changing in various ways, such as employment models and how they access information. As customer needs diversify in accordance with their age, gender and lifestyle, uniform service models are unlikely to serve these needs well. Meanwhile, companies face increasingly tough competitive conditions around the world. Governments also address numerous social issues with dwindling public finances amid declining birthrates, an aging populace and greater regional disparities. As a consequence, it has become essential to address changes in the industry structure, strengthen global competitiveness, and nurture industries that help solve social issues.

We view these increasing uncertainties in a changing society as business opportunities, and aim to contribute to the creation of a better society in the future.

## **Essential to expand access to the asset building generation regarded as digital-natives**

As an example, Daiwa Securities Group's core customer base prefers face-to-face transactions over online transactions, while AI and FinTech will certainly have an impact on its business. In the next 20-30 years, the digital-native generation, who are familiar with the latest technologies, will come to own the most financial assets, making it imperative that we have access to this young generation. While we must respond to such circumstances, we do not necessarily intend to build trading platforms on our own at great cost. We believe it will be important for the Group to have name recognition when this young generation begins in earnest to manage their assets. With this in mind, we will aggressively pursue partnerships with external companies, and if we identify future potential in a new type of trading platform we do

not have, we will jump on board without hesitation in order to expand access.

In February 2018, Daiwa Securities Group Inc. entered into a capital and business alliance with KDDI Corporation, a major telecommunications service provider in Japan, to establish KDDI Asset Management. KDDI Asset Management will develop financial services that can be conveniently accessed via smartphone apps in a bid to encourage customers to start asset building. KDDI Asset Management offers asset management and iDeCo (defined-contribution pension plans for individuals) management services, and plans to offer Daiwa Securities Group products for customers with even more diverse needs for asset management. KDDI has over 25 million customer accounts\*, interacts with customers via



smartphones, and possesses digital technology. Combining this with the Group's know-how in investment management and iDeCo business, we aim to provide attractive products to younger generations of potential customers.

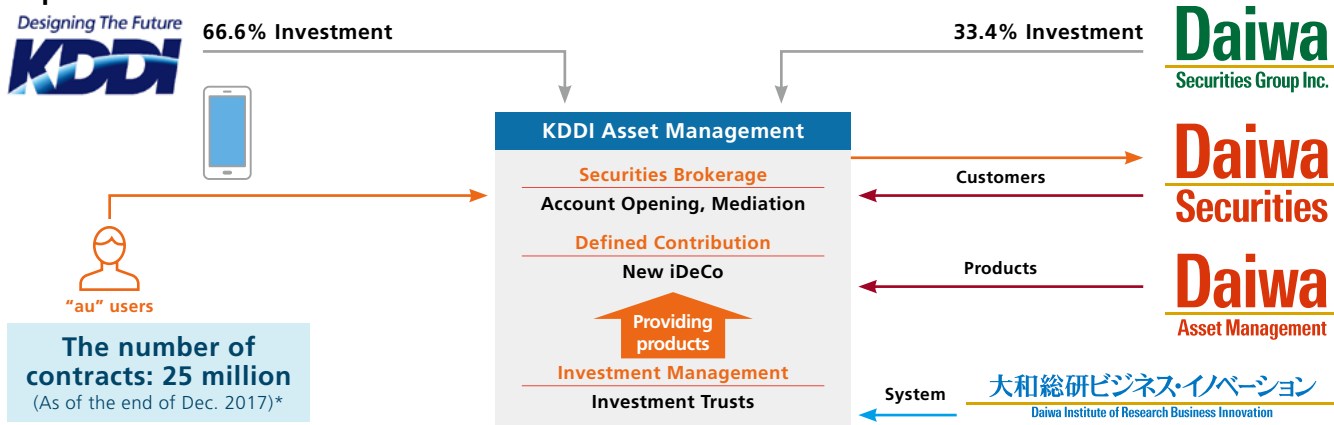
In November 2017, Daiwa Securities Group Inc. signed an agreement to collaborate with Finatext Ltd. and its subsidiary Smartplus Ltd. on the establishment of a next-generation securities platform. STREAM is the name of the social network app created by Smartplus that allows users to exchange information about stock trading and conduct stock trades without the need to pay conventional transaction management fees. The service is already fully up and running.

Through initiatives like these, we are able to access a broad range of customers by providing external companies with the Group's financial products, services and securities platforms.

In the FinTech field, we established a new company called Fintertech. With an organization able to flexibly adapt to digital transformation, Fintertech will examine next-generation financial services for digital-native customers that are a departure from traditional securities and financial businesses.

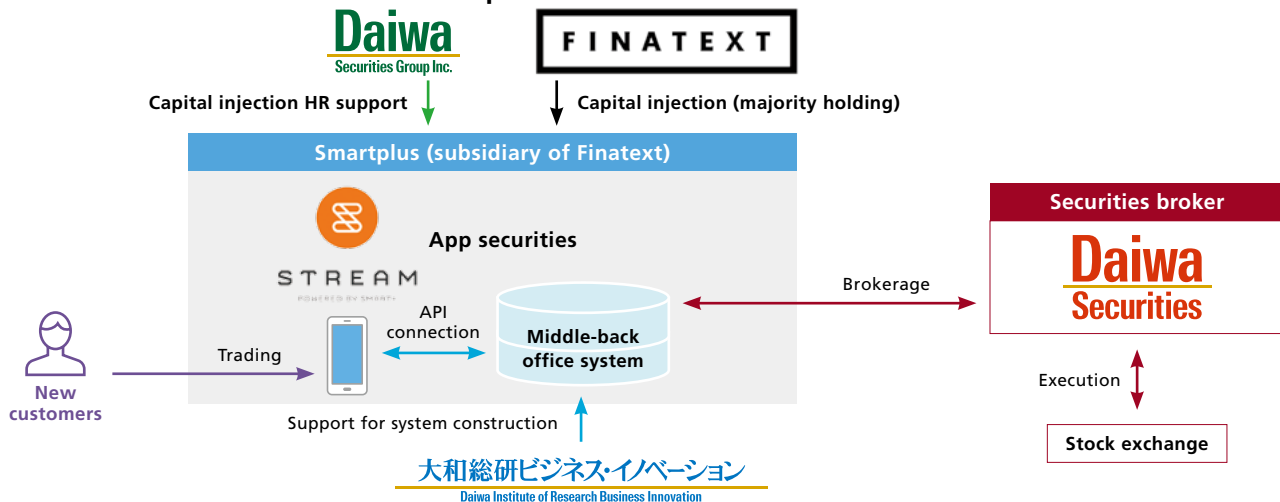
\* As of the end of December 2017

### Capital and Business Alliance with KDDI



\* Source: KDDI Corporation Financial Results for the 3Q FY2017

### Collaboration with Finatext and Smartplus



## Innovation leads the Group's potential to progress

The DNA of Daiwa Securities Group entails "Passion" that has filled the Group over time and "Professionalism" that harnesses advanced specialist knowledge with the aim of achieving the industry's highest quality. With the addition of "Potential" in the current operating environment, we list these three elements as latent strengths. Adding "Innovation" allows the Group to aim for more growth. "Innovation" implies change with something new, and companies aiming for sustained growth should recognize that change is constant. We must always aim higher in order to avoid becoming complacent with current

conditions and coming to a standstill. During a paradigm shift, maintaining the status quo is to accept eventual decline. Instead of taking a top-down approach to moving the company forward, it is important for each employee to reassess his or her work and continue to improve efficiency in order for the company as a whole to increase productivity. Employees must build on momentum for growth by taking on new challenges, even small ones. To this end, management has fostered an environment where employees are not afraid to fail, enabling bottom-up changes to thrive.

### Vision of the Daiwa Securities Group



#### **Passion**

- A strong ambition and sense of mission to contribute to the development of society and the economy through the financial and capital markets
- A passion for realizing the corporate principles of building trust, placing importance on personnel, contributing to society, and securing healthy earnings

#### **Professionalism**

- Quality No.1 with high-level integrity and expertise
- A diversified business portfolio aimed at being an integrated securities group with a hybrid business model

#### **Potential**

- The emergence of the 100-year life span: Expanding investment and asset succession needs
- Expansion and diversification of investment needs of the asset-formation generation through progress on digitalization
- Advancement of industrialization and rapid economic growth in Asia



**Innovation**

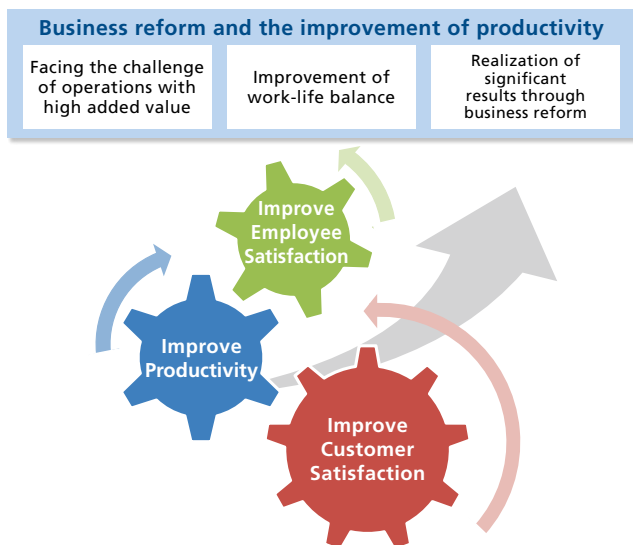
## Question stereotypes and prioritize change

For example, are regular staff meetings and liaison committees truly necessary? For what reason are some documents updated on a daily basis? We have already begun work reviewing what is truly necessary, taking a close look at each kind of work. Work that has been identified as unnecessary must be ceased as a drastic measure. Employees that had performed this work without doubting its necessity may put up some initial resistance. Though it depends on the situation, employees who were instructed to stop unnecessary work and reassigned to more productive work should become more motivated and incentivized while doing their new work, which may be guided under the responsibility of top management.

With the aim of achieving the industry's highest quality and improving customer satisfaction, we must ensure that our employees are professionals with high motivation in their roles. Moreover, we believe that motivation

corresponds to employee satisfaction. Under the new Plan, we are keen to create a positively reinforcing cycle for employee productivity, level of participation and job satisfaction. While advancing work style reforms, we will implement job satisfaction reforms that aim to increase employee satisfaction by allowing employees to try high-value-added work and contribute more to customers and society. For example, Daiwa Securities Group has introduced a scholarship support system as a new initiative. Moreover, we will monitor employee satisfaction as a KPI. We will continue efforts to brush up the "knowledge," "skill & technique" and "mindset" of each employee through Q-Road and CQ1\* meetings that began in 2017.

In December 2017, the Group created the Business Reform and Productivity Improvement Committee. Based on surveys of work that have already been conducted, preliminary estimates indicate that reducing 30% of the



work performed in management and operations at the head office departments of Daiwa Securities Group would free up time equivalent to roughly 10% of the total hours worked by personnel at the head office. Daiwa Securities Group is working to automate administrative work through Robotic Process Automation (RPA), and the time freed up as a result will be spent on higher-value-added work and work that contributes to customers and society. In turn, this will lead to work environments that allow employees to focus more on the creation of innovation. We have set internal KPIs for improving work efficiency, including digitalization, and monitor targets for reducing inefficiencies.

\* Clients first, Quality No.1

## **Focusing on the effectiveness of measures aimed at addressing SDGs and promoting activities to solve social issues while carrying out our mission as a securities company**

In the new Plan, in accordance with a long-term vision of its future, Daiwa Securities Group has clarified its stance on SDGs with “Passion for SDGs 2018 —Daiwa Securities Group’s SDGs Declaration—,” as we believe that solving social issues will drive growth at the Group and lead to the further development of society and the economy in Japan. Just as the Group has to date identified contributing to society as a part of its corporate principles, steps have been taken to contribute to the development of society and the economy through such business activities as impact investments and SRI investment trusts. In order to make progress on the SDGs aim of “no one will be left behind,” we believe we can work harder to solve social issues. In a bid to more effectively balance social value with economic value, we announced in February 2018 the establishment of the SDGs Promotion Committee. To reinforce management’s commitment, I serve as head of the committee, which also has three outside experts as members in order to proactively incorporate objective opinions from outside the Group. Through workshops and internal bulletins, we will encourage each and every employee to consider SDGs in their daily work.

For the 17 goals of the SDGs, first we have to find the areas where we can make a contribution, and then undertake the execution of initiatives. At this juncture, the Group is examining four major themes, comprising finance, technology, local community and life in general.

With regard to finance, we intend to incorporate SDG concepts in our core securities business and take initiatives one by one. On the technology front, we are considering initiatives outside existing business lines, beginning with the use of FinTech.

Regarding the local community, the Group has a network

of branches spread across the nation, and has benefited strongly from the development of regional economies. We have already started activities, such as event support, and will collaborate with local governments, regional financial institutions and local companies to provide more support for meeting local needs. As far as life in general is concerned, we have already initiated support measures aimed at addressing child poverty. We are also looking to undertake various other activities including a review of measures designed to further promote work-life balance.

The most important mission for a securities company is to ensure the smooth and proper functioning of capital markets, a crucial piece of infrastructure that supports market economies in not only Japan but around the world as well. In my opinion, the very fact that the Group continues as a going concern today reflects society’s recognition that we have successfully fulfilled this important mission over the course of our 116-year history since foundation. If securities companies did not function properly, market economies would no longer function, halting the development of both companies and countries. For that reason, people involved in the securities industry must be aware of their role in fulfilling this great social responsibility.

At the Group, positive steps can be taken to generate healthy earnings and to return these profits to society by ensuring that employees are fully aware of their mission and the demands placed on securities companies by society in the conduct of their business activities. In addition, we believe that realizing our sustainable growth in concert with society is of the utmost importance. With this in mind, it is vital that we create both social and economic value at a high level.

## Message from the CFO



**Pursuing the optimal balance between growth investment, capital efficiency, financial soundness, and shareholder returns; aiming for sustainable growth by maintaining healthy earnings results.**

In FY2017, earnings related to sales of foreign equities and stock investment trusts in the Retail Division, working as the lead manager for several large-scale equity underwriting deals in the Wholesale Division, and gains from sales in the Investment Division provided momentum for overall earnings. As a result, Daiwa Securities Group reported consolidated net operating revenues of ¥505.3 billion, an increase of 6.9% over the previous fiscal year. Moreover, given that overseas operations remained in the black, the Group reported profits attributable to owners of parent of ¥110.5 billion, an increase of 6.3% over the previous fiscal year. Accordingly, this was the first fiscal year in four years that has seen growth in both revenues and profit over the previous fiscal year. In FY2017, ROE was 8.8%, which regrettably fell short of the 10% target stated in the previous Medium-Term Management Plan “Passion for the Best” 2017 (the previous Plan). Under the current environment of negative interest rates, although the cost of capital has fallen accordingly since the time the previous Plan was formulated, we will work harder to achieve the 10% level that continues to be targeted in the new Medium-Term Management Plan “Passion for the Best” 2020 (the new Plan).

### Maintaining Financial Soundness

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.

Under the new Plan, Daiwa Securities Group aims to increase activity in investments for growth in new business fields as an integrated securities group with a hybrid business model. Likewise, we have adopted the

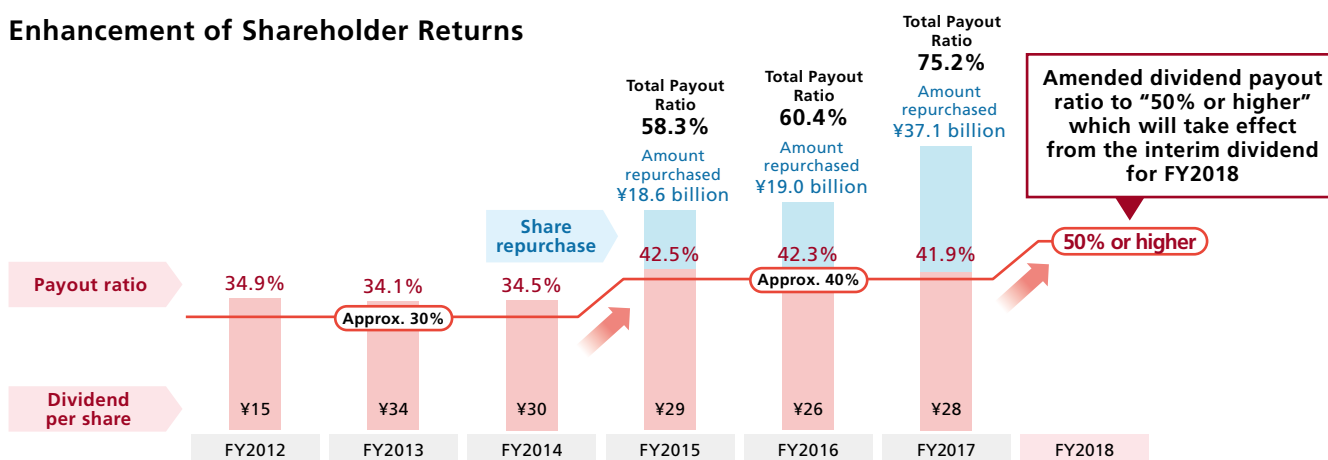
consolidated total capital ratio as a financial KPI to indicate the ability of the Group to maintain the sound financial base required for this purpose. Coinciding with the full-scale implementation of Basel III going forward, there is a chance that this ratio will drop a maximum of four percentage points in the future, so we have set a minimum level for this ratio of 18% for the purpose of ensuring a capital buffer that can withstand a stress scenario on a par with the global financial crisis in 2008. As of the end of March 2018, this ratio was 22.3%, securing a solid capital base.

Moreover, we adopted the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) as financial monitoring indicators. With the introduction of the LCR in 2015, financial institutions under Basel III are required to have enough liquidity to continue operations for at least 30 days under very stressful conditions. While an LCR of at least 100% will eventually be required, in FY2017, the LCR of Daiwa Securities Group Inc. substantially exceeded the requirement. The NSFR is

### Financial and Capital Strategy from “Passion for the Best” 2020



## Enhancement of Shareholder Returns



scheduled for introduction after March 2019 and requires that stable capital and debt (available stable funding) exceeds non-liquid assets (required stable funding), so we have worked to further diversify our methods for securing stable funding as compared with the past. According to our current preliminary calculations, our NSFR sufficiently exceeds the required level.

### Towards Investing in Business Growth

Our financial base is extremely sound and has sufficient investment capacity, with a level that even now is capable of investments ranging from around ¥200 billion. While enhancing shareholder returns is also an option, in the event there is no attractive investment proposal, we will continue to focus on financial soundness in order to make proactive investments for medium- to long-term growth in the future.

Moreover, our capital is currently composed entirely of common equity Tier 1 capital. Therefore, we maintain a position that sufficiently enables funding via other Tier 1 and Tier 2 capital in the future. Our preliminary calculations indicate the ability to make even larger investments through this type of funding when necessary.

### Enhancement of Shareholder Returns

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

after comprehensively taking into account business conditions, our financial situation, regulatory trends, and share price level, and while monitoring our credit rating.

We paid a dividend of ¥28 per share in FY2017, resulting in a dividend payout ratio for that year of 41.9%. Moreover, following the implementation of a share buyback program worth a total of ¥37.1 billion, the total payout ratio for the full fiscal year, including dividends and share buybacks, was 75.2%.

### Dialogue with Stakeholders

In terms of dialogue with shareholders and investors in FY2017, I also spoke with many of our investors from Japan and overseas. The opinions acquired through conversations with all of these investors were rich in hints including views on the competitive landscape of the Japanese financial industry and the outlook for the retail business, for example. These opinions will be very important when formulating management strategy at Daiwa Securities Group. Meanwhile, I also held periodic talks with financial authorities, ratings firms, and creditors. Based on the knowledge acquired through these dialogues, as CFO, I will continue to observe the way in which Daiwa Securities Group conducts business from every angle. I will also continue to serve to maintain an appropriately strong financial position that suits the regulatory and market conditions, and to realize flexible and daring growth strategies built on this strong financial position.

Mikita Komatsu

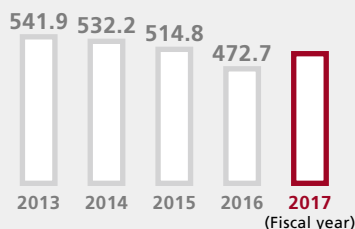
Senior Executive Managing Director and CFO  
Daiwa Securities Group Inc.

# Daiwa Securities Group Snapshot

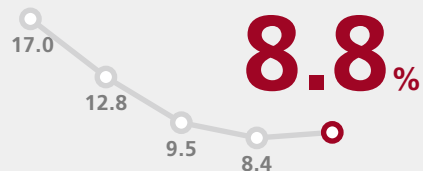
(Data for FY2017 or as of March 31, 2018)

## Net Operating Revenues

**¥505.3 billion**

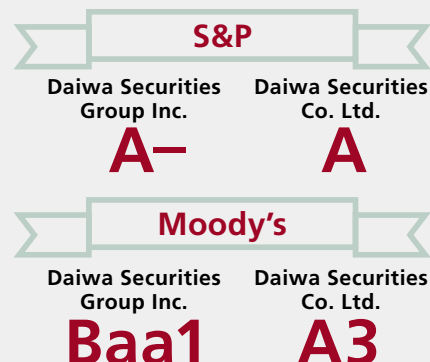


## ROE



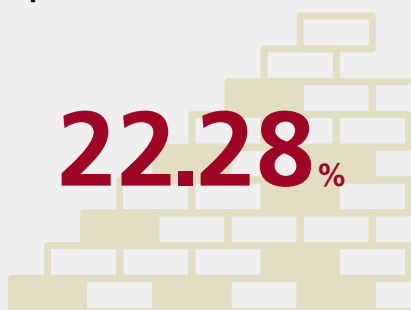
2013 2014 2015 2016 2017 (Fiscal year)

## Credit Ratings



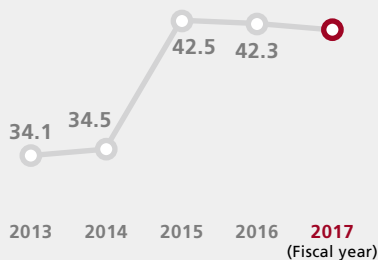
## Consolidated Total Capital Ratio

**22.28%**



## Dividend Payout Ratio

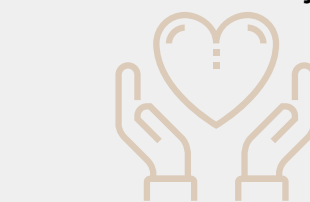
**41.9%**



2013 2014 2015 2016 2017 (Fiscal year)

## Assets under Custody

**¥68.1 trillion**



¥39.1 trillion as of March 31, 2009

## Contract AUM for Wrap Account

As of the end of Jun. 2018  
**¥2,049.0 billion**



¥165.1 billion as of March 31, 2009

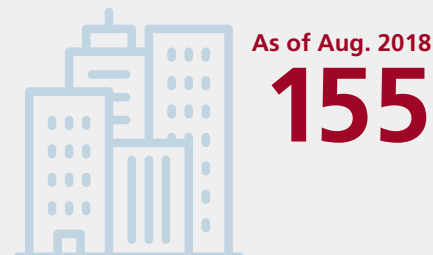
## Cumulative Sales of Impact Investment Bonds

**¥685.8 billion**



Source: Daiwa Securities Co. Ltd.  
(March 2008 to the end of March 2018)

## Number of Branches and Sales Offices in Japan



117 as of March 31, 2009

## Number of Employees

**16,088**



15,520 as of March 31, 2009

## Ratio of Women in Management Positions

**9.4%**



3.4% as of March 31, 2009

## Nadeshiko Brand/ Health and Productivity Stock Selection

Selected **4** years running





## Special Feature

# Initiatives Aimed at Securing the Sustainable Growth of Daiwa Securities Group and Society

Contributing to society is a key element of Daiwa Securities Group's corporate principles. As such, we are fully aware of synergistic effects between economic and social value which we have continued to lay as the foundation of our management strategy.

Cognizant of the important role that social value plays in global financial and economic markets, evaluations that draw on such non-financial data as ESG information are today becoming increasingly prominent. As far as the Group is concerned, we have taken steps to reassess the social value generated by each business, and through our declaration to addressing Sustainable Development Goals (SDGs) reaffirmed management's commitment while increasing internal awareness toward the co-creation of a higher level of economic and social value.

Under the 2030 Agenda for Sustainable Development adopted by member states of the United Nations in September 2015, SDGs, consisting of 17 goals and 169 targets were identified to realize the Agenda's principal objects which are, "People," "Planet," "Prosperity," "Peace," and "Partnership," raised in the preamble.

In this Special Feature, we provide an overview of our business activities from the perspectives of these "five Ps."

For more information, please refer to the Initiatives through Business Activities pages of our CSR Report.  
<http://www.daiwa-grp.jp/english/csr/report/archives/index.html>

Passion for  
**PROSPERITY**



P.24

Passion for  
**PEOPLE**



P.27

Passion for  
**PARTNERSHIP**



P.34

Passion for the  
**PLANET**



P.38

Passion for  
**PEACE**



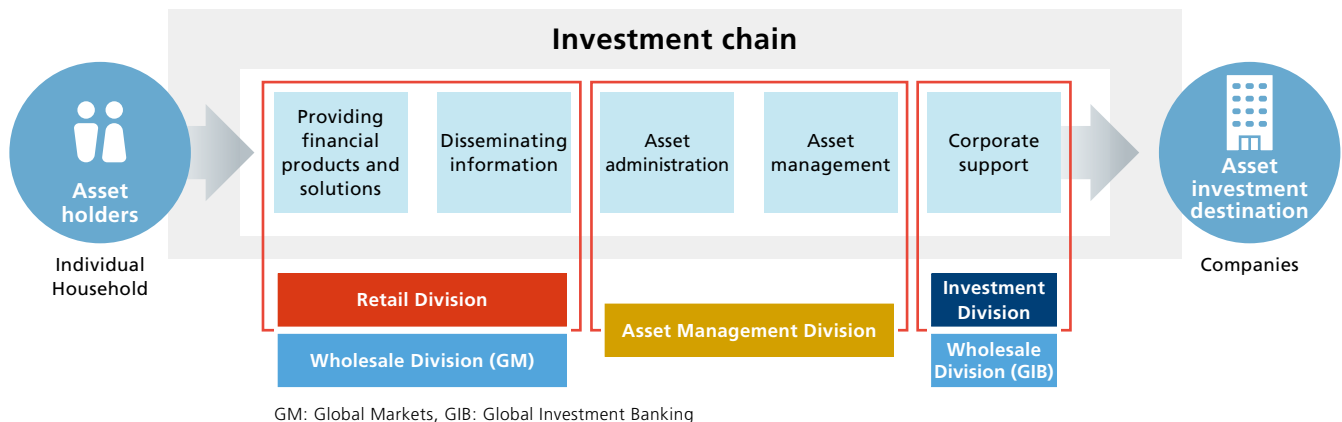
P.41

# Passion for PROSPERITY



To ensure that all human beings can enjoy prosperous and fulfilling lives and that economic, social and technological progress occurs in harmony with nature

## The Role of Daiwa Securities Group in the Investment Chain



Daiwa Securities Group believes contributing to the sustainable development of society requires it to lead the investment chain to ensure an improved and balanced flow of funds, from investor asset formation to corporate action support. We also believe that fulfilling our mission and growing with society while maintaining healthy earnings requires us to form a strong relationship of trust with all our stakeholders.

## Improving the sophistication of the investment chain

### Examples of Creating Social Value

Example 1

### Providing Financial Products and Solutions

#### Building a customer-oriented sales system

➔ **Division Strategies (Retail Division)** 📖 Page 48

➔ **Provision of Quality Service to Customers** 📖 Management Systems, pages 98-99 📖 CSR Report, page 19

- Basic Policy on Customer-oriented Operations (Daiwa Securities)\* <http://www.daiwa.jp/policy/fiduciary.html>
- Efforts to Realize Customer-oriented Operations (Daiwa Securities)\* [http://www.daiwa.jp/policy/fiduciary\\_example.html](http://www.daiwa.jp/policy/fiduciary_example.html)

\* Websites written only in Japanese

## The solutions business

Offering wrap account services that meet the needs of our diversifying and increasingly sophisticated individual and corporate customers

We are promoting the development of wrap account services in line with the ideal of meeting all the varied needs of our customers, whatever their life stage.

Our wrap account services are based on investment discretionary contracts and include our suggestions for optimal portfolio performance according to each customers' basic policy and risk tolerance. Following the 2004 establishment of Daiwa SMA, we introduced Daiwa Fund Wrap in 2007 and have remained focused on improving quality while continually improving services and expanding the product lineup. Thanks to these continuous efforts and favorable support from our customers, the outstanding balance in wrap services exceeded ¥2 trillion in April 2018.

We introduced Daiwa Fund Wrap Premium in 2016, which includes inheritance-related services in line with the large inheritance era in which we are seeing an increase in customers' needs for inheritance preparation. These services include inheritance beneficiary designation services and an annual gift service, which converts some assets to cash which is then given to pre-designated family members. We also introduced Daiwa



**Takashi Mamiya**

Managing Director  
Wrap and Fund Business Dept.  
Daiwa Securities

Fund Wrap Online, which allows asset accumulation from ¥10,000 per month in order to meet the growing need for asset formation among our customers.

With the goal of meeting the more diversified and sophisticated needs of our customers, including corporate customers, we introduced Daiwa Advance Wrap in March 2018. This product combines Core Investment, which focuses on stable and long-term asset formation using flexible international diversified investment, and Satellite Investment, which is based on the customer's preferences. We will continue to evolve our wrap account services to become our customers' first choice and their best partner.

Example  
**2**

## Disseminating Information

The Daiwa Securities Equity Research Department provides investment information and ideas to institutional investors. We are enhancing our ability to provide ESG-related information by bolstering our organizational structure, including through the placement of multiple staff members in this field.

Daiwa Institute of Research is responsible for the Group's think tank activities and under this function is committed to disseminating a wide range of information related to the capital markets and the real economy, providing policy advice, and disseminating ESG-related information.



Daiwa Securities Equity Research Department report  
April 2018  
Renewable energy chosen voluntarily by consumers



Daiwa Institute of Research Research Quarterly Review  
Vol. 28 Fall 2017  
Special Issue: Pressure to Tackle ESG Issues

Example 3

### Asset Administration and Asset Management

On September 26, 2017, three ESG-related ETFs set up by Daiwa Asset Management were simultaneously listed on the Tokyo Stock Exchange. The first ETFs in Japan focusing on ESG are designed to track the MSCI Japan Empowering Women Index, the MSCI Japan ESG Select Leaders Index, and the FTSE Blossom Japan Index, the three indexes in which the Government Pension Investment Fund (GPIF) is conducting passive investment operations.


Use of these ETFs allows not only institutional investors, but also individual investors to make equity investments based on ESG assessments.

#### Japan's First ESG-related ETFs

- Daiwa ETF FTSE Blossom Japan Index
- Daiwa ETF MSCI Japan ESG Select Leaders Index
- Daiwa ETF MSCI Japan Empowering Women Select Index (WIN)

#### Daiwa Asset Management

- A customer-oriented business conduct policy and examples of initiatives for customer-oriented business conduct\*

 [http://www.daiwa-am.co.jp/company/profile/service\\_policy.html](http://www.daiwa-am.co.jp/company/profile/service_policy.html)

\* Website written only in Japanese

Example 4

### Corporate Support

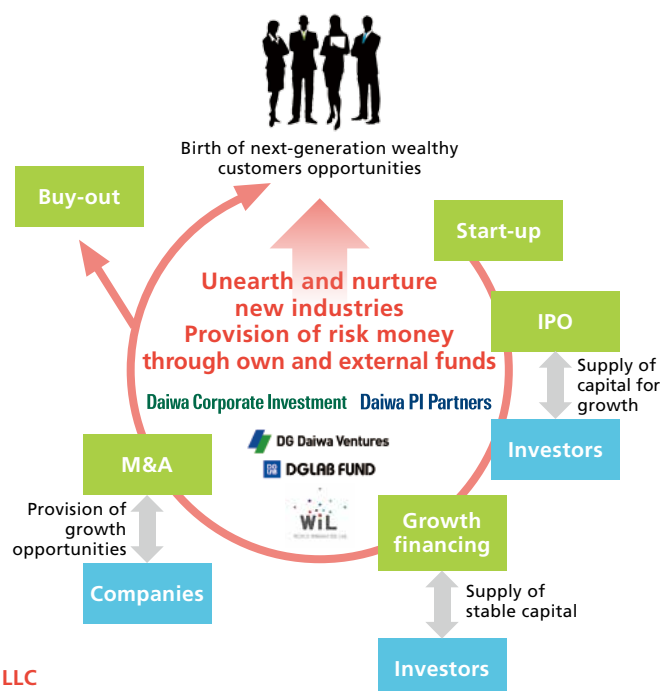
#### The Fund Ecosystem Concept

Daiwa Securities Group is focused on strengthening its efforts in open innovation.

In one example, we are making further use of Daiwa Innovation Network, a business matching event for large corporations and venture firms that focuses on discovering and nurturing new businesses and industries.

In addition to Daiwa PI Partners and Daiwa Corporate Investment, the Group provides risk money through external venture capital funds such as DG Daiwa Ventures (established in 2016 as a joint venture with Digital Garage), and funds managed by WiL, LLC, showing its commitment to building and strengthening the Daiwa Fund Ecosystem that provides investment opportunities and supports the cycle of corporate growth.

Conceptual Diagram of Daiwa Fund Ecosystem



#### Key investments made by venture capital funds managed by WiL, LLC

- Raksul Inc.: Listed May 31, 2018
- Mercari, Inc.: Listed June 19, 2018

# Passion for PEOPLE



To end poverty and hunger, in all their forms and dimensions, and to ensure that all human beings can fulfil their potential in dignity and equality and in a healthy environment

## 1. Daiwa Securities Group's Job Satisfaction Innovation

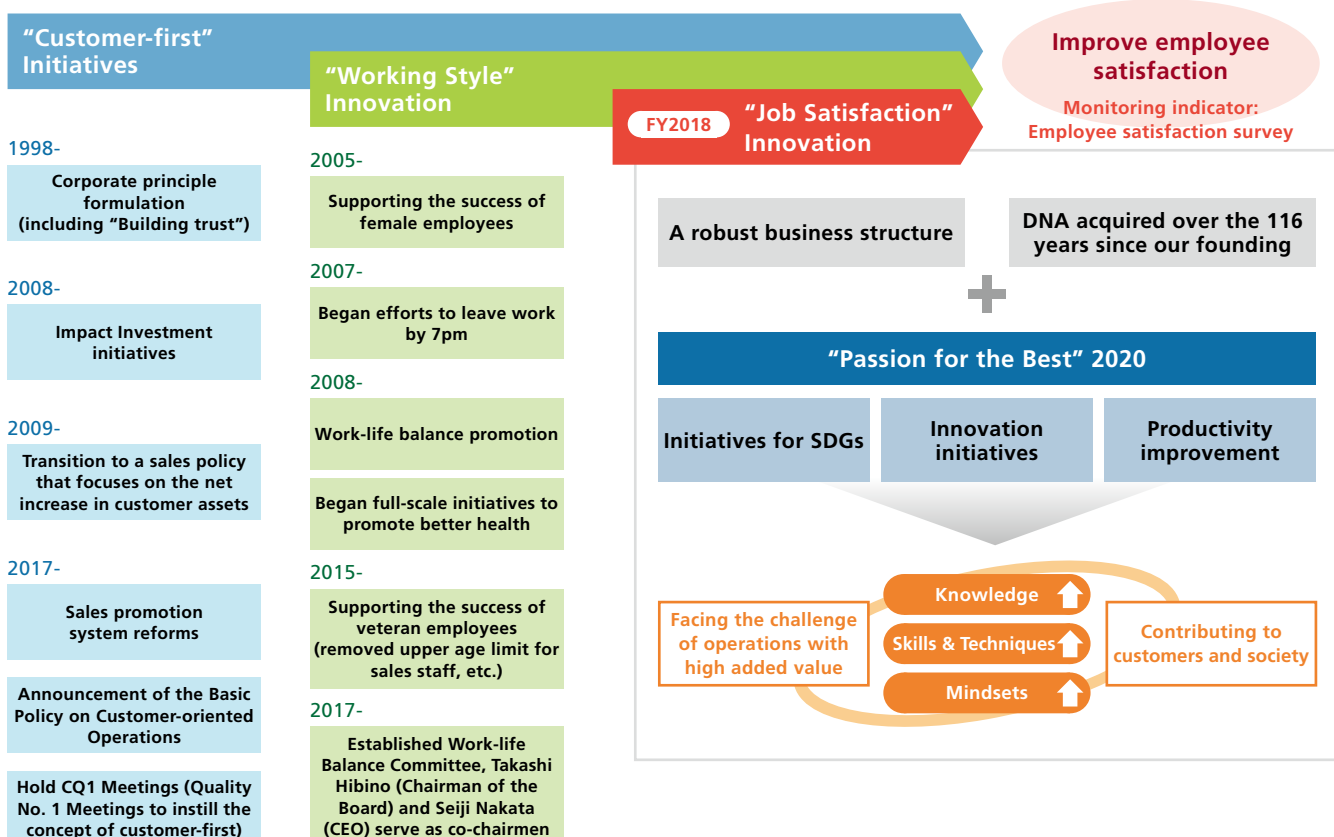
Customer-oriented Operations are the foundation for achieving the industry's highest quality. We believe that elevating customer satisfaction, however, is only possible when employees are highly motivated.

Daiwa Securities Group has upheld the concept of delivering the industry's highest quality as our primary management theme since April 2017. Since this time, we have worked to introduce Q-Road, a newly established education program designed to train young employees, and to introduce CQ1\* meetings, which aim to enhance quality.

Further raising productivity as we move forward is enabling us to undertake the challenge of operations with high added value, improve work-life balance, and produce significant results through business reform. Likewise, we are working to evolve the Working Style Innovation we have undertaken thus far into Job Satisfaction Innovation, thereby creating a stronger positive cycle of customer satisfaction and employee satisfaction.

\* Clients first, Quality No.1

### Initiatives Aimed at Enhancing Employee Satisfaction



## Quality No. 1

Employees' productivity <b>No.1</b>	Employees' participation <b>No.1</b>	Employees' job satisfaction <b>No.1</b>
<ul style="list-style-type: none"> <li>■ 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</li> <li>■ We will engage in the improvement of productivity through increased work efficiency, and establish an environment that generates time for creating innovative results</li> </ul>	<ul style="list-style-type: none"> <li>■ Development of professional human resources with the proper knowledge, skill &amp; techniques and mindset</li> <li>■ Establishment of an environment where employees can continue to work vibrantly from junior personnel to veterans</li> </ul>	<ul style="list-style-type: none"> <li>■ 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</li> <li>■ Realization of a high level of work-life balance to enable participation by diverse human resources</li> </ul>
<b>Productivity KPI</b> <ul style="list-style-type: none"> <li>● CFP &amp; securities analysts</li> <li>● Holders of high-level qualifications</li> <li>● Global personnel and IT personnel</li> <li>● Work efficiency index</li> </ul>	<b>Participation KPI</b> <ul style="list-style-type: none"> <li>● Progress of Q-Road and DBP*<sup>1</sup></li> <li>● Targets related to encouraging women to succeed*<sup>2</sup></li> <li>● State of self-improvement by veteran employees*<sup>3</sup></li> </ul>	<b>Job Satisfaction KPI</b> <ul style="list-style-type: none"> <li>● Employee satisfaction survey</li> </ul>

\*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

## 2. Education and Training System

### Training for Young Employees

Daiwa Securities Group defines the first two years after new employees who have recently graduated from university and have entered the Company as the period of basic education for becoming professionals. During this period, new hires attend 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 education 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.

### Skill Training

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. In FY2017, we expanded the e-learning options to establish a system that is better able to address the motivation for self-improvement among our employees than before.

#### Locating a Baby Salon at the Training Center

Starting with the training programs held during the first half of FY2018, we decided to locate a Baby Salon (short-term child care facility) at the 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.

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 1,500 employees, 60% of our employees aged 45 and over, have participated in the more than 15,000 seminars offered by these programs.

The Group is expanding the following systems for the purpose of training globally minded employees and promoting the mastering of management skills unrivaled throughout the world.

- International MBA Study Abroad Program
- Global Expert Course
- Global Trainee Course
- International Business School Attendance

### 3. Employee Support Systems

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 four 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 four have successfully received both honors four years in a row.

#### Encouraging Women to Succeed

Daiwa Securities Group proactively appoints talented human resources regardless of gender. We are trying to appeal more to women's individual interests by introducing thriving female employees in internal publications, in order to increase the number of women in management positions. A career consultation service has been set up on the Group's internal Initiatives for WLB 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 seven women in top management positions across the Group, including two female executives (director and corporate executive officer) at Daiwa Securities Group Inc. The number of women in management positions has increased every year, totaling 424 women at Group companies as of March 31, 2018. The ratio of women in management positions has risen from 2.2% (at the end of FY2004) to 9.4% for the Group, and from 2.3% to 11.6% for Daiwa Securities.

By increasing the number of role models, we are making it easier for the Group's female staff to envision their career path. In this context, there has been a sharp increase in female employees aspiring to advance their careers by switching to career-track and regional career-track positions in recent years. To date, more than 1,200 female employees have converted to career-track positions. An increasing number of employees have also taken advantage of our Professional Return Plan, a system for re-hiring employees who left work to raise children or care for family members, starting them at the same level of compensation as when they left. The scope of this system was expanded in FY2015. This has helped us secure talented personnel who support operations. Starting in FY2014, the Group launched the female employee career support training initiative (Daiwa Woman's Forum) helping women to build networks among themselves.

We will continue to increase the number of female managers, aiming to develop female leaders who will drive the future of Japan's financial industry.

The Group has a proven track record of implementing a wide range of initiatives that help female employees reach their full potential. Daiwa Securities has also clarified its objectives through to FY2020. In this manner, positive steps are being taken to provide an environment in which employees with diverse values can maximize their capabilities.

#### 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%

### Introduction of a 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, Daiwa Securities Group introduced a system to help our employees repay their student loans. Through this system, the Group temporarily takes over the entire student loan and lends an equivalent value to the employee interest free. Repayment is deferred for the first five years after entering the company.

### Promoting Health and Productivity Management

In order to balance the happiness of our employees with the enhanced productivity of the company, since FY2015 Daiwa Securities Group has worked to strengthen its health and productivity management system and to introduce various measures to establish an environment in which our employees can continue to work vigorously and actively over the long term. In FY2016, we introduced the KA·RA·DA Iki Iki Project, a project aimed at improving health and productivity. The project includes initiatives that award points for participating in health improvement programs and for attending health literacy seminars. These points can then be exchanged for donations to social contribution activities and health-related gifts. In FY2017, we introduced a plan to support employees who have been diagnosed with cancer so that they can continue to work worry-free while receiving treatment. Looking to the future, we will continue actively working to promote the health of employees from a managerial perspective.

### External Evaluations

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

Selected Four 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



**Health and Productivity Stock Selection**

Selected Four Years Running/Selected Two Years Running

Ministry of Economy, Trade and Industry/Tokyo Stock Exchange



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

Ministry of Health, Labour and Welfare





## Toward the Industry's Highest Quality

Daiwa Securities Group is aiming to become one of the most excellent firms with the ability to boast the industry's highest quality. The industry's highest quality, however, stands on the individual professionalism of our employees, the most important asset of the Group. We spoke to sales branch and head office staff at Daiwa Securities about the industry's highest quality for which they are aiming as individuals.

- ① How do you define the highest quality?
- ② What specific actions are you taking to realize the highest quality?
- ③ What actions do you take to improve quality within the limited time available?
- ④ What are the challenges and goals in quality improvement?

- ① My definition of the highest quality is when customers feel they can ask me anything regarding inheritance. As a result, my ultimate goal is for customers to feel that they can entrust all of the assets they have entrusted to other financial institutions to Daiwa Securities. This is why I study every day so that I can address any question regarding inheritance.
- ② In general, I have never met most of my customers before. Moreover, I listen to my customers, who can be wives who have lost their husbands and are due to receive an inheritance, for example, during very difficult periods of their lives. I have heard that first impressions are made in two minutes, which is exactly why I place importance on first impressions in striving to earn the trust of my customers. Moreover, I do my best to pay careful attention and listen to my customers' stories, including their memories of the deceased. This is a very delicate period, so I also pay very careful attention to the timing of contacts, procedures, and follow-up proposals.
- ④ Inheritance is a process by which money is transferred from one generation to the next, for example from husbands to wives and then to daughters and sons. In this way, money can remain within Daiwa Securities through the generations. This is why I want our customers to trust me as the gateway for the Group and why I want to become the representative that they think of first.



**Yuko Uemura**

Director, Client Support Dept.  
at Kyoto Branch  
Daiwa Securities  
(Inheritance Consultants)



**Takaaki Nagano**

Director, Corporate Clients Banking  
Dept. (V)  
Daiwa Securities

- ① My definition of the highest quality is the thank you I receive from my customers. As with individuals, it is also very difficult to receive a thank you from corporate customers, and it is impossible to reach this point without delivering a truly added-value solution.
- ③ Of the actions that I must take, I think the most important is ensuring that I do not reduce my time with my customers. Given the time restrictions, this is why I work to improve my efficiency during office work. I focus my priorities on making the most efficient choices, ranking tasks, and working without sacrificing quality.
- ④ I want to truly and thoroughly know my customers, and, with an eye to the future, be able to make proposals that my customers have yet to imagine. Although I become frustrated with myself when I fail to do so, I hope to further improve myself as a way of gaining their trust. There are many employees within the company that have a firm understanding of both Japan and the international climate and play a global role, so another one of my goals is to succeed in this way.



**Satoshi Yazawa**

Director, Global Equity Sales Dept. (II)  
Daiwa Securities

- ① My customers are institutional investors, and we are in the position of being evaluated by broker rankings. If we achieve the number one position on the broker rankings, we will receive the greatest volume of orders. Therefore, we must ask ourselves what we must do to achieve the number one position. There are many individuals among my customers with far more knowledge than myself. This is why I study intensely and desire to become a presence that makes my customers think first of consulting Daiwa Securities. Investment trust asset managers are my customers, but beyond them, the retail customers buy their investment trusts. My goal is to ensure profits for both and that both are happy.
- ② I maintain an awareness and hope that my customers can recognize the positive and attractive aspects of Daiwa Securities as a company. For me, this is not just a job that I do. Therefore, I myself work to maintain a deep understanding of the company, including our bases in Japan and overseas, and thereby grasp the kinds of solutions that we can deliver.

## Financial Education Initiatives

### Daiwa Internet TV

In 2000, Daiwa Securities Group began Daiwa Securities Information TV, Japan's only channel dedicated to securities information, on multichannel pay TV broadcast service "SKY PerfecTV!" Following on from this, we have been producing Daiwa Internet TV at our own studio and distributing it to anyone who wants to watch for free since April 2011. Along with broadcasting timely Tokyo market information five times a day, the programs broadcast market information from Hong Kong and New York locally every day.

In addition, the programs broadcast corporate information and video reports in which analysts and economists from Daiwa Securities and Daiwa Institute of Research appear and explain current issues in an easy to understand manner.

Our Daiwa Internet TV initiative was introduced by the SDG Industry Matrix for Financial Services (issued jointly by the United Nations Global Compact and KPMG International in 2015) as a case for Goal 4 "Quality Education." The report highlighted Daiwa's timely and free of charge provision of a variety of financial and investment information.

We will continue to strive to produce programming that supports the transition from savings to investment so that the programs are viewed by both investors and those without investment experience.



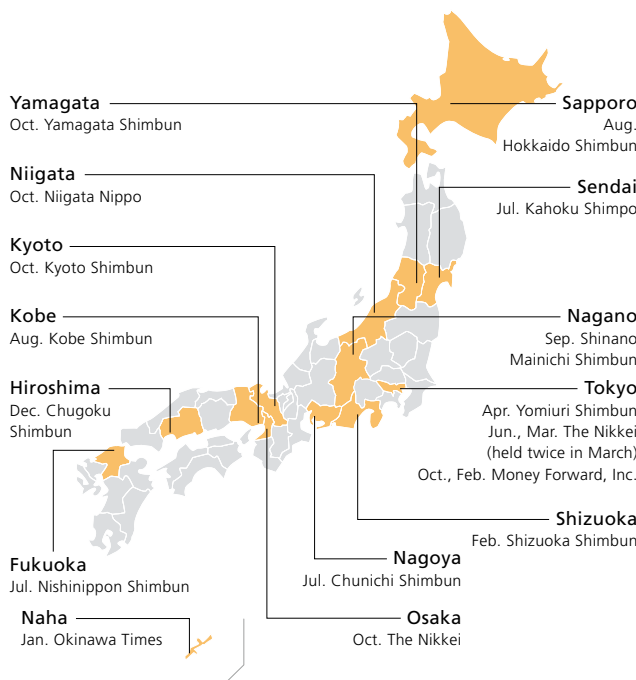
<http://www.daiwatv.jp/>

## iDeCo Partnership Seminars

Since FY2017, Daiwa Securities has worked with newspaper companies and others to hold iDeCo Partnership Seminars during the weekends and weekday evenings for those in the working generation. In FY2017, a total of 19 seminars have been held and attended by 4,021 participants.

By inviting comedians and other celebrities as guests to the seminars held around Japan, we have helped customers become familiar with and gain an understanding of iDeCo. Moreover, through the cooperation of the Sales Planning Department, Daiwa Direct Planning Department, and local sales branches, these seminars have served as a good opportunity for those among the working generation, who often have jobs that prevent them from easily visiting branches during the weekdays, to learn about Daiwa Securities. Going forward, we plan to continue these types of initiatives as a chance for those in the working generation to recognize the importance of asset building and as an opportunity to know Daiwa Securities Group.

## iDeCo Partnership Seminars Held in FY2017



Seminar panel discussion

## FinTech Revolution

On April 3, 2018, Daiwa Institute of Research published FinTech Revolution. As a group-wide Daiwa Institute of Research project, the book was authored by members with knowledge on the forefront of finance and systems from six departments within Daiwa Institute of Research and Daiwa Institute of Research Business Innovation. The book investigates this topic from the perspective of forecasting the future of finance a decade from now based on cutting-edge cases of FinTech.



## Participating in Nikkei Business Raise Online Internships

Daiwa Securities Group participated in the Nikkei Business Raise opinion platform established by the Nikkei Business Online business information site. This platform offers online internships that enable participants to acquire trial work experience over the Internet.

Internships provided by companies have been problematic in the past because they are only able to accept a limited number of applicants and because overlapping timeframes have made it difficult for students to participate in multiple internships. Nikkei Business Raise enables university students to learn about business practices, such as product development and marketing, over the Internet from employees of each participating company and to debate the ways in which companies can contribute to society.



<https://raise.nikkeibp.co.jp/media/new>

# Passion for PARTNERSHIP

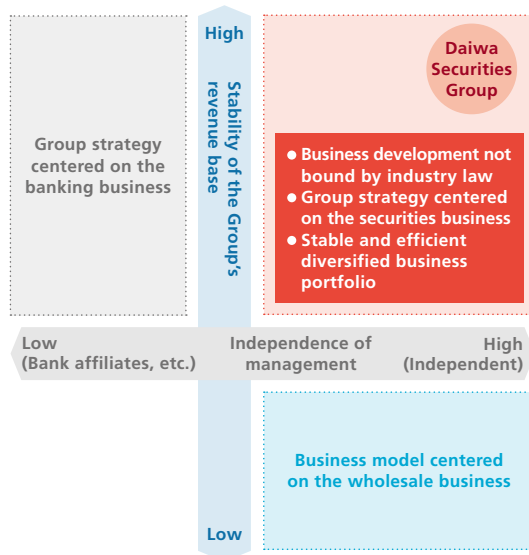


To mobilize the means required to implement this Agenda through a revitalized Global Partnership for Sustainable Development, based on a spirit of strengthened global solidarity, focused in particular on the needs of the poorest and most vulnerable and with the participation of all countries, all stakeholders and all people

Collaboration between a traditional securities business and diversified business portfolio

## Integrated Securities Group with a Hybrid Business Model

### Advantageous Position in the Securities Business



### Image of Hybrid Securities Group



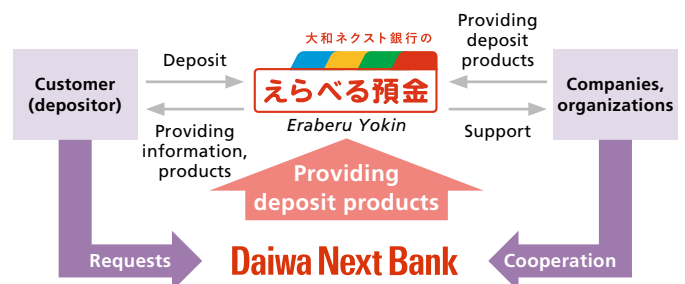
## 1. Banking Business

### Eraberu Yokin

Within Daiwa Securities Group, Daiwa Next Bank in November 2017 launched *Eraberu Yokin* (a deposit account that provides value in ways other than traditional interest rates). 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, (2) support groups such as non-profit organizations 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, and (3) depositors can be excited by predicting index and

forex rate trends to receive a prize. As of the end of July 2018, there were more than 13,000 *Eraberu Yokin* accounts, with total deposits reaching about ¥15.6 billion. The donation type accounted for about 30% of all *Eraberu Yokin* accounts.

### Eraberu Yokin Platform



## 2. Real Estate Asset Management Business

### Received GRESB Green Star Certification for Sixth Consecutive Year

Daiwa Real Estate Asset Management participated in the 2017 Global Real Estate Sustainability Benchmark (GRESB) Real Estate Assessment for Daiwa Office Investment Corporation and earned the Green Star designation for the sixth year in a row.



GRESB is used by major European pension funds and others in making decisions related to investment destinations. Use has spread to other institutional investors, including life insurance companies and investment trust management companies, as well as to the US and Asia.

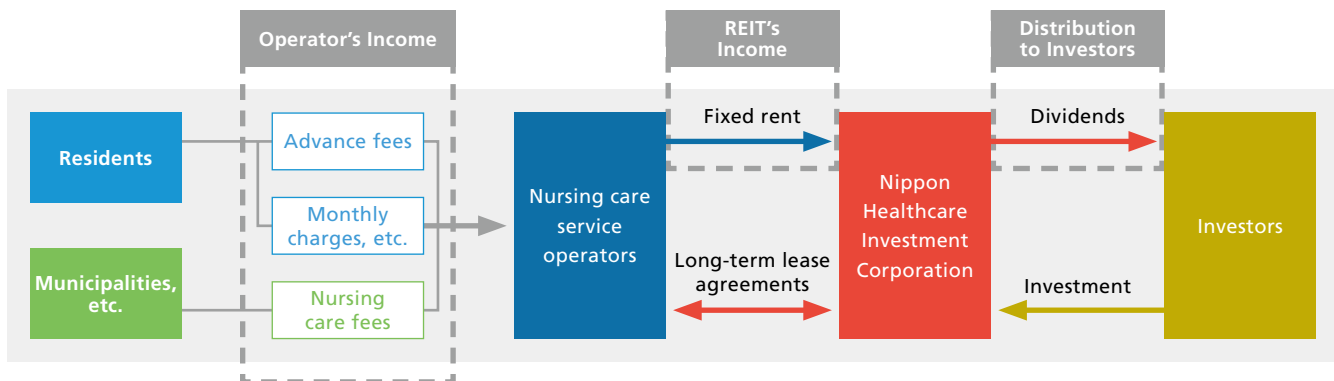
Daiwa Securities Group is committed to improving its sustainability performance as it remains faithful to its environmental and social responsibilities.

### 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.

The Healthcare REIT Mechanism



### 3. Initiatives Aimed at Creating Next-generation Financial Services

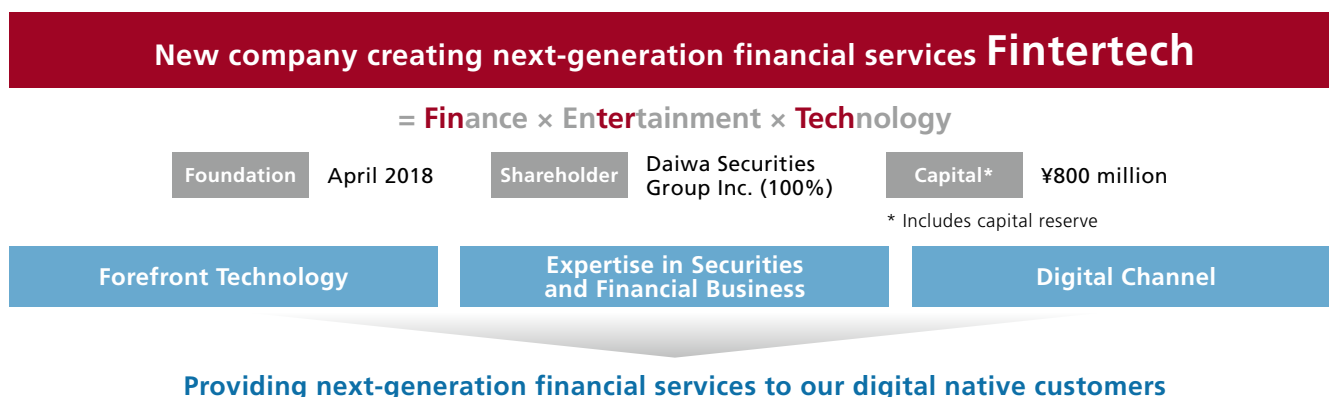
With the goal of fostering new businesses and the next generation of securities platforms, we are focusing our attention on a variety of promising areas while partnering with the leading companies in each of these fields.

#### Cooperation with Finatext and Smartplus

Daiwa Securities Group Inc. forged an agreement with Finatext to establish a next-generation securities platform in November 2017. Finatext subsidiary Smartplus announced STREAM, an SNS app allowing the exchange of stock trading information, in April 2018, launching the registration of users at the same time. Operations in full began in July 2018 with the addition to the STREAM app of a function allowing the trading of stock without the conventional fees.

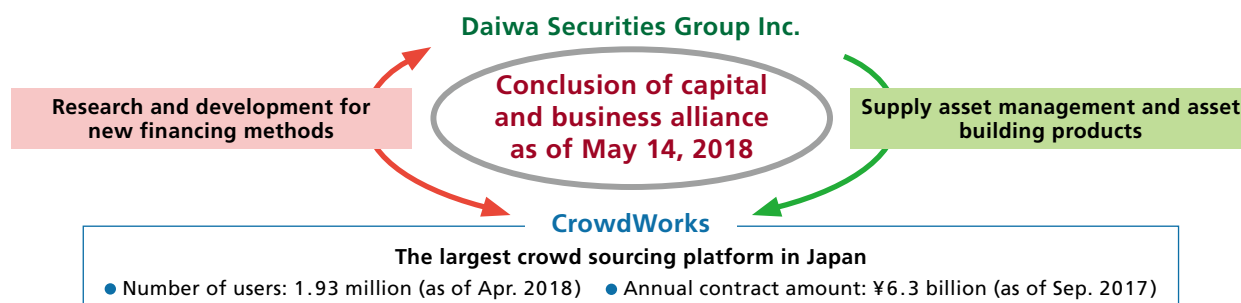
#### Fintertech

Fintertech was established with the aim of flexibly providing through a variety of channels using cutting edge technologies and digital media, a wide array of goods and services to meet the ever diversifying needs of our digital native customers.



#### CrowdWorks

Daiwa Securities Group Inc. has entered into a capital and business alliance with CrowdWorks, which provides the largest crowd sourcing platform in Japan to match the needs of those applying for work and those undertaking work (crowdworkers) over the Internet. We intend to continue working with the company to develop and provide services bolstering asset formation for these “crowd workers.”



## 4. Initiatives in the Overseas Business

### Strengthening the global M&A network

➔ **Strategies by Division (Wholesale Division)**  Page 53

### The Asia Alliance Strategy

Daiwa Securities Group has forged alliances with a number of financial institutions throughout Asia and remains focused on leveraging economic growth in the region to bolster our presence in the market.

In Vietnam, where real GDP expanded 6.8% in 2017 and growth moving forward appears likely to remain firm, we have more than 20% equity in SSI (formerly Saigon Securities), the largest securities firm in the country, in line with our efforts to promote cooperation in the equity brokerage and investment banking businesses. By advancing our alliance strategy to take advantage of economic growth in Asia, we are creating synergies with existing businesses while preparing for changes in the global competitive environment.

### Private Equity Investment in Myanmar

Daiwa PI Partners has been actively focused on private equity investment in Myanmar since 2016 given the trend toward economic openness and deregulation in the country in line with the government making changes to corporate and investment laws and regulations. We have invested in FRONTiiR, one of Myanmar's largest Internet service providers, as well as OWAY, a Yangon-based online travel booking and taxi-hailing service. The total amount of investment for the two projects is about \$17 million, which makes it the largest investment in Myanmar by a Japanese financial institution. With new economic development just under way, there are a number of companies in Myanmar with the potential for growth. We intend to provide capital for growth to these companies, bolstering their expansion while simultaneously contributing to an improvement in the standard of living and social infrastructure for the people of the country.



FRONTiiR



A three-wheeled taxi operated by OWAY in Mandalay

## 5. Coexistence with Regional Economies

### Revitalizing Local Economies through IPOs

In Global Investment Banking, we are taking advantage of our group's domestic network to support the development of promising companies in local economies. We are focused on finding new IPO projects based not only on the information from group offices and sales branches nationwide, but also through agreements with local financial institutions in which they will introduce us to the leading companies in local markets they know so well. Through these activities and listing of local companies, we aim to help revitalize local economies.

# Passion for the PLANET



*To protect the planet from degradation, including through sustainable consumption and production, sustainably managing its natural resources and taking urgent action on climate change, so that it can support the needs of the present and future generations*

**Noting the importance of international cooperation, Daiwa Securities Group is a participant in the United Nations Environment Program Finance Initiative (UNEP FI) and a supporter of the Task Force on Climate-related Financial Disclosures (TCFD).**

## Outline of the TCFD



At the request of the G20, the Financial Stability Board established the Task Force on Climate-related Financial Disclosures (TCFD) in December 2015 to develop recommendations for voluntary climate-related financial disclosures that are consistent, comparable, reliable, clear, and efficient, and provide decision-useful investment information. The TCFD released its final report, Recommendation of the Task Force on Climate-related Financial Disclosures in June 2017, and had secured the agreement of more than 280 companies around the world as of May 2018.

## 1. Green Bonds

Since 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.

The Group has been 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. In addition to practical achievements such as being a lead manager in the Development Bank of Japan's successful effort to become the first Japanese bank to issue green bonds in the Euro market and Nacional Financiera launching the first green bond issuance in Mexico, the Group is promoting the spread of ESG/SRI bonds, including green bonds, in Japan and overseas, for example, by participating in the International Capital Market Association's working group on Green Bond Principles and serving on the committee developing the Ministry of the Environment's Green Bond Guidelines, 2017.

The issuance of green 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.



### Green Bond Underwriting

	Issuer	Fund use	Sales amount (Estimate)
FY2016	Crédit Agricole CIB	Extending loans to companies and projects that contribute to environmentally friendly economic and social development	¥6.3 billion
	Central American Bank for Economic Integration (CABEI)	Supporting climate change mitigation and adaption projects in Central America	¥7.7 billion
FY2017	Asian Development Bank (3 currencies)	Efforts aimed at addressing climate change in the Asia-Pacific region	¥8.0 billion
	Tokyo Metropolitan Government	Efforts involving shifting to LED lighting in city-owned facilities and roads, shoring up small and medium-sized rivers, upgrading Tokyo Bay and Island preservation facilities, and addressing the heat island effect (improving heat shielding, water retention)	¥2.0 billion

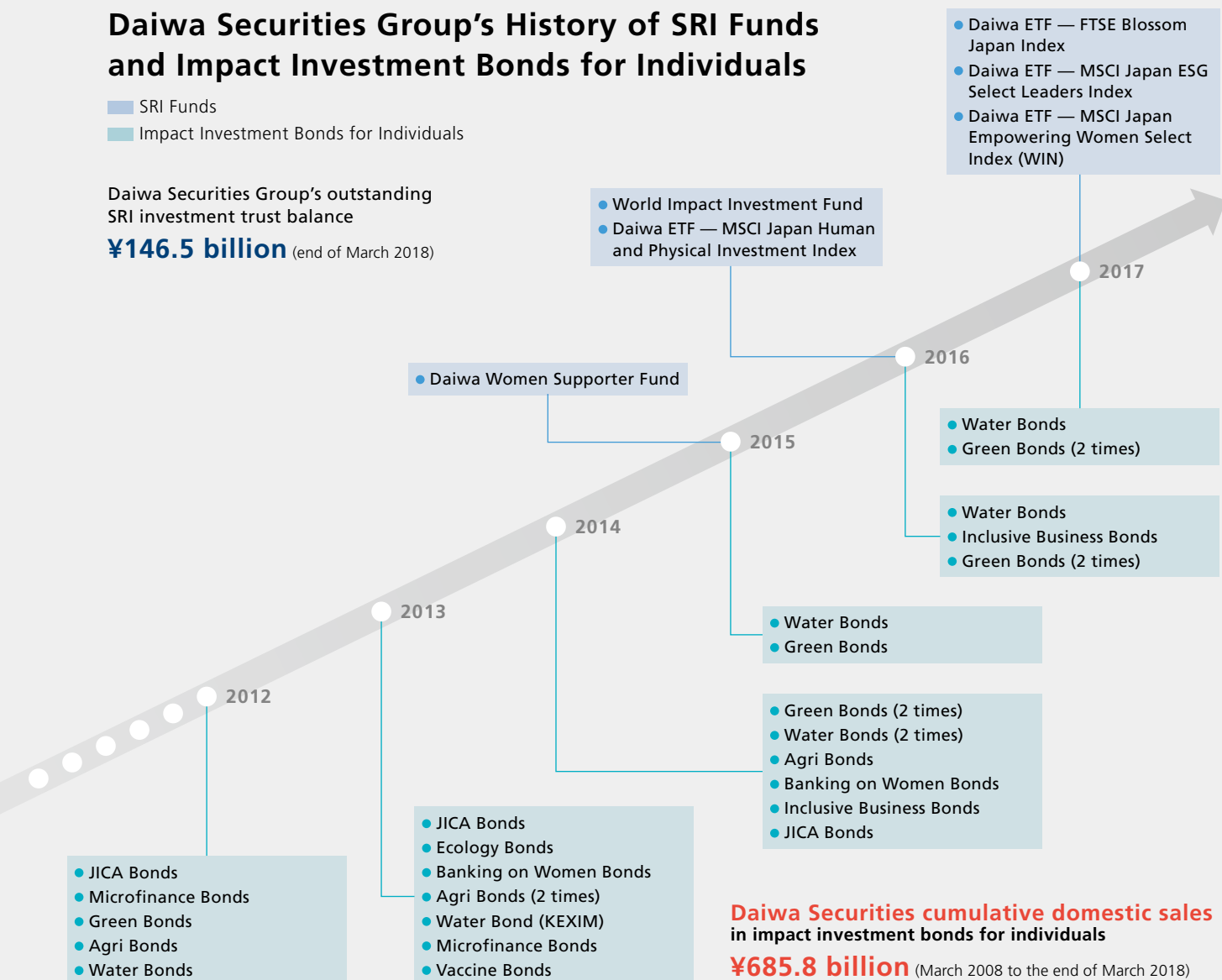
Note: Tokyo Metropolitan Green Bond was underwritten by five companies, including Daiwa Securities. The amount in the sales column represents the Daiwa Securities portion.

## Daiwa Securities Group's History of SRI Funds and Impact Investment Bonds for Individuals

- SRI Funds
- Impact Investment Bonds for Individuals

Daiwa Securities Group's outstanding SRI investment trust balance

**¥146.5 billion** (end of March 2018)



SDGs Feature

## 2. Expanding the Renewable Energy Business through the Establishment of Daiwa Energy & Infrastructure Co. Ltd.

Daiwa Securities Group established Daiwa Energy & Infrastructure Co. Ltd. in July 2018 with the goal of promoting investment and loans in renewable energy.

Daiwa PI Partners, which handles Daiwa Securities Group's investment function, has been working to resolve social issues, including in regard to the conversion of the energy supply structure, through investment in renewable energies.

In order to further develop these efforts, the Group in July 2018 established Daiwa Energy & Infrastructure, a new company focused on investment and loans in energy and infrastructure. Daiwa PI Partners will transfer its energy investment function to the new company. The Group is also establishing alongside GI Capital Management Ltd., the Daiwa GI Green Fund, which only invests in newly set companies in domestic solar power.

The Group is participating in investment and development of eight solar power projects, and seven of these, including the Iwamizawa solar power plant in Iwamizawa, Hokkaido are being developed solely by the Group, have already achieved stable operations. The large-scale solar power plant in Tomakomai, Hokkaido is still under construction, but is expected to be completed in summer 2018.

In the field of biomass power generation, the Group in a capital and operational tie-up with Green Thermal Co. Ltd. is making steady progress in development of the woody biomass power plant, which uses as primary fuel unused wood materials. The first project in Yonezawa, Yamagata Prefecture is expected to come online in 2018, with the second power generation project in Kamitonda, Wakayama Prefecture expected to reach completion in 2020.

Through the new company, the Group aims to promote investment and loans focused on renewable energies.



Solar power generation  
(Taki District, Mie Prefecture)



Biomass power generation  
(Yonezawa, Yamagata Prefecture)

### Daiwa PI Partners Development of and Investment in Solar Power Generation Plants (including under construction)

As of the end of July 2018

Taki No. 1 power generation plant (Taki, Taki District, Mie Prefecture)	4,070kW	Masuura Kushiro Solar Power Plant (Kushiro City, Hokkaido)	2,190kW
Iwamizawa Solar Power Plant (Iwamizawa City, Hokkaido)	8,970kW	Boyo Kushiro Solar Power Plant (Kushiro City, Hokkaido)	1,410kW
Ofunato Solar Power Plant (Ofunato City, Iwate Prefecture)/Joint investment	19,830kW	Kan-onji Solar Power Plant (Kan-onji City, Kagawa Prefecture)/Joint investment	1,150kW
Tomakomai Solar Power Plant (Tomakomai City, Hokkaido)/Joint investment	38,400kW	South Yonezawa woody biomass power generation plant (Yonezawa City, Yamagata Prefecture)	6,250kW
Takatoku Nikko Solar Power Plant (Nikko City, Tochigi Prefecture)	16,744kW	Kinan woody biomass power generation plant (Kamitonda, Nishimuro District, Wakayama Prefecture)	6,800kW
<b>Total output capacity</b>			<b>105.8MW</b>

Amount of electricity

Consumed by approximately 52,000 households per year  
(converted to a per household power consumption basis)

# Passion for PEACE



*To foster peaceful, just and inclusive societies which are free from fear and violence. There can be no sustainable development without peace and no peace without sustainable development*

## Initiatives Aimed at Preventing Organized Crime Groups from Engaging in Anti-social Behavior, Acts of Terrorism, and Other Activities Including Money Laundering

Daiwa Securities Group believes that eliminating anti-social forces, an especially important social requirement in Japan, preventing organized crime from engaging in such acts as international terrorism and money laundering as a matter of global consensus, and stopping organizations and individuals identified by international institutions from utilizing finance and capital markets are key issues in maintaining the trust of customers. As a result, we have put in place the structures and systems necessary to confirm business partners.

## Investment Policy against Cluster Munitions Producers (Daiwa Asset Management Co. Ltd.)

The Convention on Cluster Munitions (Oslo Declaration) came into effect in August 2010. As an asset management company in Japan, a country ratifying the convention, Daiwa Asset Management established basic principles for investments in, and other actions against, cluster munitions producers.

- 1 Daiwa Asset Management shall not invest in securities issued by cluster munitions producers in active funds. In cases where the active funds hold such securities, Daiwa Asset Management shall immediately sell the securities.
- 2 In cases where withdrawal from, or contraction of, the business for producing cluster munitions is proposed at shareholders' meetings of cluster munitions producers, Daiwa Asset Management shall agree with such shareholders' proposals.

## Passion for SDGs 2018 -Daiwa Securities Group's SDGs Declaration-

Daiwa Securities Group recognizes the Sustainable Development Goals adopted by the United Nations in 2015 as overarching goals to lead the world. Through our Group business, we will work actively toward the realization of a prosperous society and the improvement of people's lives by pursuing both the Company's economic value and solutions to social challenges at the same time.

### Creation of Shared Values

As an integrated securities group that provides a wide range of services for various customer needs, we will work to provide solutions to social challenges with a flexible mindset to create the Company's economic value and social value at the same time.

### Stakeholders and Partnerships

By utilizing our Group quality of taking a leading role in connecting countries, companies and investors, we aim to contribute to various social business solutions through partnerships with each of our stakeholders.

### Developing and Realizing Work Styles for Diverse Human Resources

With measures like the promotion of better work-life balance and the success of female and veteran employees while creating a working environment in which our employees, regardless of their gender and age, would feel satisfying to work in and would demonstrate their potential fully, we will endeavor to develop diverse human capital and work styles.

### Increase Recognition and Enhance Penetration

We will try to increase awareness and a deeper understanding of SDGs among both our employees and customers through our Group business as a main player in the financial and capital market.

# Creating the Future through SDGs

SDGs (Sustainable Development Goals) are critical targets that provide momentum for the future of the world. In this light, Daiwa Securities Group established the SDGs Promotion Committee as a means of working through the Group's business in financial and capital markets to tackle solutions to social issues. The Committee's purpose is to gather and organize information on the latest initiatives related to SDGs in Japan and overseas, and to discuss Group-wide approaches. In May 2018, Daiwa Securities Group declared its full-scale deployment of initiatives aimed at SDGs in its "Daiwa Securities Group's SDGs Declaration". Seiji Nakata, CEO of Daiwa Securities Group Inc., and Professor Norichika Kanie of Keio University, an invited outside committee member of the SDGs Promotion Committee, exchanged their thoughts on the future of initiatives aimed at SDGs.



## Norichika Kanie

Professor  
Graduate School of  
Media and Governance  
Keio University

## Seiji Nakata

President and CEO  
Daiwa Securities  
Group Inc.

## About the SDGs Promotion Committee

**Nakata:** During the first committee meeting, held in May 2018, the outside committee members, including yourself, introduced their respective activities and thoughts. Among these, your talk discussing how we must first increase the recognition of SDGs and then go on to promote an understanding of SDGs left a very strong impression. You also spoke about the concept of “autonomous dispersed cooperation.” Similarly, we have begun to recognize the challenge of promoting these initiatives as a company while at the same time considering how to construct a system and framework in which individual employees can participate.

Moreover, the period of SDGs is specified up to 2030, but I think that the basic idea of SDGs should be sustainable and continuous. So I feel that we must not be dazzled by the term SDGs and simply pursue formulaic results when we consider our Group-wide approach.

**Kanie:** Because past sustainability-related activities had regularly faced the problem of funding failing to result from the will to act, when I was invited as an outside committee member to Daiwa Securities Group's SDGs Promotion Committee, the first thing I felt was that the world had finally started moving in a direction of change. In particular, my impression from a social perspective, too, was that with a financial institution promoting these kinds of initiatives, it was as if the center of things had started to move.

**Nakata:** Daiwa Securities Group enacted its Corporate Principles in 1998 and the Daiwa Spirit in 2008, therefore I think SDGs are already incorporated in this deep-rooted stance of the Group, albeit through tacit knowledge. With this approach incorporated into the structure of the organization itself, without even recognizing it, we are able to put initiatives into practice as a matter of course.

Moreover, there are examples of specific initiatives that will connect to solving SDGs-related problems that the Group began taking even before SDGs were formulated. For example, starting with vaccine bonds, we have led the industry in the sale of Impact Investment Bonds, while the Daiwa Securities Foundation has donated some ¥50 million annually over the past 25 years

to organizations conducting activities that connect to the targets of SDGs.

I think that reorganizing and sorting the initiatives that we have taken thus far from the perspective of SDGs is important in terms of encouraging an understanding and penetration among our employees.

## For Creating Good Practices

**Kanie:** I often use the phrase “SDGs are the framework of the future.” The greatest implication of SDGs is that every member nation of the UN has consented to them. I think that the very fact that the world has agreed to such diverse, grand targets is of major value. It is corporations and their stakeholders who will flesh out this framework, but if we assume that the world will head in the direction of SDGs in the future, then from the perspective of business, too, being among the first to tackle SDGs will likely result in significant advantages.

Although it is important to undertake individual social contribution activities as CSR, going forward initiatives that are part of core business activities will be prioritized. Even though we may value the will to act for society despite such action failing to lead to profit, conversely this is where it is important to do business. As the co-chair and UN Ambassador from Kenya at the time the SDGs were formulated regularly stated, SDGs are a matter of economics. So in terms of economic development, it is growth that will allow us to eat forever, not just growth for the next 10 or 15 years, that is important.

For example, we cannot ignore the state of a region when undertaking renewable energy initiatives, because these kinds of initiatives are also connected to many other problems, like regional employment and empowering women. We cannot solve everything in a single stride, but by tackling problems one at a time, we can construct a system whereby we conduct business in fields that benefit society.

As you mentioned a moment ago, it is very important for Daiwa Securities Group to first reorganize those actions that the Group is already taking in a tacit manner from the perspective of SDGs. By taking inventory of these initiatives, you will be able to see what you must do next.



**Norichika Kanie**

A professor in the Graduate School of Media and Governance at Keio University. He is also a Senior Research Fellow at the United Nations University Institute for the Advanced Study of Sustainability. Prior to his current position, he served as an associate professor in the Graduate School of Decision Science and Technology at the Tokyo Institute of Technology. His past positions have included serving as a Marie Curie Incoming International Fellow at the European Commission and as a visiting professor at the Institut d'Etudes Politiques de Paris.

**Nakata:** In terms of decent work and economic growth, innovation in industry, and other economic aspects of SDGs, in particular, Daiwa Securities Group's economic activities have contributed to society over the past 116 years because of our responsibility for the financial infrastructure. I think that the first step in this reorganization is to first string together the daily tasks of our employees via the concept of SDGs, and thereby re-acknowledge the fundamental social meaning of these tasks.

The next step will be to comprehensively incorporate the perspectives of SDGs, including the challenges related to the environment, poverty, and hunger, within the businesses that we will deploy in the future, and pursue economic value without doing that which does not match SDGs. We can expect to see dilemmas emerge at this time between the various matters, so I think that finding a

balance and formulating policies will become an issue going forward. However, as a private enterprise this thinking assumes that we will also pursue economic value of a sufficient scale.

## SDGs and Innovation

**Kanie:** Trying to solve everything from the outset across a wide range of topics will result in burnout, so I feel that undertaking issues slowly, starting from where it is viable, and widening perspectives little by little from there will give birth to new ideas. What I often tell my students is that simply combining just two out of any 169 targets gives rise to more than 28,000 concept variations. Immediate priorities differ for everyone, which is exactly what makes society diverse and interesting. So if each one of us brings different ideas together and we undertake

Trying to solve everything from the outset across a wide range of topics will result in burnout, so I feel that undertaking issues slowly, starting from where it is viable, and widening perspectives little by little from there will give birth to new ideas.

each idea one at a time while working together where we can, we will be able to create significant value.

**Nakata:** When I first saw the SDGs framework, I got the impression that these were suited to the financial industry and securities companies like ourselves. Whereas manufacturers with technical capabilities can contribute deeply and significantly to one goal, I think that finance can become involved broadly throughout the world, from countries and governments to enterprises and individuals.

For example, Daiwa Securities Group is currently investigating whether we can contribute to the agri-food business as a part of our financial business. If we can establish this approach as a business model, we will be able to help solve food-supply issues. The financial industry is also being affected by the trend of leveraging FinTech and AI to drive new innovations, and is, in practice, aiming to improve systems throughout the world by applying the results of these innovations. By adjusting our current initiatives to match SDGs, making analyses and setting criteria for determining where to tackle SDGs within new business, I think we can make progress with integration initiatives for SDGs and our business itself.

**Kanie:** You just mentioned FinTech and AI, but the groups in the university that have shown the strongest interest in SDGs are students and researchers in the fields of technology. Professor Jun Murai, who is famous for his work in developing the technological platforms for the Internet, has raised the concept of rebundling technologies under the concept of SDGs. For example, if we are able to conduct all transactions using electronic money, the speed of transactions would increase and we would no longer need to print cash, which would reduce resource consumption by an equivalent degree. In addition, we can expect secondary impacts on issues related to the environment and disparities. Initially, I was surprised by this link with technology, but this kind of talk has emerged in various areas, and I now feel this subject has entered an interesting phase.

There are strong linkages between technology and local revitalization, too. In June 2018, the Cabinet Office of Japan selected 29 cities as “SDGs Future Cities.” The proposals of the selected cities included promoting telecommuting by leveraging technology. If technology can be used to improve agriculture, then by more efficiently producing high-quality crops we could also increase agricultural revenues despite a falling agricultural population and even against a backdrop of severe climate change. Using 3D printers may also enable us to reduce transportation costs and energy consumption.

Conversely, regional cities with smaller populations are likely to offer an environment within which it is easier to undertake experimental initiatives for SDGs. By involving regional financial institutions, for example, some local governments are working to create systems by which companies that tackle SDGs can acquire benefits. Financial institutions also hold the key to local communities, and I feel that it is possible for them to create new innovation through a diverse range of approaches.

**The financial industry is also being affected by the trend of leveraging FinTech and AI to drive new innovations, and is, in practice, aiming to improve systems throughout the world by applying the results of these innovations.**

**Nakata:** I think that communities would reach a deadlock if local governments, leading local enterprises, and regional banks, for example, that are already familiar with the area, do not take the lead under their own initiative. I think our role in this area is to influence and

support local governments and enterprises via our locations throughout Japan.

We are also considering promoting voluntary initiatives by our employees by collecting ideas and through workshops in the future. I think that having an awareness that stems from living within regional communities, not only while being involved in a company, will nurture a culture. I hope to create a system that will effectively drive the link between individuals and organizations so that the Group will find positive new ideas.

**Kanie:** The concept of creating a system whereby various stakeholders can dream up and link their different ideas to give rise to something new resides in SDGs. And I feel that one of the potentials of this linkage is the responsibility of academia. Researchers no longer just lock themselves away in ivory towers to write papers, but have started to prioritize interaction with society. SDGs provide a good opportunity to speak using the same language as corporations, and I hope to take advantage of this. Utilizing logical, objective data, applying and analyzing existing systems, and creating new actions is the field in which academia is most skilled, so I feel that we can contribute in this respect.



**Nakata:** Starting this summer, I will have the pleasure of cooperating with the xSDG Laboratory, which you represent, as part of the Keio Research Institute at SFC. So I look forward to continuing to receive all kinds of advice on Daiwa Securities Group’s SDGs activities.

# Strategies by Division

- 47 Daiwa Securities Group Business Divisions
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The Securities Business of the Future and Innovation
- 68 Strategic IT Utilization and Cybersecurity Initiatives



# Daiwa Securities Group Business Divisions

## Retail Division

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

- Number of branches and sales offices in Japan\*: **155**
- Remaining customer cash management service (CMS) accounts\*: **2,989 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: **20 countries and regions**
- Total value of underwriting and distribution: **¥1,379.5 billion (equity)**  
**¥10.2 trillion (bond)**

## Asset Management Division

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

- Assets under management\*: **¥20.5 trillion**
- Assets under management of real estate AM business: **¥883.2 billion**

\* Total of Daiwa Asset Management Co. Ltd. (stock investment trusts/bond investment trusts) and Daiwa SB Investments Ltd. (stock investment trusts/investment advisory services)

## Investment Division

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

- Assets from investment funds\*<sup>1</sup>: **¥417.3 billion from 82 funds**
- Outstanding principal investment balance\*<sup>2</sup>: **¥120.0 billion**

\*<sup>1</sup> Investment fund data is presented on a cumulative basis from the commencement of DCI business operations  
\*<sup>2</sup> Principal investment balance is total of PIP and DPI

## Other

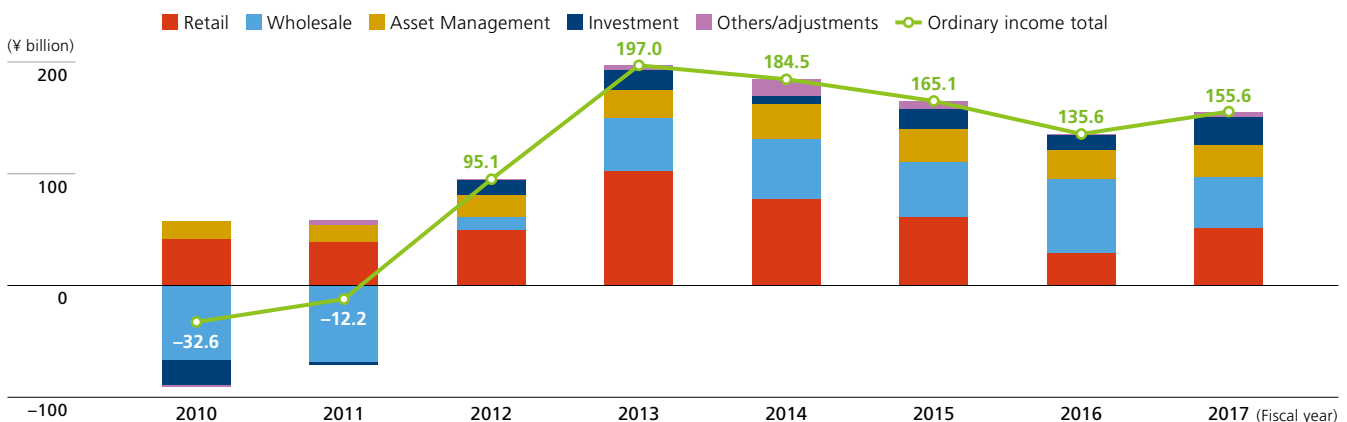
Daiwa Institute of Research Ltd.  
Daiwa Institute of Research Business Innovation Ltd.  
Daiwa Next Bank, Ltd.  
Daiwa Securities Business Center Co. Ltd.  
Daiwa Property Co., Ltd.

- Balance of deposits\*: **¥3.5 trillion**
- Number of accounts\*: **1,289 thousand**

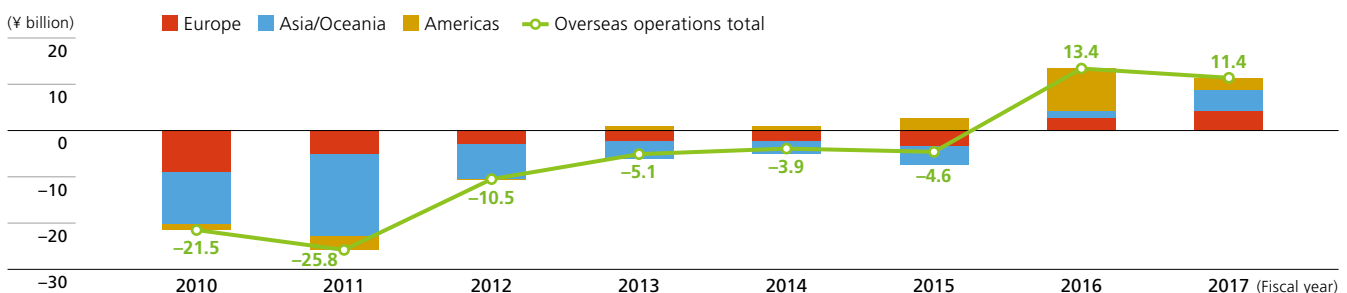
\* Figure for Daiwa Next Bank Ltd.

Note: The number of branches in the Retail Division is current as of August 31, 2018. Other figures are as of March 31, 2018, or from FY2017 results.

## Ordinary Income Trends by Business Division



## Overseas Operations Ordinary Income Trends



# Retail Division



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

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





## 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

 <b>Customer Attributes:</b>	<ul style="list-style-type: none"><li>• Individual investors</li><li>• Corporate investors (business corporations, public corporations, local public organizations, other corporations)</li></ul>
 <b>Channels:</b>	<ul style="list-style-type: none"><li>• Head and branch offices, sales offices (sales representatives, client support, etc.)</li><li>• Daiwa's online trading</li><li>• Contact centers</li></ul>
 <b>Main Products and Services:</b>	<ul style="list-style-type: none"><li>• Equities</li><li>• Bonds</li><li>• Investment trusts</li><li>• Wrap account services</li><li>• Insurance</li><li>• Banking services</li><li>• Inheritance-related services, etc.</li></ul>
 <b>Social Value:</b>	<ul style="list-style-type: none"><li>• Supports asset accumulation for people</li><li>• Supports society through investment on an intermediary basis</li></ul>

## 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

## Strengths

- Network of 155 sales branches/sales offices and a customer base built up over 116 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.

## Initiatives and Performance in FY2017

In FY2017, Daiwa Securities focused on building a customer-oriented sales system with the aim of achieving the industry's highest quality and augmented its sales branch evaluation system from the standpoint of customer satisfaction. After introducing a bottom-up sales system centered on sales branches, which are the closest to customers, sales representatives have spent more of their time listening to customer needs and proposing ideas more in tune with market trends. As a specific example, the trading volume of foreign equities increased sharply, mainly for U.S. equities in a brisk market environment, leading to record-high levels of foreign equities in assets under custody.

In sales of stock investment trusts, more emphasis was placed on performance-weighted product selection, resulting in a substantial increase in sales and distribution amounts as well as investment trust sales commissions.

In wrap account services, over a year has passed since the introduction of Daiwa Fund Wrap Premium

and Daiwa Fund Wrap Online, and as of the end of FY2017, the contract assets under management for wrap account services reached a record high. In March 2018, Daiwa Securities began offering Daiwa Advance Wrap, which affords more flexibility in making discretionary changes to portfolios depending on trends in the investment climate.

Daiwa Securities has expanded the number of sales branches with Inheritance Consultants, who have advanced knowledge of inheritance-related issues, to 100 branches as of April 2018, in order to strengthen support for customers seeking advice about inheritance procedures.

As a new initiative in the asset-building field, Daiwa Securities Group entered into a capital and business alliance\* with KDDI Corporation, establishing the joint venture called KDDI Asset Management Company, Limited in February 2018, while preparing to launch services such as iDeCo (defined-contribution pension plans for individuals).

\*  See page 16 for details.

### Action Plan for FY2018

- 1 Building a sales structure based on customer satisfaction**
- 2 Provide best service solutions for customer attributes that match the customer's various needs**
- 3 Sustainable expansion of a stable revenue base**
- 4 Expand the business by utilizing external channels and resources**

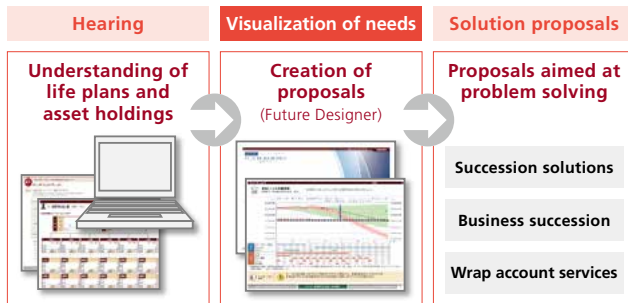
## Strategy 1

### Creation of a Customer-Oriented Sales System

From FY2018, Daiwa Securities will roll out Daiwa NPS® (Net Promoter Score) as an indicator for measuring customer loyalty, which will allow for a more efficient and consistent visualization of customer satisfaction. NPS® has been proven to have a strong correlation to improvement in customer satisfaction and growth potential in corporate earnings. Our aim is to firstly introduce NPS® in all branches of the Retail Division and then work to continuously improve scores toward offering the industry's highest quality.

In April 2018, Daiwa Securities created the CCO (Chief Customer Officer) position and the Retail Business Reform Office. Daiwa Securities is building a companywide customer-oriented sales system that more closely connects the head office to local offices, while introducing and improving NPS® and promoting a goal-based approach in consulting.

#### Visualization of Customer Needs Using a Goal-Based Approach



## Strategy 2

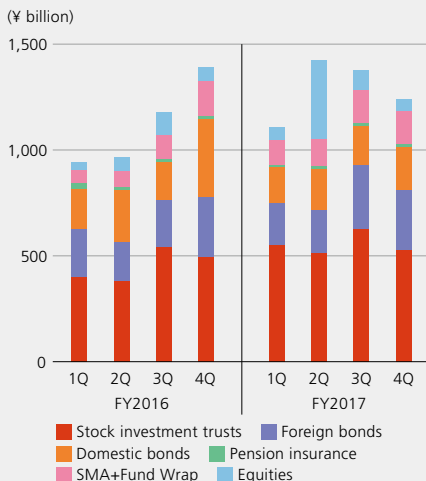
### Expanding Customer Contact and Optimizing Channels

In order to increase interactions with customers and more accurately understand their diverse needs, Daiwa Securities has focused on a sales branch strategy since 2012 that emphasizes the opening of low-cost, small-scale sales offices without back office functions. These sales offices have contributed to growth in the customer base with high levels of new account openings and asset inflows. Daiwa Securities plans to open more sales offices in light of their growth potential.

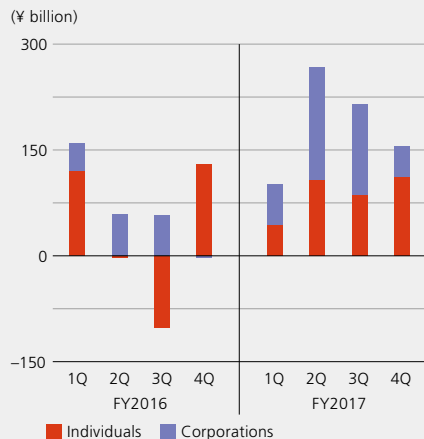
In May 2018, two major branches in Nagoya were merged together, with the aim of increasing efficiency by integrating branches in major cities while expanding agile sales office area coverage.

Moreover, Daiwa Securities aims to optimize and subdivide sales channels in accordance with customer attributes and life stages. In the second half of FY2017, we began to set up Anshin Planners, who provide comprehensive consulting for the needs of elderly customers, and Financial Consultants, who are in charge of asset building customers in their 20s, 30s and 40s. Plans call for all branches to have both channels by the end of FY2020. As a result of this initiative, we will be able to offer better consulting services and proposals that are more aligned with the needs of customers who we tended to have few

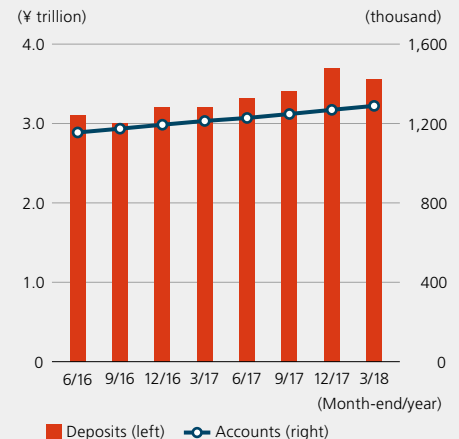
#### Sales and Distribution Amount by Product (Daiwa Securities)



#### Net Inflow of Assets (Daiwa Securities' Retail Division)



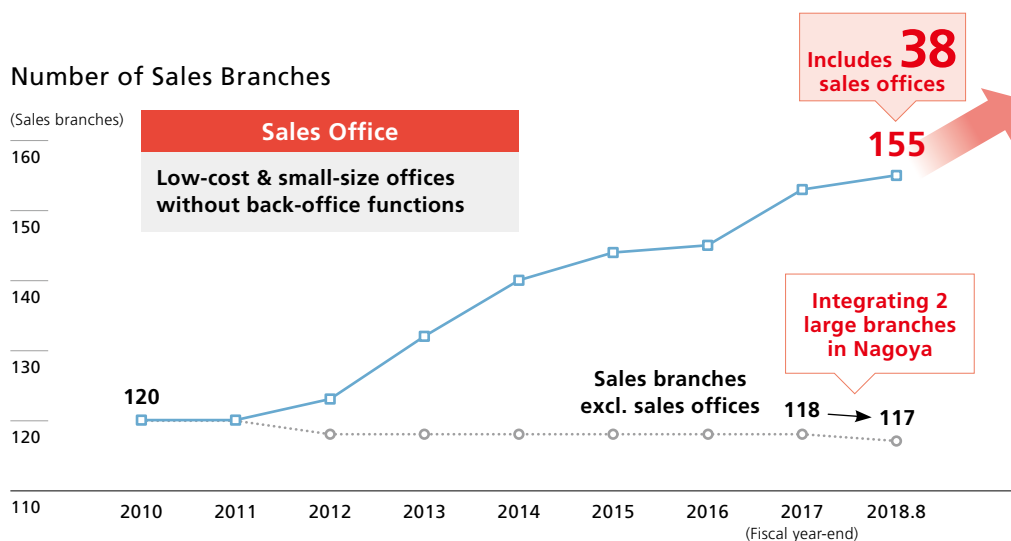
#### Balance of Deposits and Number of Accounts at Daiwa Next Bank



interactions with in the past.

There are currently about 100 branches with Inheritance Consultants, and while aiming to

improve quality further, we plan to have Inheritance Consultants at all of our branches as soon as possible.



### Optimizing Sales Channels

#### Subdivision of customers' attributes and life stages to optimize sales channels (introduced to 17 branches since Oct. 2017)

<b>Affluent</b>	<b>Wealth Consultant</b>	Providing high-value-added and comprehensive consulting to affluent and unlisted companies
<b>Elderly customers</b>	<b>Anshin Planner</b>	Providing comprehensive consulting including services that meet the needs of elderly customers
<b>Asset building customers</b>	<b>Financial Consultant</b>	Approaching asset building customers and direct customers and leading customers to relevant channels according to their life stages and changes in investing plans
	<b>Client Support</b>	

### Operational Data

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

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

### Strategy 3

## Provision of Products and Services That Identify Customers' Needs

Daiwa Securities is working to expand its lineup of attractive products while improving functions and services in order to satisfy the advanced needs of customers. When adopting investment trusts, Daiwa Securities follows guidelines and a highly transparent process for selecting products. On the sales front, we continue to propose the best funds to customers after listening carefully to their needs. In FY2017, of the 17 investment trusts that were newly lined up for customers, including on a sub advisory\* basis, 13 investment trusts (about 80%) were structured by management companies outside the Daiwa Securities Group, in line with the selection of excellent

investment trusts under an open architecture.

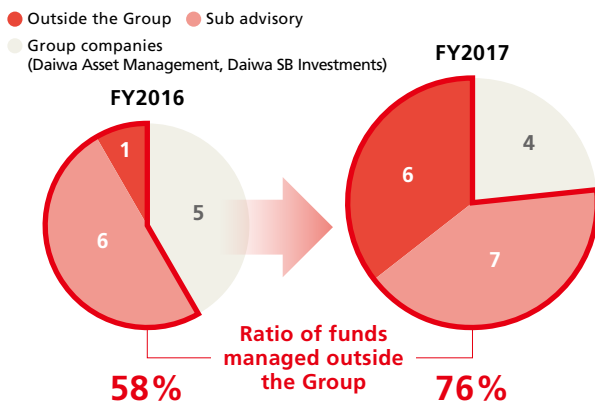
In wrap account services, we began offering Daiwa Advance Wrap, which permits the addition of Core Investments that seek higher returns through flexible changes in portfolios in reaction to changes in the market environment, and Satellite Investments that align with customer preferences and periodic market themes.

As of March 31, 2018, the balance of contract assets under management for wrap account services increased to ¥1,971.3 billion, a record high, and as of the end of June, the balance exceeded ¥2 trillion.

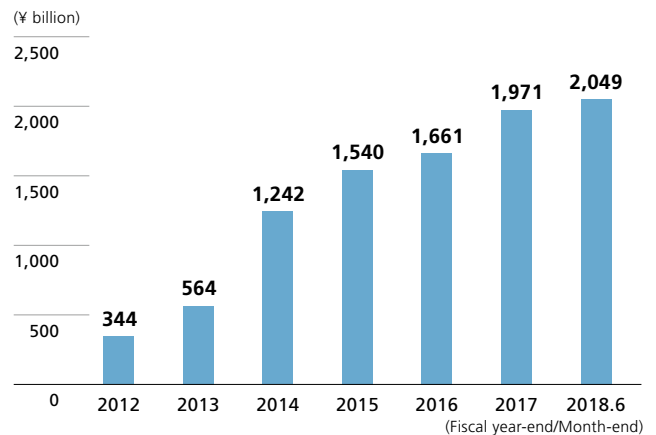
\* Asset management companies set up investment trusts and contract sub advisors (subcontracted external asset management companies) to select marketable securities for investments and trade these marketable securities. By adopting sub advisory through investment trusts, it is possible to provide customers in Japan a broader range of asset management models from around the world, including access to asset management with strengths in specific markets and marketable securities, as well as asset management with excellent track records.

### Selection of Investment Trusts by Open Architecture

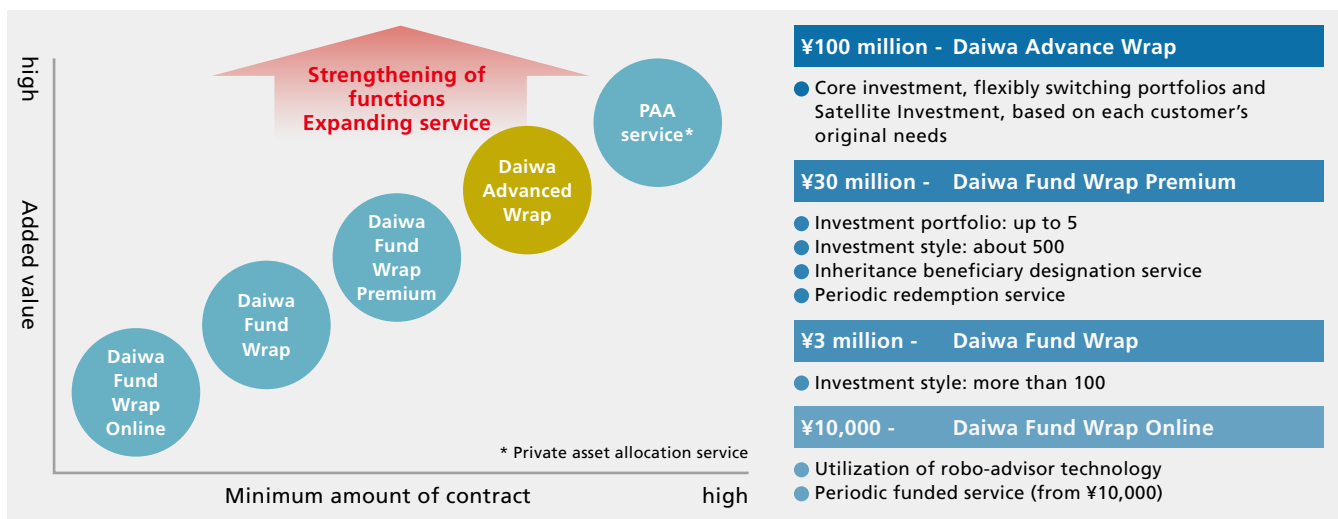
#### Composition ratio of new lineup funds' adoption



### Contract AUM for Wrap Account Services



### Further Evolution of Wrap Account Services



# Wholesale Division



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

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

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

	<b>Customer Attributes:</b>	<ul style="list-style-type: none"> <li>• Institutional investors in Japan and overseas</li> <li>• Corporations • Financial institutions • Public entities</li> </ul>
	<b>Channels:</b>	<ul style="list-style-type: none"> <li><b>GM</b> • Sales • Analysts • Dealers</li> <li><b>GIB</b> • Corporate client sales (RM and sector coverage) • Institutional sales (brokerage)</li> </ul>
	<b>Main Products and Services:</b>	<ul style="list-style-type: none"> <li><b>GM</b> • Equities • Bonds and foreign exchange • Derivatives</li> <li><b>GIB</b> • Primary and secondary equity underwriting • Bond underwriting</li> <li>• M&amp;A advisory services • Consulting for share listings</li> </ul>
	<b>Social Value:</b>	<ul style="list-style-type: none"> <li><b>GM</b> • Ensure healthy markets • Provide global investment opportunities to investors in Japan and overseas</li> <li><b>GIB</b> • Support industrial development • Identify and support new growing industries</li> <li>• Assist raising funds for public projects with high social significance, such as Impact Investments</li> </ul>

## 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 • Assistance for venture firms initiated by the government
  - British exit from the EU • Relaxation of restrictions on foreign investment in China's financial markets

## 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
- 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

## Initiatives and Performance in FY2017

The Global Markets business got off to a tough start as customer flow lost momentum at the beginning of the year due to growing geopolitical risk and other factors, while volatility remained low on financial markets. However, overall earnings were driven by an increase in customer flow in both Japanese and foreign equities, by accurately identifying customer needs amid robust equity markets in Japan and overseas. Our analysts moved up in the Nikkei Veritas rankings to third place, the first time since 2012, as a result of efforts put into training new graduates, hiring externally, and better performance overall.

In Global Investment Banking, underwriting deals included, for Japanese companies, serving as joint global coordinator in secondary equity offerings for Japan Post and Renesas Electronics, IPO for SG

Holdings, as well as follow-on offerings for Idemitsu Kosan and Daiwa House REIT Investment. Overseas, Global Investment Banking operations lead managed the issuance of benchmark bonds for the Japan Bank for International Cooperation (JBIC). In the DealWatch Awards 2017, Daiwa Securities won the House of the Year 2017 award for the first time since FY2012.

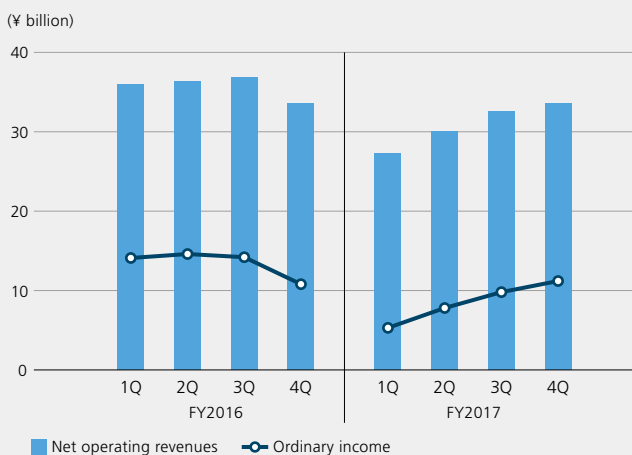
In M&A advisory services, Daiwa Securities served as advisor to MBK Partners in its buyout deal for Kuroda Electric through an investment fund managed by MBK Partners. Additionally, Daiwa Securities and DC Advisory collaborated together and served as advisor to the investment fund Cinven for the sale of Northgate Public Services, an IT service provider in the U.K., to NEC Corporation. Daiwa Securities Group companies worked together on several other M&A deals.

In order to strengthen M&A advisory services

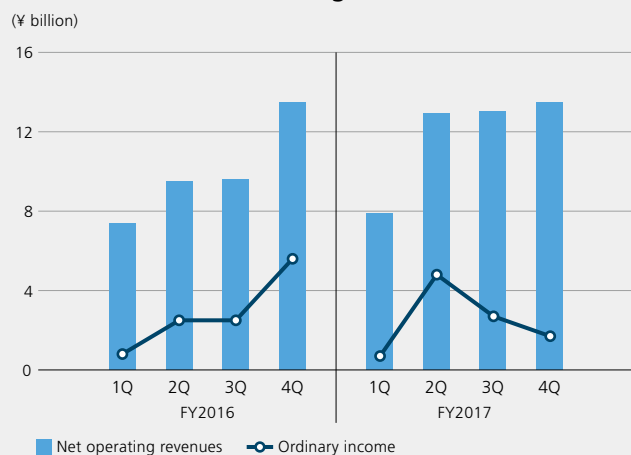
## Major Lead-Managed Deals and Publicly Announced M&A Advisory Activities in FY2017 (Including Participation as a Joint Bookrunner)

Primary and secondary equity offerings	JAPAN POST HOLDINGS Co., Ltd.	Global PO	¥1,308.9 billion
	Renesas Electronics Corporation	Global PO	¥348.5 billion
	Yakult Honsha Co., Ltd.	Global PO	¥140.0 billion
	Idemitsu Kosan Co., Ltd.	Global PO	¥124.8 billion
	Daiwa House REIT Investment Corporation	REIT global PO	¥56.8 billion
	SBI Holdings, Inc.	Euro yen CB	Total ¥50.0 billion
IPO	SG Holdings Co., Ltd.	Global IPO	¥127.6 billion
	KATITAS Co., Ltd.	Global IPO	¥37.8 billion
Bond	Japan Bank for International Cooperation (JBIC)	Benchmark bonds (2 issues)	Total US\$9.5 billion
	Asahi Group Holdings, Ltd.	Straight bond	Total ¥280.0 billion
	Crédit Agricole S.A.	Samurai bond	Total ¥203.9 billion
	Mitsui Sumitomo Insurance Company, Ltd.	Subordinated bond	Total ¥130.0 billion
M&A	<ul style="list-style-type: none"> <li>■ Sale of CPA Global (UK) to Leonard Green &amp; Partners, L.P. (US)</li> <li>■ MBO of Kuroda Electric Co., Ltd. by MBK Partners JC IV, L.P.</li> <li>■ Sale of Northgate Public Services (UK) by Cinven to NEC</li> <li>■ Acquisition of shares of H.C. Starck Tantalum and Niobium (Germany) by JX Nippon Mining &amp; Metals Corporation</li> </ul>		

## Quarterly Earnings Trends Global Markets



## Global Investment Banking





globally, especially in North America, Daiwa Securities Group turned business alliance partner Sagent Holdings, Inc., in which it had made an investment, into a wholly owned subsidiary. After acquiring Signal Hill Holdings LLC separately, the Group merged it with Sagent Holdings to form the Group's wholly

owned subsidiary DCS Advisory Holdings, Inc. Through collaboration with overseas bases, Daiwa Securities Group has put into place a structure for handling cross-border deals with Japan, which are likely to increase, and deals between Europe and the U.S., a huge market.

## Action Plan for FY2018

- 1 Promote the company's shift to achieve higher corporate value
- 2 Provide products and services that capture customer needs
- 3 Support transformation in business structure and in Japan's industrial structure
- 4 Provide pan-Asian business supports as a regional Asian brokerage firm

### Strategy

# 1

## Promotion of High-Value-Added Solutions for Corporations

Global Investment Banking provides sophisticated solutions that help solve management problems at corporations. In particular, Daiwa Securities Group aims to strengthen the M&A business by leveraging its expanded global network in Japan, Europe, the U.S. and now China as well.

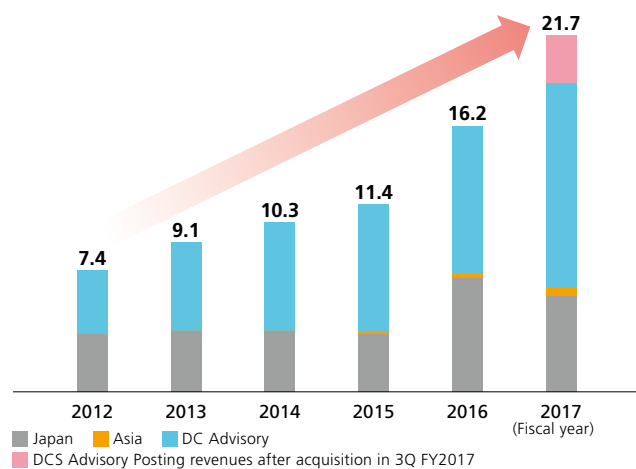
In Europe, DC Advisory ranked second in 2016 and third in 2017 on the M&A league tables for European mid-caps (valued below €500 million, excluding accounting-related firms), putting it within reach of the top spot. In North America, Sagent Advisors and Signal Hill, which is strong in the TMT\* sector, were merged to form DCS Advisory, strengthening our ability to make deals between Europe and the U.S., a huge market.

In Japan, Daiwa Securities aims to more than double its earnings by improving productivity and expanding personnel in the M&A business by roughly 1.7x over the next six years. The Daiwa Securities Group intends to establish a position as a top global player in the mid-cap M&A market through effective collaboration between regions, including Japan and Asia.

\* Technology, Media and Telecommunication

### Consolidated Group M&A-related Commission

(¥ billion)



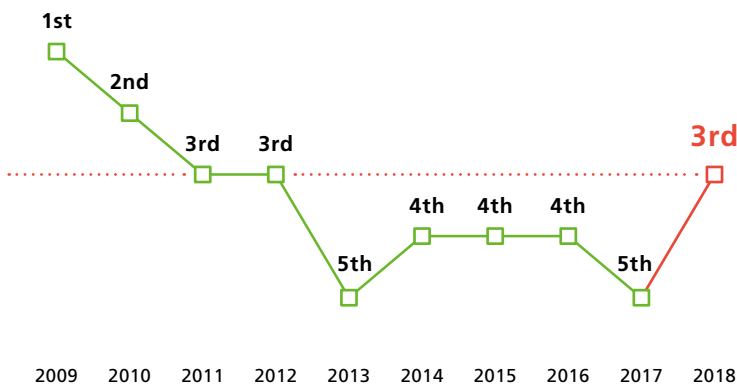
COO Matsui visited the San Francisco branch of DCS Advisory in May 2018.

Strategy  
**2**

**Provision of Products and Services That Identify Customer Needs**

In order to provide products and services that identify customer needs, Global Markets is enhancing its research in Japan and overseas and aims to establish a structure that keeps analysts in one of the top three slots for Nikkei Veritas

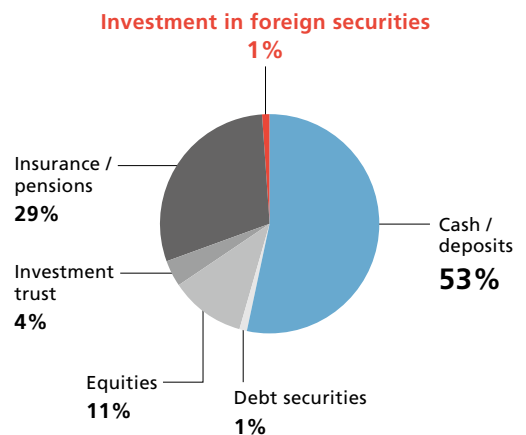
Nikkei Veritas Analyst Ranking



Source: Overall ranking by company, equity research ranking

rankings. In Japan, our focus is on providing easy-to-understand information about foreign equities and bonds to individuals in an attempt to promote diversification in their financial asset portfolios, while providing foreign currency-denominated and other various products to help customers accumulate assets.

Breakdown of Financial Assets Held by Households in Japan (As of March 31, 2018)



Source: Bank of Japan, The Investment Trust Association

Strategy  
**3**

**Strengthen IPO Business**

In the IPO business, Daiwa Securities is working to win deals in the IT sector, which is expected to grow, and establish a structure that keeps it in the top three in league tables while moving toward the top position during the new medium-term management plan. Daiwa Securities Group intends to increase personnel in IPO-related departments by 1.5x over the next six years. At the same time, Daiwa Securities will help issuer companies increase their value by improving the quality of deals on which Daiwa Securities is the lead manager.

IPO League Table (FY2017)

Rank*1	Company	Share*2
1 (1)	Nomura	26.7%
2 (3)	Daiwa	26.0%
3 (2)	Mitsubishi UFJMS	13.6%
4 (4)	Mizuho	12.0%
5 (5)	SMBC Nikko	11.8%

\*1 ( ): FY2016 results

\*2 Percentage of amount taken in league tables

Source: Daiwa Securities (due date of payment basis, proportional to underwriting amount among lead managers)

# Asset Management Division

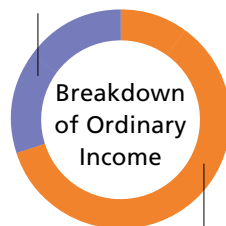


**Nobuyuki Iwamoto**

Deputy President  
Head of Asset Management  
Daiwa Securities Group Inc.

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

Real estate asset management



Daiwa Asset Management /  
Daiwa SB Investments

Note: Daiwa SB Investments and Daiwa Office Investment Corporation are equity-method affiliates, so their revenues are recorded in ordinary income.

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

## 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 or change in asset management behavior of customers (including stronger inclinations toward safe investments such as deposits) due to market fluctuations or an increase in cancellations 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

## Initiatives and Performance in FY2017

Daiwa Asset Management endeavored to strengthen its asset management capabilities, and several funds performed strongly enough to qualify for the R&I Fund Award, as sales of the “Robot Technology Related Equity Fund” brought in new cash flow of ¥248.8 billion, and the “Daiwa Global IoT\*<sup>1</sup> Related Equity Fund,” which was created with a focus on potential growth in IoT amid technological advances, attracted a total net inflow of ¥146.6 billion. The main contributory factor being investment inflow into listed investment trusts (ETFs), Daiwa Asset Management’s publicly offered stock investment trusts brought in an increase in the amount of ¥1,411.8 billion in FY2017, expanding assets under management to ¥14,123.5 billion by the end of FY2017.

Daiwa SB Investments focused efforts on improving its skills in investment advisory operations for pension funds in Japan and overseas. In the investment trust business, the “Global EV Revolution Fund,” which

focuses on long-term growth, brought in cash inflow of ¥154.7 billion, and the company worked to expand global business, such as by creating Japanese equity funds in the EU and other places overseas, resulting in an increase of 6.1% in the balance of its assets under management, to ¥4.9 trillion.

In the real estate asset management field, investment companies managed by Daiwa Real Estate Asset Management and Mi-Casa Asset Management worked to improve their portfolio yields by acquiring new properties and shuffling assets, while aiming to increase the value of existing properties. In aggregate for both companies, assets under management totaled ¥822.0 billion at the end of FY2017.

In February 2018, Daiwa Securities Group acquired 33% of the shares of Samty Asset Management Co., Ltd., the management company for the listed REIT\*<sup>2</sup> Samty Residential Investment Corporation, making it an equity-method affiliate.

\*1 Internet of Things: Things that connect and work together over the Internet

\*2 Real Estate Investment Trust

## Action Plan for FY2018

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

## Realization of an Abundant Society and Life through Asset Management

The Asset Management Division has set its core focus on the realization of an abundant society and life through asset management. From the basic philosophy of “pursuing customers’ benefits,” we

### Efforts to Pursue Customer Benefits

#### Strengthening investment capability

- Efforts for raising investment performance
- Deepening of stewardship activities

#### Strengthening of product development capability

- Understanding needs and supplying products to each customer
- Diversification of investment targets

#### Strengthening of marketing capability

- Promotion of the proposal and adoption of products that contribute to the expansion of customers’ returns
- Proposal of a wide range of solutions that contribute to customers’ asset management

will contribute to expansion in assets under management for customers by providing products and services in line with their stage of asset building and investment needs.

We aim to increase investment performance by using AI technology, and improve product information through direct distribution by fund managers themselves.

Pursue customer benefits

## Reorganization of Asset Management

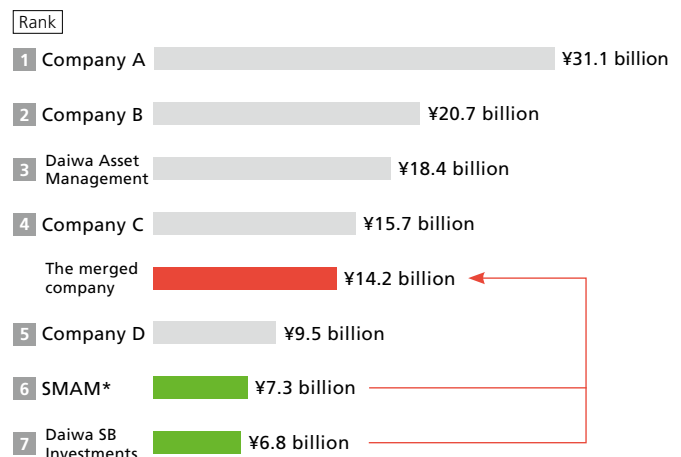
Since commencing operations in 1999, Daiwa SB Investments has doubled its assets under management over the past two decades, from ¥3 trillion to ¥6 trillion, growing into one of only a few asset management firms in Japan that has attracted widespread attention investing primarily in domestic stocks. Further increasing the competitiveness of asset management companies, however, requires heavy investment in systems in addition to excellent capabilities in product development, fund management and marketing, making it imperative to expand to a scale that can justify these investments.

Following extensive negotiations with Sumitomo Mitsui Financial Group, the partner in joint venture Daiwa SB Investments, an agreement was reached to merge the businesses of Sumitomo Mitsui Asset Management and Daiwa SB Investments.

The shareholders of Sumitomo Mitsui Asset Management, namely Sumitomo Mitsui Financial Group, Mitsui Sumitomo Insurance, Sumitomo Life

Insurance and Daiwa Securities Group, have joined forces in support of this merger as leading players in the financial industry. Looking ahead, the company will become a stronger asset management firm with best-in-class investment abilities and competitiveness that always places customers first. The post-merger company is expected to contribute even more to the profits of Daiwa Securities Group, as it will remain an equity-method affiliate of the Group.

### Operating Income of Major Asset Management Companies in 2017



\* Sumitomo Mitsui Asset Management  
Source: Disclosure materials

### Strategy 3

## Expansion of Alternative Investment Products

The real estate asset management business plays a central role in expanding alternative investment products as a part of the core theme of “new value” in the new Medium-Term Management Plan. The business is nearing ¥1 trillion in its balance of assets

under management.

As key initiatives in FY2017, roughly 30% of the shares of Samty Residential Investment Corporation and Samty Asset Management were acquired, with the business intending to diversify into other investment fields such as infrastructure, logistics, hotels, etc. As a specific example, Daiwa Hotel Private Investment Corporation was established in March and began operations in June 2018.

### Expansion of Real Estate and Infrastructure AM Assets

Expansion of investment areas

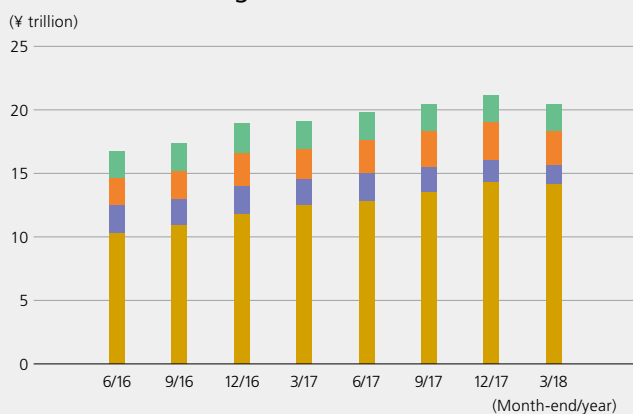
		Real Estate AM Total AUM ¥883.2 billion (As of the end of Mar. 2018)	
Office	2009	Daiwa Office Investment Corporation	¥439.4 billion
	2012	Daiwa Residential Private Investment Corporation	¥107.4 billion
Housing	2014	Japan Rental Housing Investments Inc.	¥225.5 billion
	2018	Samty Residential Investment Corporation	¥81.5 billion* <sup>1</sup>
Healthcare	2014	Nippon Healthcare Investment Corporation	¥19.3 billion
Infrastructure and energy	2016	IDI infrastructures	¥69.0 billion* <sup>2</sup>
	2016	Privately offered real estate funds	¥11.0 billion
Hotels	Jun. 2018	Daiwa Hotel Private Investment Corporation	¥9.2 billion* <sup>3</sup>

\*1 Sub sponsor

\*2 Commitment amount (not included in total real estate AM AUM)

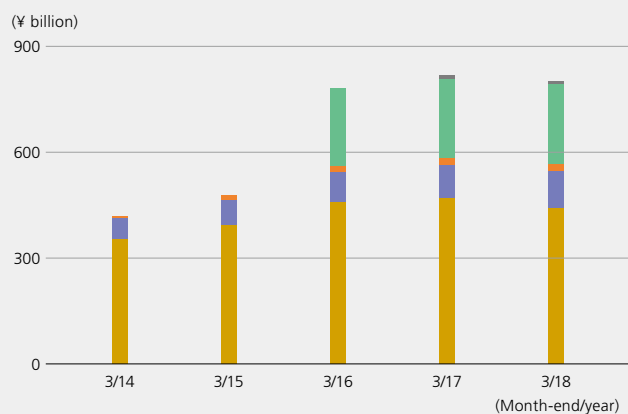
\*3 As of June 2018, as an initial investment (not included in total real estate AM AUM)

### Balance of Major Assets under Management at the Asset Management Division



■ Daiwa Asset Management (Stock investment trusts)  
■ Daiwa Asset Management (Bond investment trusts)  
■ Daiwa SB Investments (Investment advisory)  
■ Daiwa SB Investments (Stock investment trusts)

### Assets under Management of Real Estate AM Business



■ Daiwa Office Investment Corporation  
■ Daiwa Residential Private Investment Corporation  
■ Nippon Healthcare Investment Corporation  
■ Japan Rental Housing Investments Inc.  
■ Other



# Investment Division

## Action Plan for FY2018

- 1 Contribute to business ecosystem by discovering and developing new industries through investment
- 2 Expand investment in Asian countries
- 3 Develop socially responsible investments
- 4 Pursue returns through further evolution of investment skills and technology

## Initiatives and Performance in FY2017

### Daiwa Corporate Investment Co., Ltd.

Following the global financial crisis in 2008, Daiwa Corporate Investment (DCI) has established and managed a reconstruction and growth support fund for the Great East Japan Earthquake disaster, a manufacturing industry support fund targeting globally competitive manufacturers that create new technologies and markets, Japan's largest biotech-dedicated fund, and several Asian funds that are jointly managed with prominent local partners in Asia. Falling birthrates, an aging society, a revolution in technologies such as AI and IoT, and other changes which Japan is facing today are stimulating an industrial revolution impact on many industrial sectors. These impacts serve as tremendous opportunities for many start-up companies to create and grow new businesses and services. DCI is currently raising funds to establish a new general venture capital fund to provide growth capital to start-ups in Japan to support new business creation and economic revitalization.

DCI continues to invest in promising start-up companies in various industrial sectors and stages. In the field of drug discovery, DCI Partners, its biotech fund management subsidiary, adopted a unique investment structure by creating biotech start-ups by itself and acquiring intellectual property and development rights of drug seeds. DCI Partners manages such start-up biotech ventures together with external experts in drug development and intellectual property.

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

DCI plays an important role in linking the needs of entrepreneurs and start-up companies with those of investors in aiming to enhance the benefits and reputation among society for both parties. Through fund management activities, DCI supports and contributes new business creation and sustainable economic vitalization.

### Daiwa PI Partners Co. Ltd.

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

Private debt investments focus mainly on purchasing loan portfolios from financial institutions and providing debt-collection services. In addition to this secondary debt investment, 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 the United Kingdom.

DPI's private equity activities this year include new investments in two companies in Myanmar (FRONTiiR Pte. Ltd., an Internet service provider, and OWAY Pte. Ltd., a provider of online travel booking and taxi-hailing services), while DPI divested its shares in OPTORUN Co., Ltd., one of DPI's existing investments.

In terms of energy-related investment, DPI completed development of a biomass power generation facility in Yonezawa, Yamagata Prefecture, and invested in a solar power generation facility in Tomakomai, Hokkaido. In addition, DPI started development and construction of a biomass power generation facility in Kamitonda, located in the Nishimuro District of Wakayama Prefecture, and invested in Biomass Fuel Co., Ltd., which stocks, produces, and sells biomass fuels.

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.

# 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 FY2018

- 1 Contribute to the strengthening of the business by collaborating with the Group as the think tank of the integrated securities group with hybrid business model
- 2 Communicate information appropriate to the times, and centered on the economy and finance, in a timely manner
- 3 Contribute to the business customers engage, providing competitive solutions speedily
- 4 Expand the business through the creation of "new value" by utilizing advanced technology

### Initiatives and Performance in FY2017

As part of its research operations, the Daiwa Institute of Research Ltd. (DIR) contributed toward raising the profile and enhancing the reputation of Daiwa Securities Group. Providing policy advice to the councils and committees of government agencies, DIR co-sponsored seminars with overseas research institutions and undertook various activities, based on its surveys in the economic and financial fields, about economic trends in Japan and overseas through a wide range of channels, including TV programs and newspapers. With regard to the consulting business, DIR engaged in projects that were specific to think tanks. In addition to accepting consulting projects targeted at regional financial institutions in Japan, outside Japan DIR undertook projects from countries throughout Asia, with a focus on Myanmar.

In the DIR Group's IT systems business, we steadily respond to large-scale institutional projects, such as global financial regulation compliance, while also further raising cost efficiency through ongoing automation and improvements in the efficiency 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 are energizing movements toward applying advanced technology in actual business situations, for example by taking the lead in executing the proof of concept testing for the technology involved in applying blockchain technology to post-trade processing of securities. This action was part of a project that was executed through the Tokyo Stock Exchange consortium framework.

## Daiwa Next Bank

### Action Plan for FY2018


- 1 Develop customer-oriented products and services by utilizing securities-banking business model
- 2 Establish mechanisms of building the future revenue base which contributes to 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 FY2017

As the banking subsidiary of Daiwa Securities Group, Daiwa Next Bank's mission is to deliver products and services that meet the 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 FY2017, as in the previous year. As of the end of FY2017, the bank has 1.28 million accounts, and the balance of total deposits (including CDs) reached ¥3,556 billion.\*

Since November 2017, Daiwa Next Bank has been offering "*Eraberu Yokin*," a service that delivers advantages beyond just interest rates to our customers. *Eraberu Yokin* consists of "*Ouen Time Deposits*," which incorporate the joy of supporting somebody, "*Present Time Deposits*," which incorporate the fun of receiving a present, and "*Kensho Time Deposits*," which incorporate the excitement of forecasting the market. *Ouen Time Deposits* serve as one of the initiatives through which Daiwa Securities Group business is meeting the SDGs (Sustainable Development Goals) adopted by the United Nations.

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

\* For details on the number of deposit accounts and the total account balance,  please refer to page 50.



## Special Dialogue

# The Securities Business of the Future and Innovation

It is said that FinTech will change financial industry practices from now on. In order to explore opportunities within the securities industry in the future, Daiwa Securities Group has, for example, invested in the venture capital firm, WiL, LLC (WiL), located in Silicon Valley, the creative hub for state-of-the-art technologies. Gen Isayama, CEO of WiL, and Toshihiro Matsui, COO of Daiwa Securities Group Inc., exchanged opinions on the future of the securities industry.

## FinTech, the Great Business Opportunity

It is said that the rise of FinTech will greatly change the way business is conducted by financial institutions or the methods of interaction between people and money. What is going on in society now, and how will the world change in the years to come?

**Isayama:** From our point of view, FinTech is not simply something to be talked about, but in a broad sense, a new technology that will have a tremendous impact on society. A characteristic of technology is that it does not develop linearly and spread sequentially. Even if technologies are separately in existence, a set will at a certain point in time satisfy the requirements for social insertion and suddenly manifest itself. It is difficult to predict when this will happen. Artificial intelligence and machine learning are not in themselves new, having been studied in academia for a long time. When certain conditions, such as faster telecommunication and improved semiconductor performance, are met, they are rapidly implemented in society. As a result, even the intellectual work performed

by humans can be replaced by software and robots, and it is becoming a force for promoting social efficiency at a furious pace. Amid these major trends, the concept of connecting these technologies and finance is represented by the word FinTech.

In the same way as other industries, the financial industry has also automated a range of services and lowered costs by means of new technologies, and the impact this is having on the management of financial institutions is becoming ever greater. In extreme terms, startups that commence financial services with new technology may be more competitive than traditional financial institutions that hold existing cost structures. Of course the reality is not that simple. Finance is a regulated industry and, above all, relationships of trust with clients are the biggest factor in the business, so the industry will not be immediately replaced by a startup that has just come into the financial industry. However, considering that large-scale cost cuts are already being carried out at financial institutions, including in the United States, the managements of Japanese financial institutions also need to reconsider their cost structures.



**Toshihiro Matsui**  
Deputy President and COO  
Daiwa Securities Group Inc.

**Gen Isayama**  
CEO  
WiL, LLC

**Matsui:** Daiwa Securities Group stands on the side of the challenger in the sense that we do not possess a big legacy system in the settlement field. Moreover, due to the advances in technology that have resulted in the automation of simple tasks, in terms of being able to transfer the valuable time of our talented employees to more productive work, I think that FinTech will have a positive impact from the perspective of our Group's costs.

Having internally established a Business Reform and Productivity Improvement Committee, we are conducting a thorough review of current operations to create the time to perform higher value-added tasks.

**Isayama:** Another important aspect of technological development is to create better services and new revenue-earning opportunities through new technologies. For example, if technologies such as ICO\* become more widespread as a means of procuring funds, Daiwa Securities Group needs to consider the commercialization of new capital financing that utilizes ICOs. In accordance with the changes that technology brings to society, I think that it will come down to companies discussing improvements to their organizational structures.

**Matsui:** It does not mean that I am not convinced that ICOs will grow into an important means of procuring funds, but at least that possibility cannot be ignored, and I think that it will be impossible for us not to respond at all. We will invest certain management resources in this field, and we will not rule out the possibility of conducting ICOs ourselves.

**Isayama:** I think that the most important thing is to make the choice as to whether to feel such things as this kind of change or facing competition as a threat or an opportunity. In the United States, you often hear people use the phrase "your choice," but how you ascertain the impact of things is only each person's choice. In Japan, European and U.S. IT companies, such as Google and Apple, are often spoken about in negative terms as a threat, but considering the influence that they have exerted on Japanese society, I regard the current situation, in the run-up to the full-fledged implementation of FinTech, as presenting a very interesting opportunity. It seems that we are reaching the stage where maintaining the status quo would be the worst option.

**Matsui:** My favorite saying is that of the professional *shogi* player, Yoshiharu Habu: "I'm not optimistic, much less pessimistic, just downright calm." This leads us to your stance on choice. Changes in the situation always have threat and opportunity sides to them, and it is important for managers to identify them without being biased toward either. You have to see both sides to see how to take measures against tough situations and how to grab opportunities. There are many people who say that Japanese tend to be biased toward negative thinking and are not good at positive thinking, but I would like to voice a different opinion to the trend that only supports optimism. However, having been thoroughly anxious, there is no doubt there will be no next development unless you take the necessary risks.

\* Initial Coin Offering: A kind of fund raising method by which a company issues a token similar to a stock certificate in a virtual currency and procures business funds such as a virtual currency from investors.

## The Future Role of Financial Services

**In an era when all industries are being automated, will the raison d'être of financial services requiring human intervention continue in the future?**

**Isayama:** Nowadays, in what is said to be an era in which people are living for 100 years, the Japanese traditional life model of "saving by working hard and living on your pension after retirement" is becoming impractical. It is a time when life after retirement can prove difficult without asset management. However, there are not many people who are fully aware of such a change. Despite the ever greater role and significance of financial services for individuals, in Japan the awareness that "money is something you earn through working" remains strong and, compared with the West, I think that financial literacy with regard to individual financial transactions and asset management remains low. A major role for financial institutions is the imparting of financial knowledge and educational activities.

**Matsui:** I think that it is not always true that the financial literacy of Japanese is low when compared with other countries. Mathematics grades are high even among the leading industrialized countries. However, successful investment experience is decidedly lacking. In that sense, I feel that consulting sales will increase in importance going forward.



**Gen Isayama**

Co-founder and CEO of WiL, LLC

Born in 1973 and originally from Tokyo. In 1997, after graduating from The University of Tokyo, he joined The Industrial Bank of Japan (currently Mizuho Financial Group). After working at the major U.S. venture capital firm DCM, he founded WiL in 2013.

**Isayama:** With regard to corporate business, companies need to grow globally in order to survive, and the importance of cross-border projects will increase. The M&A business in Europe and the United States, which Daiwa Securities Group is promoting by leveraging its global network, holds great hopes for Japanese companies.

**Matsui:** The influence of the Corporate Governance Code and the Stewardship Code is gradually becoming more widespread, and the behavior of Japanese companies is beginning to change. Many Private Equity funds are seizing the opportunities presented by the change in the behavior of Japanese companies and are strengthening their bases in Japan. It is also true that our company has strengthened its global M&A network with the aim of meeting the changing needs of Japanese companies. On the other hand, the market size of cross-border M&A per year is ¥1.6 trillion between Japan and Europe, ¥2.3 trillion between Japan and the United States, and ¥35.0 trillion between Europe and the United States\*<sup>1</sup>. We aim to improve our profitability by providing M&A services globally to clients around the world, not just for Japanese companies.

**Isayama:** From my experiences in having seen many venture firms, I feel that vulnerability in the back office is their biggest weakness. Venture firms with limited capital tend to neglect middle and back offices because they give priority to hiring employees who easily produce results, such as sales staff and engineers, which can also be a contributory factor in losses in corporate value. Avoiding the situation where the number of venture firms in Japan does not increase going forward, in this regard too, financial institutions, including securities firms, will play a major role, and you will need to actively discover business opportunities to support back office functions in venture firms.

There is also the phenomenon that the value of face-to-face services are said to increase as tasks become more automated. Daiwa Securities Group has the wealth of human capital cultivated up to now and the ability to directly seek out customer needs. In the case of providing just conventional products and services, however, the value of face-to-face services will go down. While cutting business costs, it is important to shift employees to higher value-added projects.

**Matsui:** In comparison with companies in the West, I think that Japanese companies are good at shifting employees. In general, the method of hiring in a form in which all employees are generalists enables reorganization by dynamically shifting and relocating personnel. In European and U.S. financial institutions, the shifting of personnel between retail and wholesale divisions is almost never undertaken, but at our Group this is conducted in a flexible manner. For example, utilizing the knowledge they have built up at our company, employees in the IB\*<sup>2</sup> Division are able to work not only in the middle and back offices of venture companies but also in other fields, such as in investment or in management advisory services. Not limited to the IB Division, employees in every department of our company have a range of possibilities. For that reason, we are able to respond flexibly in effectively utilizing personnel in accordance with management efficiency. I think that Daiwa Securities Group has survived for 116 years because of its history of having flexibly responded to change. I feel that this flexibility is our strength.

\*1 Thomson Reuters Full Year 2017 Mergers & Acquisitions Review

\*2 Investment Banking



## Innovative Minds

Is it possible for companies to intentionally bring about innovation by their own resolve?

**Matsui:** Mr. Isayama, you are always saying that there is not enough “fertile ground for innovation” in Japan, but what do you sense is needed to bring about innovation in Daiwa Securities Group?

**Isayama:** As the term “innovation” refers to the value added by chemical reactions that thus far have never happened, there will eventually be large parts left over that cannot be explained by logic or processes. That is to say that, inevitably, there is always uncertainty and risk involved in innovation. Since the decision making of large Japanese corporations involves a mechanism based on the premise that everyone will be logically persuaded by an approval document, I think that the culture makes it difficult for innovation to take place. What forms the basis of innovation is not an idea upon which the majority is in agreement, but rather an idea with value that is not apparent and of the kind to which everyone is opposed. For example, when Mercari arrived on the scene, services such as Yahoo! Auction and eBay already existed in the CtoC market. Looked at with common sense, it appeared that there was no opportunity in an area where first movers were already present, but Mercari restricted their services only to smartphones, and succeeded by thoroughly bringing about improvements in each user’s experience, thereby surprising society. Even though it might seem to be a low-feasibility idea, the ability to judge and say “let’s give it a try” is important. In the end, since the amount of enthusiasm the decision makers had was important, I think that there was no science involved in this case.

**Matsui:** Sometimes it is necessary to ignore the voices from the outfield. However, allocating a budget must bring with it responsibility. Although the majority are opposed, the person who drafted the budget in earnest intends to win. However, with regard to projects to which the majority are opposed, under what criteria do you think management should issue a GO order?

**Isayama:** Put simply, the key is whether or not to allocate budgets taking into account such factors as buffers and discretion. In the United States, there are companies that grant employees who have ideas a certain amount of discretion in terms of their R&D expenses. Even in Japan, there are systems in place, including in corporate venture capital, but actually I think the approval document culture is fraught with problems. In the case of the German company SAP, they established a subsidiary in Silicon Valley and started a new business that later grew into a companywide majority.

**Matsui:** In the case of IBM and others, however, instead of innovation occurring in-house, it seems as if portfolio managers repeatedly sold and acquired businesses and rapidly changed IBM’s business portfolio. There are doubts as to whether large corporations in the United States are necessarily innovative.

**Isayama:** Certainly, many excellent businesses of such companies as Google, Facebook and Apple have started out with acquisitions. We should not simply look at such companies as “having acquired new technologies and markets through M&A.” As a common point among these companies, we should focus on the accumulation of enormous amounts of R&D and the liberal climate that made these acquisitions possible.



**Matsui:** Daiwa Securities Group is also beginning a variety of initiatives to explore new business sectors. We are collaborating with companies in many different types of industries and with securities businesses, including the capital and business alliance with KDDI announced in February 2018. I think that the one purpose of these acquisitions is to obtain technology. Also, from now on, I think there will be less fear toward the cannibalization of existing businesses and new businesses, and the importance of not sparing investment to bring about innovation in the securities industry will increase. Daiwa Securities Group was also greatly affected at the time of the emergence of Internet securities whose operational costs are dramatically low. However, in times when much lower costs are required from now on, there is a possibility that Internet securities with an existing management fee system may be in a disadvantageous position. Rather, it may be our Group that devises the new securities services in the years to come.

**Isayama:** If the first step was creating an organization that can try new ideas, the second step would be creating a mechanism that allows you to quickly judge when to cut your losses when it fails. Japanese companies tend to increase losses because they are indecisive regarding opting out of projects once started, and this causes them not to make subsequent investments. Whether these two steps can be successfully introduced into the organization or not will be the next agenda.

To directly connect the sense of crisis as to how the company will survive with innovation, the senior management of the organization should proactively take care of risk-takers in the company. As a result, new ideas will be ambitiously proposed and they can put in place a culture that is capable of quickly making decisions on

withdrawals from projects.

Soon after WiL was founded, when there was no historical track record of business, I received such encouraging words from Daiwa Securities Group as “we were an organization that supports the seeds of change from behind.” Actually, through our communications, I have on many occasions seen the bold and swift decision making of management, which is clearly an indication to try new things. CEO Nakata and other members of Daiwa’s management team have an extremely open and liberal way of thinking. Daiwa Securities Group already possesses the culture that will bring innovative ideas to fruition, and I think that by having more exchanges with outside people like us, the original functions at your disposal will become more active.

**Matsui:** Actually, in the process of drafting new projects as an executive officer in charge of corporate planning, there were many occasions where I felt that our decision making on investment is faster than other companies. CEO Nakata says that “Innovation is the best result granted only to those who have repeatedly had many failures.” I am convinced that we will be able to bring about more original Daiwa innovation than ever before.

**Isayama:** Stanford University, which is sacred ground for engineers, is located in Silicon Valley. The area has also seen an accumulation of radar and semiconductor technologies since the old days. This history has become a magnetic force for attracting innovative talent. It was not artificially created by an administration, but is a culture that was naturally grown over time. So it runs against the argument for making the same thing in Japan. Instead, I think Japanese companies should actually visit Silicon Valley, learn its culture and use it well. Next month,\* Daiwa Securities Group will conduct an Executive Management Committee meeting in Silicon Valley, and I believe this is extremely meaningful.

\* From the time of dialogue

**Matsui:** I hope that the top management team will come up with implications for corporate management through company visits and on-site workshops in Silicon Valley, a rapidly changing city producing cutting-edge technologies and startups. Mr. Isayama, you will also be attending that Executive Management Committee meeting. In a more open environment, I am looking forward to seeing a new form of discussion that differs from the conventional. The times have become more interesting.



# Strategic IT Utilization and Cybersecurity Initiatives



Daiwa Securities Group is working to improve each customer's experience, develop innovative services, and revolutionize business processes through the strategic use of IT. Moreover, we are working to strengthen our cybersecurity management systems in order to gain the trust of our customers and fulfill our social responsibility as a leader of financial and capital markets.

## Masahisa Nakagawa

Senior Executive Managing Director and CIO  
Daiwa Securities Group Inc.

### Strategic IT Utilization

Against the recent backdrop of evolving technology and progressing digitalization, the roles played by IT have broadened from expanding existing businesses and increasing the efficiency of operations to creating new businesses and revolutionizing business models. Moreover, with the arrival of voice recognition, artificial intelligence (AI), and robotic process automation\* (RPA) technologies on a practical level, the ability to improve operational efficiency over a broader range has expanded. Daiwa Securities Group is digitalizing its all-round operations; developing flexible, agile alliances with outside companies and services, as well as cooperation within the Group; and improving operational efficiency through the use of advanced technology in order to provide our employees with the time to tackle operations that deliver greater added value. By creating an environment in which all of our employees can engage energetically, we are aiming to establish a virtuous cycle that improves customer satisfaction and resolves social issues, thereby leading to greater corporate value.

In fact, Daiwa Securities Group Inc. was selected as a 2018 Competitive IT Strategy Company in May 2018 in recognition of our initiatives for strategic IT use based on this way of thinking. The new Medium-Term Management Plan "Passion for the Best" 2020, which kicked-off in FY2018, accelerates these initiatives in order to promote improved customer service, the development of innovative services, and a revolution in business processes.

\* Technologies and systems that automate office work through the use of AI and other technologies.

### Cybersecurity

Although the evolution of technology and progression of digitalization has expanded the range of possibilities, it has also led to a growing threat from cyberattacks around the world. As Japan looks forward to holding the Tokyo Olympic and Paralympic Games in 2020, in particular, the government and corporations are faced with raising a collective effort to strengthen countermeasures. In this light, Daiwa Securities Group has for a long time maintained a Group-wide cybersecurity management system that includes its overseas operations. Through this system, we are working harder than ever to protect information assets and provide reliable services to our customers as a means of gaining the trust of our customers and fulfilling our social responsibility as a company that is active in the financial and capital markets. Specifically, we have established Daiwa-CSIRT\*, a Group-wide cross-sectional specialist organization, which coordinates with external institutions in order to collect and analyze the latest information on cyberattack methods and vulnerabilities. In addition, we have worked to combine a number of layers of technological countermeasures that can detect and defend against attacks that slip past one countermeasure and to create an analysis environment that can rapidly discover evidence of attacks as well as an incident response system that operates 24 hours a day, 365 days a year. Going forward, we will continue to define cybersecurity as a key issue in terms of Group management and will work to strengthen the management system.

\* Computer Security Incident Response Team

# Management Systems

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## Message from the Chairman of the Board



The most important aspects of corporate governance are the pursuit of a governance structure that best contributes to the sustained growth of the company and the evolution of this structure in light of changes within the climate of the times.



Ever since becoming the first listed company in Japan to reorganize under a holding company structure in 1999, Daiwa Securities Group has established a governance system featuring global standards of transparency and objectivity. In 2004, we transitioned to a committee system of corporate governance (currently referred to as “a Company with Three Committees System”) comprised of the Audit Committee, Nominating Committee and Compensation Committee, where the majority of members consist of outside directors. For all three committees, outside directors have been appointed as chairpersons from 2017.

One of the initiatives we took to further enhance the effectiveness of the Board of Directors was to involve the outside directors during the formulation process of the Medium-Term Management Plan “Passion for the Best” 2020 (the Plan), which was initiated in April 2018. Over many sessions from the outset of plan formulation, Board meetings were held to actively discuss with outside directors regarding the Plan. This was also the case with the Outside Directors Council composed entirely of outside directors. We also reflected the advice received from the outside directors, which originated from a diverse range of medium- and long-term perspectives, within the framework and philosophy of the Plan. We appreciate that the Plan was thus formulated with a high degree of objectivity as well as persuasiveness for both those inside and outside of the company.

Along with Daiwa Securities Group Inc., Japanese companies in general are seeing the bar for corporate governance constantly being raised, while the Corporate Governance Code, originally enacted in June 2015, was revised in June 2018. There are some who perceive that the corporate governance of Japanese companies still lags behind the times and the revision of the Code is a means of bringing corporate governance in Japan more in line with global standards. But I believe that we should interpret the Corporate Governance Code as a general benchmark and as a guideline that should serve as a reference. More than complying in a formulaic way to

every part of the Code, I believe that it is important to first have a clear understanding of the Code’s fundamental principles, upon which we can prioritize greater effectiveness and pursue a structure that aligns with the histories and standing of individual companies, as well as with the social climate of Japan.

For example, like many listed companies in Japan, Daiwa Securities Group Inc. appoints its CEO from among inside directors, but we start early to strategically develop new officer candidates that will serve as potential managers in the future. Specifically, we dispatch new officer candidates to the Daiwa Management Academy, a selective management training program, or to executive MBA programs outside of Japan, to provide opportunities for enhancing management skills. In addition, we have candidates acquire experience in several departmental posts, thereby filtering and selecting candidates over the long term. The role of the Nominating Committee is to monitor and ensure that these processes are reliable and transparent.

In terms of compensation, in FY2018 we introduced restricted stocks as part of our director compensation plans, whereby increasing the ratio of director compensation accounted for by stock-price-linked compensation has strengthened the incentive to further enhance corporate value over the medium to long term. The value of compensation itself is calculated based on indicators selected in advance by the Compensation Committee to ensure transparency.

The most important aspects of corporate governance are the pursuit of a governance structure that best contributes to the sustained growth of the company and the evolution of this structure in light of changes within the climate of the times. Daiwa Securities Group is no exception, and we are continuously working to improve our corporate governance structure in a way that will ensure benefits and remain transparent to our shareholders, and that will contribute to the sustainable growth of our corporate value.

**Takashi Hibino**

Chairman of the Board  
Daiwa Securities Group Inc.

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



## Opinions from the outside directors

### Regarding response to changes in the business climate

Despite changes in the competitive business climate, acquiring, educating, and retaining human resources—the fundamental value of the Group—remains an important issue.

I assume that securing young, capable employees that are well-versed in AI will work to the Group's advantage over the long term.

Against a backdrop of intensifying competition in the financial industry, the key is which areas can receive assets from wealthy individuals and those in the asset building generations hereafter. We must therefore work out strategies under an understanding of the strengths and weaknesses of securities companies.

### Regarding customer satisfaction

The interests of those in longer living generations are not only in building assets for purposes of inheritance, but also in securing a stable life for themselves in old age. As such, we should include the issue of what approaches to asset building are necessary for this purpose within the next Medium-Term Management Plan.

We must firmly grasp the needs of society and of our customers, and offer consulting services that suit the specific customer segment. Moreover, we should include aspects such as raising the level of human well-being.

In terms of customer-oriented KPIs, while we will adopt the two KPIs of “assets under custody” and “customer satisfaction,” we should also always pay heed to the fact that the increase in assets under custody is a result of improving customer satisfaction.

During the FY2017 Daiwa Securities Group Inc. Board of Directors meetings, we held long-term ongoing discussions regarding the formulation of the new Medium-Term Management Plan. First, during the Outside Directors Council\*, the outside directors deepened their understanding of the previous Medium-Term Management Plan, strategy case studies from other companies, and the business climate outlook. Following this, Board members discussed the direction for the new Medium-Term Management Plan and themes related to what society demands of Daiwa Securities Group in terms of responsibilities and roles in Board meetings. The outside directors put forth many proposals and questions, which were discussed during repeated dialogues with the internal directors and the responsible executive officers. The results of these discussions were reflected in the new Medium-Term Management Plan.

\* A council for the primary purpose of sharing information among the outside directors.



January 2018

**Board Meeting**

- New Medium-Term Management Plan framework
- Specification of KPIs
- Direction of individual strategies for each division

March 2018

**Board Meeting**

Formulate budget

Resolution

**Regarding sustained growth strategies**

Based on the vision for the next 10 years, we should consider a plan for the initial three years as the first stage. Against a backdrop of evolving technology, we must ascertain investment fields and take the initiative. We must also have a long-term vision for this purpose. We should also incorporate what we can execute in terms of ESG and SDGs.

We must clarify the position of securities companies within the financial industry and consider what should be done now with an eye to 10 years in the future.

We should also include initiatives for SDGs in the new Medium-Term Management Plan.


**Regarding the establishment of KPIs**

We should also incorporate social KPIs, such as employee satisfaction, into the new Medium-Term Management Plan.

Does the fact that Daiwa Securities Group Inc. has a higher capital adequacy ratio than other companies mean that the business climate allows for greater risk taking? (Response: even after Basel III is fully implemented, we have sufficient reserves to investigate new investments in various fields.)

## Special Discussion between Three Committee Chairpersons

In aiming for excellence in its corporate governance, Daiwa Securities Group has thus far been progressive in its approach. Going forward, in societies where globalization is making further progress and uncertainties are growing, we will continue to maintain an ideal form of governance. On this occasion, we asked three outside directors of Daiwa Securities Group, Tadashi Onodera, Keiichi Tadaki and Hirotaka Takeuchi—who chair the nominating, audit and compensation committees, respectively—to exchange their opinions.



Keiichi Tadaki  
Outside Director  
Chairman of Audit Committee

Tadashi Onodera  
Outside Director  
Chairman of Nominating  
Committee

Hirotaka Takeuchi  
Outside Director  
Chairman of  
Compensation Committee

## From Their Respective Experiences, What They Expect from Top Management

**Tadaki:** In a society of advances in digitization, one of the biggest risks a company can face is reputational risk. An exceedingly horrific aspect of reputation risk is that when the damage is severe it can cause the backbone of a company to break. This is totally different to the level of damage in terms of economic value.

When it comes to doubts being cast about a core business or its merchandise, the foundations of that company will be shaken, regardless of its previous achievements. Even in the case of Daiwa Securities Group Inc., in the unlikely event of a situation such as unfairly harming customer interests and from which an employee or the Company are said to have profited, it is not difficult to imagine that the Company would likely be dealt a devastating blow. And it is very difficult to completely prevent risks of this kind.

The governance of a company is very important, as is the auditing of a company, but, essentially, I think that to what extent employees feel fulfilled at that company and how proud they feel of that company, that kind of thing represents the last bastion. So, as the last line of defense, I think that it is important to foster the loyalty employees feel toward their company.

If by any chance risk arises, how quickly top management obtains information and is able to accurately recognize risk, has a very significant impact. Depending on what attitude top management adopts, cases can be divided into those in which the reputational risk becomes extremely large and those that can be brought comparatively under control. In addition to how quickly top management obtains accurate

information, it is crucial that they never make a mistake in responding to that information. As you would expect, it is said that consistently responding with a customer-oriented stance to the very end is thought to be the decisive factor in reputational risk countermeasures.

**Onodera:** I assumed office as the president about six months after the merger of KDDI and was appointed to consolidate dozens of companies. What you expect from top management depends on the situation of the company at that time, on its stage of development. Daiwa Securities Group is currently in a situation where it is having to promote new things amid a changing business environment. In this case, there are different forms of risk than those taken in traditional businesses for a long time. I think that how to understand that risk and how to take risks will probably become the form required of top management from now on.

Since the election of the CEO is a matter to be resolved by the Board of Directors, how the Nominating Committee should be involved cannot be easily explained. In the case of Daiwa Securities Group Inc., we see the candidates reviewed by the Nominating Committee when they first become a

member of the Board or a senior managing director. It is a characteristic of Japanese companies, but in cases where the president is chosen from within the company, I think it only natural for importance to be attached to the opinions of the outgoing president and the chairperson, who know the most about the inner workings of a company. The role of the Nominating Committee is to propose and undertake firm reviews of the processes and conditions for selection. The practice of inviting presidents from outside the company has not spread to Japanese companies, including the Company. In that sense, to me, rather than nominating, the role of the Nominating Committee is more one of clarifying the selection process.

I also think that the method for selecting the president is completely different to the situation at that time, but seeing that there is the Nominating Committee, we must show all our stakeholders under what terms and for what reasons such a Board member is being selected and ensure transparency. It is important for the members of the Nominating Committee to engage in discussions drawing on their various experiences. If the Nominating Committee ends up heading in one direction, that may become a source of mistakes.

**Keiichi Tadaki**  
Chairman of Audit Committee



The governance of a company is very important, as is the auditing of a company, but, essentially, I think that to what extent employees feel fulfilled at that company and how proud they feel of that company, that kind of thing represents the last bastion.

## Relationships with Stakeholders

**Takeuchi:** Taking as examples other companies with which I was involved, there are companies that are introducing training sessions in groups of dozens of people for conducting thorough discussions in English, including in their interactions with strategic partners and the managers of overseas branches, to foster the globalization of companies and global competitiveness. The training sessions are conducted on an equal basis to create partners in the space of several weeks. There have also been cases in which long-standing Japanese enterprises that have acquired major overseas companies have introduced programs to once again instill the founding spirit and encourage employee interaction in English. It was impressive that the president declared “I am the boss” to employees of the acquired company in English. In these examples, with regard to the problems besetting the companies, they were able to enter into real if fresh discussions with each other in English. I think that opportunities of this kind will be of particular importance in cases where globalization has progressed.

Daiwa Securities Group has introduced deployments to Stanford University and Harvard University programs and offers opportunities to improve by learning with world leaders in various industries. Looking further ahead, it might be good to bring together the employees from home and abroad who will be responsible for the future of the Group and conduct training sessions to facilitate serious discussions. In June 2018, we held our Executive Management Committee meeting in Silicon Valley and visited Google and Facebook. I think that it would be good to have a program that would enable us, when presented with such a precious opportunity, to go there not merely as visitors but with the intention of holding our own.



**Tadashi Onodera**  
Chairman of Nominating  
Committee

By having the Group actively disseminate Japanese corporate governance, overseas countries will be able to benefit from a greater understanding of Japanese companies.

**Takeuchi:** I feel that the concept known as stakeholders should be perceived more widely. In the United States important stakeholders are shareholders, and the somewhat broader importance in Japan encompasses employees and customers, but I think that the most important stakeholder is “the future.” For that very reason I feel that it is what is known as the corporate vision, considered from a social viewpoint—“what kind of future we are going to create” rather than “what kind of company we will become”—that will be the key. The reason corporate activities are different is that the visions the companies have in mind are different. In my personal opinion, Japanese companies should not perceive corporate governance so narrowly, nor just imitate foreign companies. Steps should be taken to incorporate the good points of Japanese corporate culture a little more, while also taking the future into consideration.

**Onodera:** I totally agree with you. While Japanese merchants have maintained the wonderful concept known as *sanboyoshi*—meaning good

business and of benefit to three parties: society as well as the buyer and seller—since the Edo period, it is said that Japanese companies came late to the concepts of corporate governance and stakeholders because the words did not include shareholders. In my opinion, I think there were many Japanese corporations in the past that neglected their shareholders. As a securities company, Daiwa Securities Group should, in a forward-thinking manner, reward shareholders and, at the same time, I think that the Group must also make efforts to have other companies understand.

Also, I think that it is good for corporate governance to have something of a Japanese form. The form governance takes is different to that in Europe and the United States and even in other countries overseas. By having the Group actively disseminate Japanese corporate governance, overseas countries will be able to benefit from a greater understanding of Japanese companies. As a result, I think that this will be effective for the Group’s business.

## Ideal Corporate Governance

**Tadaki:** From FY2017, Daiwa Securities introduced a major shift to a bottom-up sales structure. Sales representatives to branch managers and head office officials decided to try and follow this bottom-up sales structure, although it has not been easy to change the way things were done in the past.

The word governance carries the nuance of top-down dominance, but now, even with regard to governance, it is the bottom-up channel, conveying the actual customer situation from the sales representative with plans drawn up by head office, that is important to realize the highest quality to which Daiwa Securities Group aspires.

If the purpose of securities companies were immediate profit, it would be better to target only wealthy people. However, while the working class of Japan accumulates assets so that it can live with peace of mind throughout its entire 100-year lifespan, it is very important to recognize its significance as a social entity that securities companies help in that regard. It is important for governance that the entire company shares such values and collaborates, and it is also a key point in the aforementioned issue of reputational risk.

**Takeuchi:** It is said that the Tata Group, based in India, used as its reference for governance a long-established Japanese company. The Tata Group translated *Shin Nippon Eitaigura* (New Japan's Eternal Storehouse), and the important governance factors found were the "family precepts" to which old Japanese companies had adhered for generations.

This is a completely different idea from the West. There are statistics that show that 40% of companies that have survived for more than 300 years are Japanese, and I think that this surely represents sustainability in the true sense of the word. There is much more for us to learn about governance from those Japanese companies.

**Tadaki:** I think that Daiwa Securities Group has built a governance structure that is sensitive to global standards. Ahead of other Japanese companies, we appointed outside corporate auditors, invited advisory committee members from outside the company, and adopted the committee system. We were the first domestic listed company to adopt the holding company structure. Even if the number of outside directors is six of 14 people, so long as the chairpersons of the three committees are all outside directors and the majority of all the committees are outside directors, this will help incorporate an awareness of global standards.

**Onodera:** Just as you pointed out, among Japanese companies Daiwa Securities Group has implemented progressive initiatives with regard to governance. Moreover, I think that judgments based only on the formality of overseas standards are too prevalent and regard it as positive that governance can take various forms. In each, I think that emphasis should be placed on each company giving consideration to what is the best system for one's own company and on how to execute that form.



**Hirotaka Takeuchi**  
Chairman of Compensation  
Committee

I think Japanese companies should not perceive corporate governance so narrowly, nor just imitate foreign companies. The good points of Japanese corporate culture should be incorporated a little more, and I hope that the future will also be taken into consideration.

## Directors (Members of the Board)



**Takashi Hibino**  
Chairman of the Board

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

1979 Joined Daiwa Securities Co. Ltd.

Having served successively as the responsible for products, oversea, corporate planning and personnel and thereby has a plenty of experiences related to the whole business of the 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**  
Member of the Board

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

1983 Joined Daiwa Securities Co. Ltd.

Having 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., COO and Head of Retail of the Company. He serves as the Representative Corporate Executive Officer and President of the Company, takes charges of CEO from 2017. He has expertise and experience to present a management strategy based on wide visions and also to execute management and control of the Group adequately.



**Toshihiro Matsui**  
Member of the Board

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

1985 Joined Daiwa Securities Co. Ltd.

Having served as the Managing Director of Corporate Institution and Corporate Finance of Daiwa Securities SMBC Co. Ltd. and Corporate Planning of the Company. Since his inauguration of Corporate Executive Officer of the Company, 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 of the Company, the Head of Corporate Planning and Head of Wholesale of the Company. He has considerable experience and knowledge in broad areas such as retail, wholesale, investment bank, planning and personnel.



**Kazuo Takahashi**  
Member of the Board

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

1982 Joined Daiwa Securities Co. Ltd.

Having served successively as Head of 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 of Senior Managing Director of Daiwa Securities SMBC Co. Ltd. in 2007, he served successively as the one responsible for Head of Corporate Institution Sales and Head of Financial Corporate Institution Dept. of Daiwa Securities SMBC Co. Ltd. and also Head of Corporate Institution of the Daiwa Securities Co. Ltd. He now serves as the Deputy President and Deputy Head of Wholesale of the Company. He has broad knowledge and experience in corporate institution business and also experience in retail business.

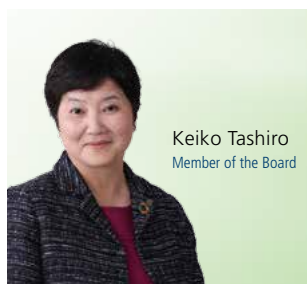


**Koichi Matsushita**  
Member of the Board

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

1984 Joined Daiwa Securities Co. Ltd.

Having served successively as Managing Director of Personnel Section, Head of Umeda Branch and Kyoto Branch of Daiwa Securities Co. Ltd. Since his inauguration as Senior Managing Director of Daiwa Securities Co. Ltd. in 2008, he served successively as the Head of Planning and Personnel, Product, Public Relations and Compliance of the Company, and also Head of Global Markets of Daiwa Securities Co. Ltd. He now serves as the Corporate Executive Officer and Deputy President and Deputy Head of Wholesale and Retail of the Company. He has broad knowledge and experience in planning and personnel, markets, retail, and compliance.



**Keiko Tashiro**  
Member of the Board

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

1986 Joined Daiwa Securities Co. Ltd.

Having served successively as the Head of IR Section of the Company and Head of Daiwa Direct Planning Dept. of Daiwa Securities Co. Ltd. Since her inauguration of Senior Managing Director of the above company in 2009, she served successively as its Head of Daiwa Direct Business, Fixed Income, Currency and Commodities, as the one responsible for America business and Deputy Head of Overseas (in charge of America) of the Company and Chairperson of the Board of Daiwa Capital Markets America Holdings Inc. She serves now as the Head of Overseas of the Company. She has a wealth of knowledge and experience in the overseas and corporate planning department.



**Mikita Komatsu**  
Member of the Board

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

1985 Joined Daiwa Securities Co. Ltd.

Having served as the Managing Director of Finance of the Company, President of Daiwa Capital Markets Europe Ltd. Since his inauguration of 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 of the Company and now he is serving as the CFO and Deputy Head of Overseas of the Company. He has broad experience and knowledge in the planning, finance and overseas department.



**Morimasa Matsuda**  
Member of the Board

1989 Joined Daiwa Securities Co. Ltd.

After serving in the Corporate Planning Section, Investment Banking Section and Market Section etc., he served successively as the Head of IR Section and Managing Director of Internal Audit Department of the Company. He has broad experience and knowledge in corporate planning and the internal audit department.





**Keiichi Tadaki**  
Outside Director  
(Member of the Board)

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

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



**Tadashi Onodera**  
Outside Director  
(Member of the Board)

- 1989 Director of DDI Corporation (currently known as KDDI Corporation)
- 1995 Associate Senior Vice President, Director
- 1997 Executive Vice President, Representative Director
- 2001 President of KDDI Corporation
- 2005 President and Chairman, Representative Director
- 2010 Chairman, Representative Director
- 2014 Outside Director (Member of the Board), Daiwa Securities Group Inc. (to date)
- 2015 Chairman of KDDI Corporation
- 2018 Advisor of KDDI Corporation (to date)

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 four years.



**Michiaki Ogasawara**  
Outside Director  
(Member of the Board)

- 1976 Entered Ministry of Posts and Telecommunications
- 2003 Director-General of Tohoku Bureau of comprehensive communication, Ministry of Internal Affairs and Communications
- 2004 Director-General of Kantou Bureau of telecommunication, the above Ministry
- 2005 Deputy director-general of the above Ministry
- 2005 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)

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 three years.



**Hirotaka Takeuchi**  
Outside Director  
(Member of the Board)

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

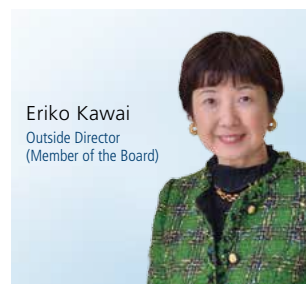
He has served as Professor of the Faculty of Commerce and Management at Hitotsubashi University and is currently Professor at Harvard Business School. The Company has drawn on his expertise and experience nurtured throughout his career in providing management advice. He has been a director for two years.



**Ikuo Nishikawa**  
Outside Director  
(Member of the Board)

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

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 two years.



**Eriko Kawai**  
Outside Director  
(Member of the Board)

- 1981 Entered Nomura Research Institute, Ltd.
- 1985 Management Consultant of McKinsey & Company, Inc.
- 1986 SG Warburg Fund Manager of Mercury Asset Management 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 Co-operation 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)

She has held positions such as the Pension Fund Administrator of BIS and OECD, etc. She was newly appointed as an outside director at the Company's 2018 General Meeting of Shareholders to provide management advice based on her ample expertise and experience related to corporate management accumulated throughout her career.

# Corporate Executive Officers



Seiji Nakata\*

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



Toshihiro  
Matsui\*

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



Kazuo  
Takahashi\*

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



Koichi  
Matsushita\*

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



Nobuyuki  
Iwamoto

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.



Keiko Tashiro\*

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



Mikita  
Komatsu\*

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



Masahisa  
Nakagawa

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



Masaru  
Shirataki

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



Atsushi  
Mochizuki

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



Akihiko Ogino

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



Junichi Arihara

Executive Managing Director, CRO  
and CDO  
Executive 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.

# 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:

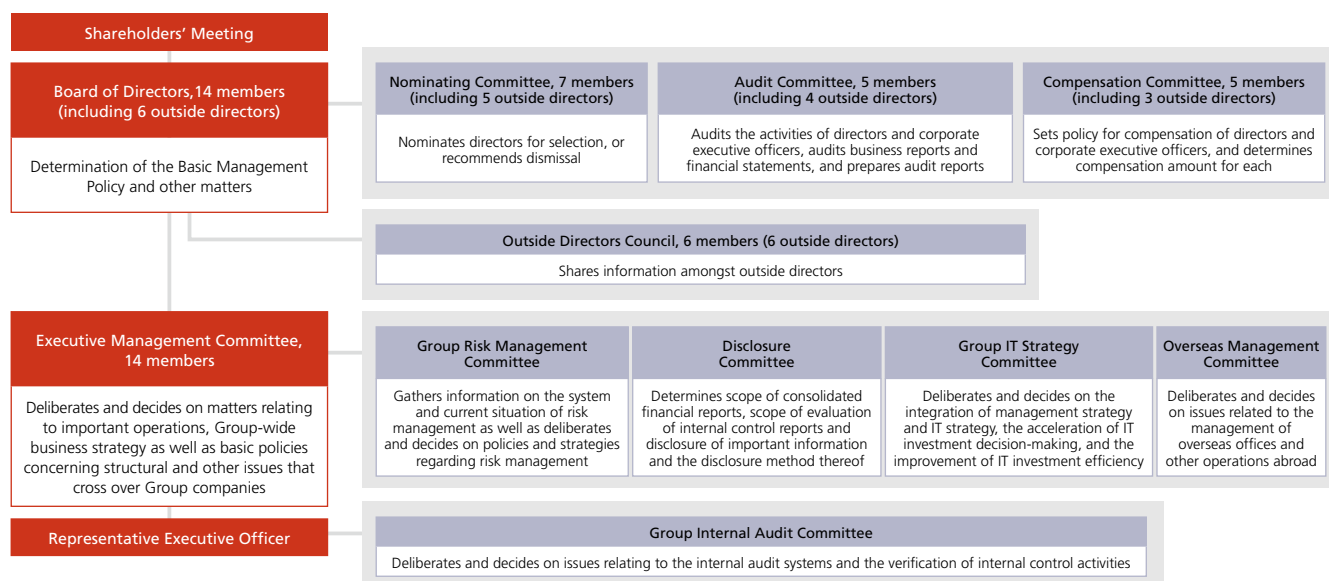
- a Better decision-making agility by having the Board of Directors assign significant authority to corporate executive officers while clarifying the division of duties among corporate executive officers;
- b More effective supervisory functions at the Board of Directors from the appointment of outside 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).

## Corporate Governance System at Daiwa Securities Group



## Major Initiatives in Corporate Governance

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

## History of Daiwa's Corporate Governance

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

## Meetings of Three Committees and Board of Directors in FY2017

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

The Audit Committee met 12 times. The committee evaluated the activities of directors and corporate executive

officers, audited documentation, including financial statements and business reports, and prepared an audit report for the period under review.

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

The Board of Directors met 11 times, and outside directors had a 94% record of attendance.

### Committee Members\*

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

\* As of July 2018

## Executive Compensation That Is Closely Linked to Performance

Compensation for directors and corporate executive officers, determined by the Compensation Committee, is composed of base remuneration, performance-linked remuneration, and share price-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, 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 stock options, etc., the value of which corresponds to a certain percentage of Base Compensation.
- Does not apply to Outside Directors.

Note: From FY2018, 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. (the Eligible Officers, etc.) to enhance performance in the medium and long term and strengthen values shared among the Eligible Officers, etc., and shareholders. After the introduction of this Plan, the stock options which have been granted to the Eligible Officers, etc., with an exercise value of 1 yen, will not be issued.

### Introducing the Restricted Stock Compensation Plan

The Daiwa Securities Group Inc. Compensation Committee revised the remuneration system for directors and corporate executive officers, thereby electing to introduce a Restricted Stock Compensation Plan (this Plan) from FY2018. The purpose of this Plan is to increase the incentive for directors, corporate executive officers and executive officers, etc. (Eligible Officers, etc.) of Daiwa Securities Group Inc. and its subsidiaries to enhance performance over the medium to long term and to strengthen values shared between the Eligible Officers, etc., and shareholders.

This Plan consists of Stock Compensation Plan I and Stock Compensation Plan II.

Stock Compensation Plan I will grant Restricted Stock, the value of which corresponds to a certain percentage of basic compensation. In order to function effectively as an incentive to enhance long-term performance, the transfer restriction period\* shall last from the date of Restricted Stock issuance until such time as the Eligible Officer, etc., forfeits his or her position as an officer of either Daiwa Securities Group Inc. or its affiliated companies.

Stock Compensation Plan II will set an upper limit on performance-based cash compensation, and the part of the cash compensation which exceeds the upper limit will be replaced by the grant of Restricted Stock. The transfer restriction period of Restricted Stock is three years and Restricted Stock will function as deferral compensation when performance-based cash compensation exceeds the upper limit.

\* The period during which restricted stocks shall not be transferred, established as security rights, or disposed of in any other way.

### Compensation Paid to Directors and Corporate Executive Officers of Daiwa Securities Group Inc. in FY2017

	Directors		Corporate Executive Officers		Total	
	Recipients	Amount	Recipients	Amount	Recipients	Amount
Amounts based on resolution of the Compensation Committee	8 persons	¥148 million	14 persons	¥1,331 million	22 persons	¥1,479 million

Notes: 1. The above amounts include performance-based compensation paid in this fiscal year.  
 2. The above compensation amounts include a total of ¥93 million in stock acquisition rights granted as stock options to directors and corporate executive officers.  
 3. Compensation paid to the six outside directors totaled ¥112 million.  
 4. Seven directors also served as corporate executive officers; their total compensation is included in the "Corporate Executive Officers" category.

### Type of Total Compensation

Name	Total consolidated compensation, etc.	Type of officer	Company name	(millions of yen)			
				Value of consolidated compensation, etc., by type	Base remuneration	Stock options	Performance-linked remuneration
Takashi Hibino	226	Corporate executive officer	The Company Daiwa Securities	69	10	99	—
Seiji Nakata	271	Corporate executive officer	The Company Daiwa Securities	46	—	—	—
Shinya Nishio	185	Corporate executive officer	The Company Daiwa Securities	69	10	144	—
Kazuo Takahashi	132	Corporate executive officer	The Company Daiwa Securities	46	—	—	—
Toshihiro Matsui	109	Corporate executive officer	The Company Daiwa Securities	61	8	89	—
				25	—	—	—
				19	6	—	—
				46	—	59	—
				43	5	49	—
				10	—	—	—

Name	Total consolidated compensation, etc.	Type of officer	Company name	(millions of yen)			
				Value of consolidated compensation, etc., by type	Base remuneration	Stock options	Performance-linked remuneration
Keiko Tashiro	109	Corporate executive officer	The Company Daiwa Securities	43	5	49	—
Mikita Komatsu	109	Corporate executive officer	The Company Daiwa Securities	10	—	—	—
Masahisa Nakagawa	107	Corporate executive officer	The Company Daiwa Securities	43	5	49	—
				10	—	—	—

Notes: 1. Only those officers with a total consolidated compensation, etc., exceeding ¥100 million are listed.  
 2. References to the Company in the table refer to Daiwa Securities Group Inc.  
 3. Officers serving as both directors and corporate executive officers are listed as corporate executive officers.

## 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 Company's 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 Company's 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. In FY2017, 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 FY2016 evaluation

In response to the primary opinions from the FY2016 evaluations, many improvements were made and measures taken, including those listed below, in working to enhance effectiveness.

- 1** Held more in-depth discussions regarding strategy and planning
  - During formulation of the new Medium-Term Management Plan, the number of times opinions were exchanged and discussions were held with outside directors was increased, and many of the opinions from the outside directors were reflected in the plan.
- 2** Clarified the role and diversified the members of the Board of Directors
  - During officer training, outside speakers were invited to hold lectures regarding corporate governance. Discussions were also held during the Outside Directors Council together with outside lecturers.
  - New outside directors with extensive international experience and results in the field of finance were appointed.
- 3** Enhanced the understanding of issues (financial expertise, etc.)
  - Created and distributed glossaries related to each issue to the outside directors, and had the responsible officers and managers provide prior explanations in specialized fields related to risk and regulation, for example, to encourage a deeper understanding among the outside directors.

### Overview of the results of the effectiveness of the Board of Directors in FY2017

In FY2017, 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.

Meanwhile, each director also submitted multiple opinions for making further improvements. 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.

## Internal Control System and Internal Audit

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

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

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

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.

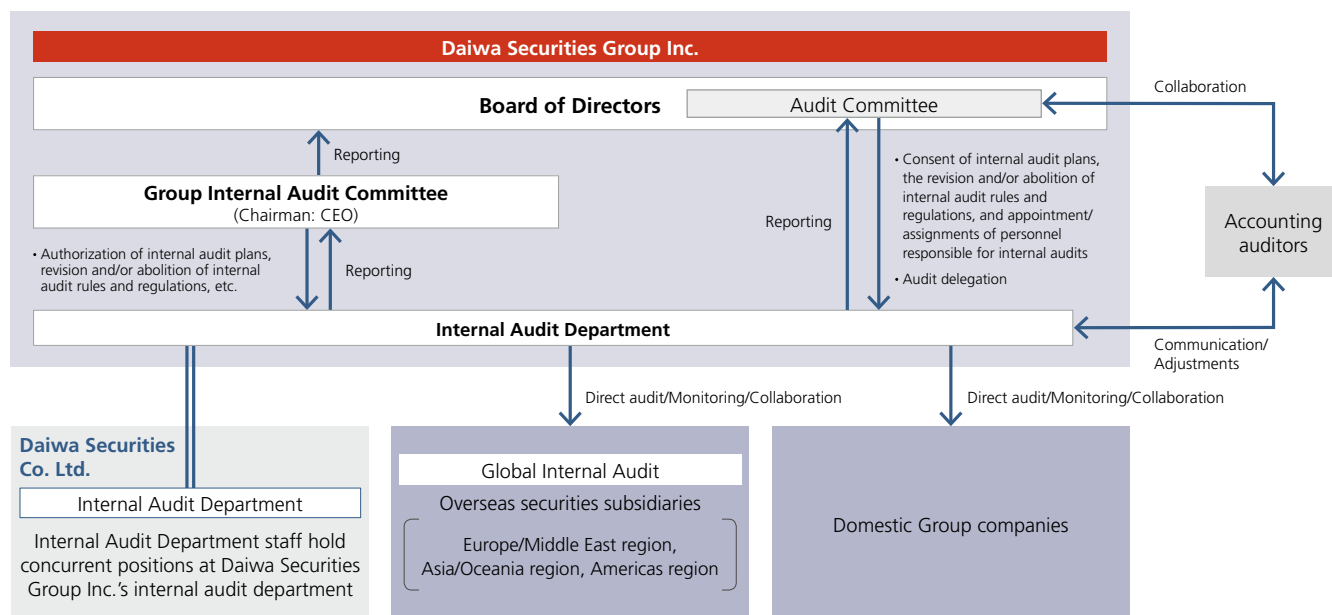
Reports to the Group Internal Audit Committee are not limited to the audit results conducted at Daiwa Securities Group Inc. and Daiwa Securities Co. Ltd., but also include highly important findings made during audits conducted on companies in Japan and overseas.

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

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

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

Internal Auditing System Diagram of Daiwa Securities Group



# Risk Appetite Framework

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

## Risk Appetite Framework

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

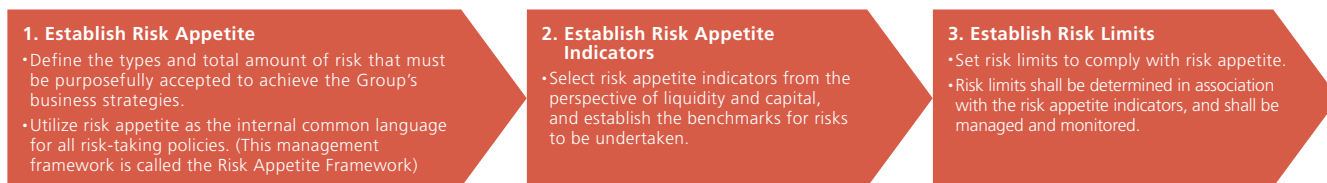
In addition, the Group must appropriately evaluate risks outside the ordinary, and ensure it has sufficient liquidity and equity capital commensurate with these risks in order to be

adequately prepared during times of stress.

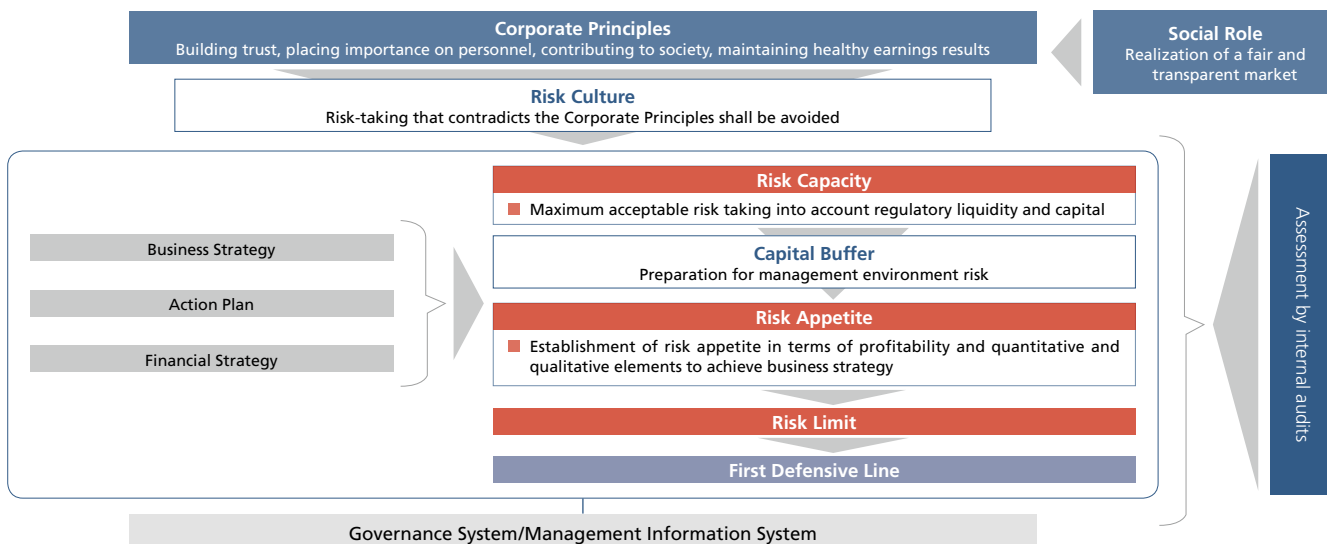
Under this environment, the Group has introduced a risk appetite framework for the purpose of strengthening risk governance at the management level.

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

### Risk Appetite Framework Overview



### Risk Appetite Framework Concept Chart



## Risk Appetite Framework Management Structure

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

The Board of Directors has deliberated and decided on a Risk Appetite Statement that quantifiably sets the risk

appetite indicators within the context of liquidity and capital.

The Audit Committee assesses the performance of duties by the Board of Directors and senior management in association with the risk appetite framework.



# Risk Management

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

## Risk Management

### Risk management policy

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

### Basic policies as defined by the Rules for Risk Management at the 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.

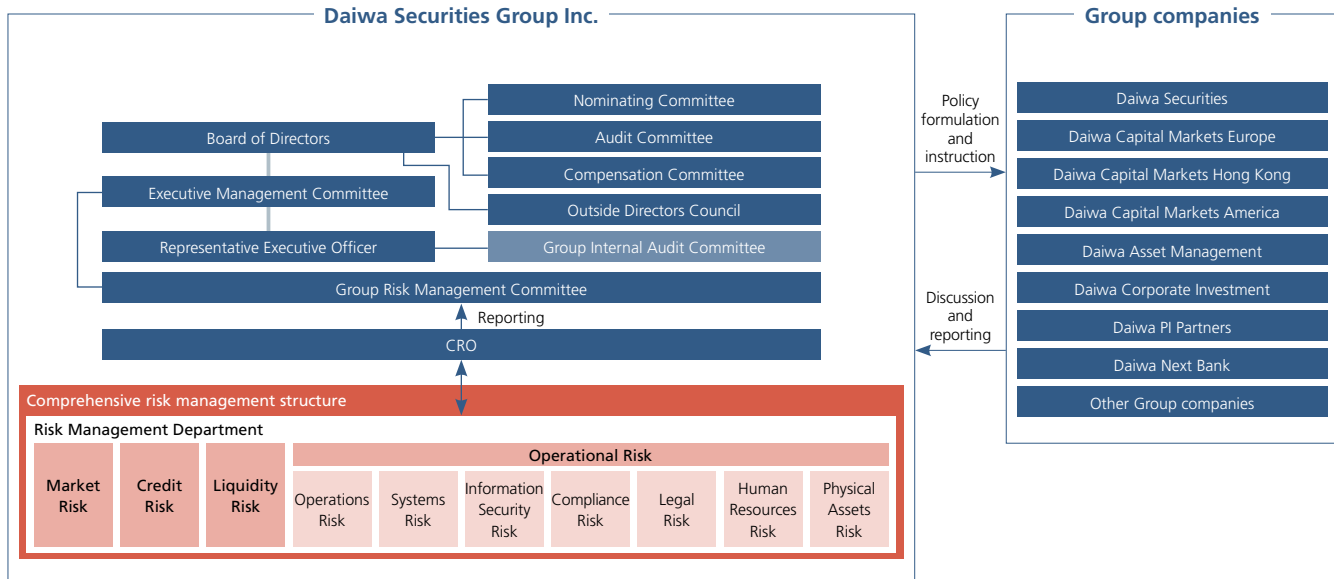
Limits are set for each type of risk so as to appropriately manage Group risk.

### Types of risks

Daiwa Securities Group faces various risks in the course of its business activities. The Group therefore believes that it is important to identify 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.



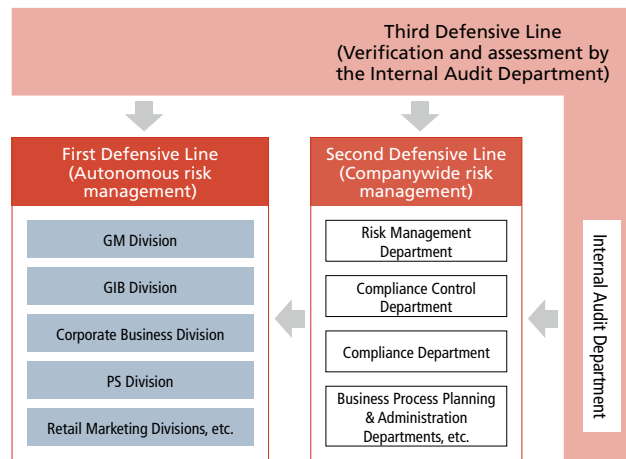
### Risk Management System



### Risk management system

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

Each of the Group's subsidiaries conducts risk management that responds to the risk profile and size of each business in accordance with the abovementioned basic policies. Daiwa Securities Group Inc. monitors its subsidiaries, and reports the risk exposures and issues concerning the risk management system to the Group Risk Management Committee. This is a sub-committee of the Executive Management Committee of Daiwa Securities Group Inc., and it discusses and resolves any issues that are reported. In addition, major Group companies regularly hold risk management meetings in order to strengthen their risk management systems.



## Major Risks and Methods of Management

### Market risk management

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

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

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

### Credit risk management

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

**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.

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

## The Daiwa Securities Group (Consolidated) Value at Risk

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

	(Billions of yen)							
	6/16	9/16	12/16	3/17	6/17	9/17	12/17	3/18
<b>VaR (Month-end)</b>	<b>1.01</b>	<b>1.00</b>	<b>1.25</b>	<b>1.96</b>	<b>1.29</b>	<b>1.16</b>	<b>1.93</b>	<b>1.13</b>
Quarterly								
High	2.26	2.53	2.97	3.16	3.41	4.19	2.00	2.03
Low	0.99	0.98	1.02	1.56	1.28	1.16	1.06	1.07
Average	1.53	1.40	2.02	2.17	2.59	2.29	1.34	1.46
By Risk Factor (Month-end)								
Equity	0.27	0.44	0.40	0.54	0.34	0.43	0.68	0.28
Interest	1.00	1.00	1.15	1.89	1.40	1.15	1.43	1.06
Currency	0.19	0.17	0.26	0.29	0.20	0.15	0.21	0.21
Commodities	0.00	0.00	0.03	0.00	0.06	0.00	0.00	0.00

Note: Figures for VaR (month-end) and VaR (interest) from 3Q FY2016 to 1Q FY2017 are modified in 2Q FY2017 due to the review of interest rate risk scenarios.

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

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

### Liquidity risk management

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

- The Group procures funds based on a policy of efficiently and stably ensuring ample liquidity necessary to continue its business.

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. Particularly in recent years, the Group has been accumulating liquidity through such means as fund procurement through the market as well as loans from financial institutions, in preparation for unforeseen events such as those caused by global financial crises or credit crunches. Additionally, with the anticipation that such crises may make it difficult to procure new funds and reacquire existing funds, the Group diversifies repayment periods and fund sources.

- Daiwa Securities Group Inc. has established a liquidity management system using its own short- and long-term 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.

- Establishing 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 in order to ensure that the Group responds appropriately at the time of a liquidity crisis. This plan states the basic policy concerning the reporting lines depending upon the urgency of stress internally originated, including a credit crunch, and externally originated including an abrupt change in the market environment, and the method of raising capital. The contingency plan enables the Group to prepare a system for securing liquidity through a swift response.

## Operational risk management

Operational risk is the risk of losses that occur when internal

processes, people, and systems do not perform adequately or do not function; it can also arise from external events.

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

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.

#### What is 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.

### Reputational risk management

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

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

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

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

### Accounting and tax risk management

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

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

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

### Tax policy

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

#### Daiwa Securities Group Tax Policy

- 1 Daiwa Securities Group complies with laws and ordinances, and contributes to sustainable development of 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.

# IT Strategy and the Management of Systemic 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

Daiwa Securities Group has established the Group IT Strategy Committee as a sub-committee of the Executive Management Committee and created the IT Strategy Committee at Daiwa Securities, the core company of the Group, as a subcommittee of the Management Committee. These committees deliberate and decide medium- and long-term IT investment policies and 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.

## Strategic IT Investment

Daiwa Securities Group has been making IT investments for the purpose of enhancing customer satisfaction through the delivery of products and services that meet a diverse range of needs, strengthening profitability through greater operational efficiency, addressing the infrastructure platforms and responding to legal systems that are essential for business continuity, as well as strengthening the risk management framework. In FY2017, along with making investments in the enhancement of accumulated-type NISA, Fund Wrap, and online services, the Group advanced initiatives into operational efficiency and business process reform utilizing voice recognition, artificial intelligence (AI), RPA, and other technologies. In addition, efforts were also made to further strengthen cybersecurity countermeasures and management of the Social Security and Tax Numbers submitted by customers as initiatives aimed at ensuring that customers can conduct business free from worry.

In the Medium-Term Management Plan, “Passion for the

Best” 2020, initiated in FY2018, our IT strategy is designed to support a customer-oriented sales system and the delivery of products and services, while at the same time promoting the establishment of an IT platform that provides momentum for the digital transformation. In this light, the Group is building an API\* platform that can flexibly and swiftly extend alliances with outside companies and services, as well as intra-Group cooperation, and a next-generation office infrastructure that provides a safe, secure location-independent business environment. At the same time, the greater operational efficiency enabled by voice recognition, AI, RPA, and other technologies, will allow employees to use their time for higher value tasks instead, thereby creating a positive cycle that links to more advanced customer service and the development of innovative services.

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

## Systemic Risk Management

Daiwa Securities Group has worked to maintain and enhance the management of systemic risk in order to reliably provide high-quality services to customers while protecting information assets from various threats and risks. In particular, the Group has positioned the need to ensure cybersecurity as an important issue for its risk management in the context of recent increases in the threat of cyberattacks. As a result, the Group has established the Daiwa-CSIRT, a Group-wide cross-sectional specialist organization that collects and analyzes the latest information on cyberattack methods and vulnerability while coordinating with external institutions. Along with

increasing the layers of technological countermeasures and establishing a system that can detect and prevent attacks that slip past one of these countermeasures, the Group is also developing an analysis environment that can rapidly discover evidence of an attack and a system that can address incidents 24 hours a day, 365 days a year.

The Group will continue to strengthen countermeasures against cyberattacks, including building a Daiwa Standard cybersecurity countermeasure platform, in looking ahead to alliances with outside companies and services and a greater diversity in its business portfolios.

# 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 FY2018

- Enhance information security
- Strengthen efforts to eliminate relationships with anti-social forces
- Reinforce measures to prevent insider trading
- 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 hold 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.

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.

# 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, stakeholders, investors, local communities, employees and executives clearly understand and properly evaluate the Group's activities.

## Disclosure System

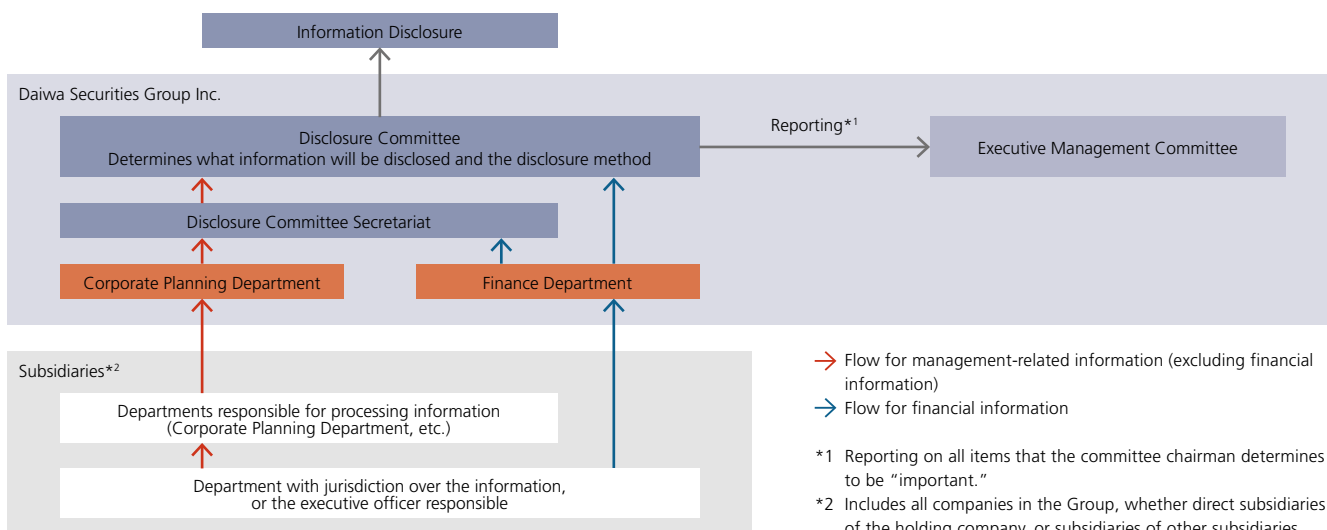
The Group has formulated a Disclosure Policy, which outlines the Group's basic approach to information disclosure, and strives to provide information that is fair, prompt, and appropriate.

In order to realize the policy's spirit, Daiwa Securities Group Inc. has established the Disclosure Committee—a sub-committee of the Executive Management Committee—based on the Group's Disclosure Regulations, which makes final decisions regarding the disclosure of

information. Main Group companies have also established their own regulations on management-related information, which govern the appropriate collection of information and presentation of reports to Daiwa Securities Group Inc.

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 in April 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, management strategy briefing sessions, one-on-one meetings with analysts and investors and participation in Daiwa Investment Conferences held in Tokyo, Hong Kong and New York. In addition, we are further developing information disclosure on our 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 FY2017

- **Number of meetings with institutional investors and analysts: approx. 250**  
This includes the following overseas IR activities: two IR events in North America (23 meetings), two IR events in the EU (22 meetings), and two IR events in Asia (20 meetings)
- **Total participants in briefings for individual investors: approx. 2,700**  
Eleven briefings at Daiwa Securities locations, three briefings organized by Daiwa Investor Relations, one briefing via the Internet.



# CSR Management

Daiwa Securities Group believes that deepening the bond of trust it shares with stakeholders is essential to the sustainable accomplishment of its social mission and achievement of growth.

## Policy on Communication with Stakeholders

The Group has adopted the following basic policy, considering that communication with stakeholders plays an important role in identifying social demands, which change over time.

Daiwa Securities Group Stakeholders



### 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, including customers, shareholders and other investors, business partners, employees and local communities.

### Basic Policy ③

The Group will strive to communicate actively with third-parties in order to identify other stakeholders.

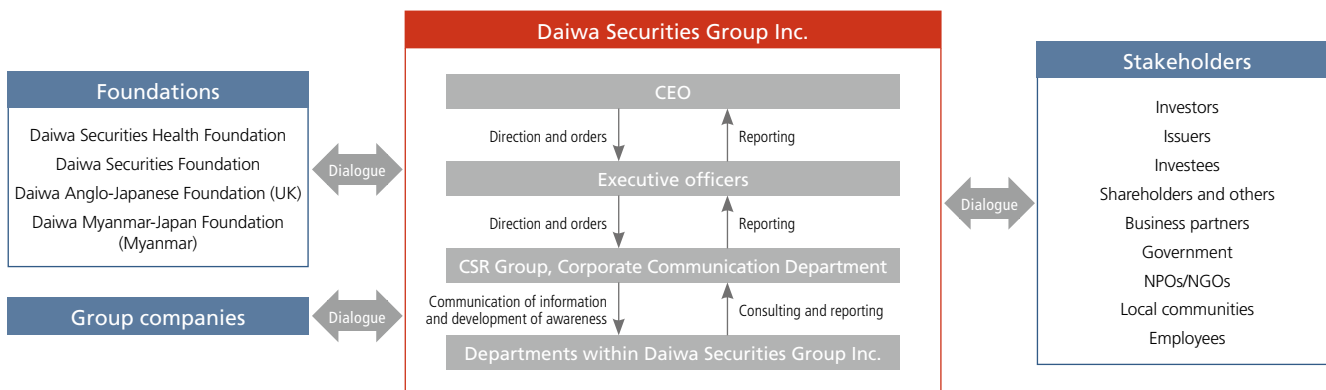
## CSR Promotion System

Our officers and employees endeavor to implement our corporate principles through their business operations for the materialization of a sustainable society and our vision.

Specifically, the CSR Group of the Corporate Communication Department at Daiwa Securities Group Inc. actively seeks information and engages in dialogue at external and internal meetings. These activities are conducted under the direction and orders of the Corporate Communication Officer, an

executive officer under the supervision of the CEO. CSR issues and our progress are shared regularly with the executive officer at meetings and on other occasions.

Furthermore, information on CSR is taught to the Group's newly hired employees. The CSR Group promotes and raises awareness of CSR issues throughout branches and departments across Japan and major overseas sites and builds a network of cooperation.



# 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 the 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, the 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)

## Principles for Financial Action toward a Sustainable Society (Principles for Financial Action for the 21st Century)

The Principles for Financial Action for the 21st Century were drawn up by a committee comprising representatives from a range of Japanese financial institutions. They were tasked with drafting a Japanese version of the Principles for Environmental Financial Action. This was based on a recommendation issued by Japanese Ministry of the Environment's Central Environment Council with the objective of promoting

environmental finance. Each signatory institution is expected to endeavor to reflect ESG (environment, society and governance) issues and concerns to its own business practices. The Group was instrumental in the establishment of the principles from the drafting stage to the final framework. Both Daiwa Securities Group Inc. and Daiwa Asset Management Co. Ltd. became signatories in November 2011.

## Responsible Action as an Institutional Investor

### Initiatives by Daiwa Asset Management

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, Daiwa Asset Management 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 in stewardship activities from management and business execution.

Regarding dialogue with investee companies, based on the Policy to Hold Constructive Dialogue with Investee Companies announced in June 2014, Daiwa Asset Management aims to accurately understand the conditions of investees, share such assessments, and create medium- to long-term corporate value.

Daiwa Asset Management has released a Report on the Status of Stewardship Activities on its website (only available in Japanese). The report includes the status of engagement, such as policy, structure, and the number of engagement times by theme, as well as ESG investment, the status of exercising of voting rights, and measures to improve stewardship activities.

Daiwa Asset Management Co. Ltd.: Japan's Stewardship Code  
[www.daiwa-am.co.jp/english/footer/stewardship.pdf](http://www.daiwa-am.co.jp/english/footer/stewardship.pdf)

Our Stewardship Activities\*

<https://www.daiwa-am.co.jp/company/managed/result.html>

Daiwa SB Investments Ltd.: Our Stewardship Activities\*  
<https://www.daiwasbi.co.jp/company/stewardship/index.html>

\* Websites written only in Japanese

## Dialogue with Investee Companies: Three Parties

Analysts (Research Department)	Those in charge of corporate governance (Investment Planning Department)	The engagement team*
<ul style="list-style-type: none"> <li>The analysts at the Research Department engage in stewardship activities to contribute to enhancing corporate value and sustainable growth as part of their usual research activities, and held engagements with approximately 490 companies in fiscal 2017.</li> </ul>	<ul style="list-style-type: none"> <li>Collect information on investee companies required for exercising voting rights</li> <li>In dialogue with investee companies, explain their policy on exercising voting rights and what they expect from companies with respect to corporate governance</li> <li>Conducted engagement with approximately 130 companies in fiscal 2017</li> <li>In March 2017, disclosed their policy in more detail than previously, as well as the results on how voting rights were exercised for individual proposals from shareholder meetings held from April 2017 onward</li> </ul>	<ul style="list-style-type: none"> <li>The engagement team held engagements with approximately 25 companies in fiscal 2017, focusing on small- and medium cap issues mainly incorporated in active investment funds for medium- to long-term investment.</li> </ul>

\* Comprising analysts at the Research Department and fund managers at the Equity Management Department

### Initiatives by Daiwa SB Investments

Daiwa SB Investments is also stepping up dialogue with investees, steadily promoting initiatives to fulfill its stewardship responsibility, and further strengthening such initiatives.

It has long focused on engagement with companies antecedently and by actively holding dialogue has urged investee companies to turn their potential into actual business results. In April 2016, Daiwa SB Investments established the Stewardship Promotion Section as a section dedicated to ESG activities.

Daiwa SB Investments believes that, as an institutional investor, it has a responsibility to provide investees with advice

on how to exercise their potential and how to respond and prevent recurrence when there is a problem. The company considers that taking various opportunities to raise issues and urge improvement is its responsibility as an institutional investor and that helping to raise corporate value through such activities is also its mission for the customers entrusting their assets.

To receive feedback on its activities from an external viewpoint, Daiwa SB Investments invited two highly independent outside directors in FY2016 while setting up the Responsible Investment Committee, a majority of whose members are independent outside directors. It is thus aiming to further enhance its customer-oriented business operation.

## To Maintain and Develop Financial and Capital Market Functions

The securities business, the core business of the 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 and 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, which is one of our key CSR issues, and is considered to be a major mission for the Group.

### Settlement functions

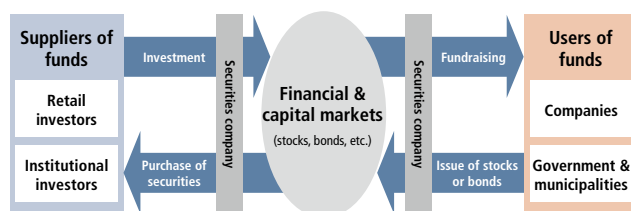
Securities settlement—a mainstay of the Group's overall operations—is the delivery of stocks, bonds, or other instruments and funds both to and from both the buyer and seller of a securities transaction. In trusted markets, financial instruments can be reliably converted into cash when necessary. This 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.

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, with the T+2 settlement cycle scheduled to be implemented for stock trading in 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.

### Securities Companies' Role in Financial and Capital Markets



## Provision of Quality Service to Customers

Daiwa Securities Group understands that customer trust is the foundation of its business. Based on the idea of the Customer First Principle, our focus is always on finding ways to deliver genuine customer satisfaction. We have also adopted the idea of hospitality to enhance our existing concept of customer service. We aim to have the most satisfied customers in the financial services industry.

### Building Deeper, Stronger Trust with Customers

Daiwa Securities aims to build customer satisfaction through quality services, built on understanding customer needs quickly and proposing the best solutions for each customer. We consider providing faithful and appropriate explanations to be paramount. A principle of Japan's Financial Instruments and Exchange Law prohibits "solicitation that is improper in light of a customer's knowledge, experience, financial situation and objectives." Daiwa Securities' approach is rooted in this principle. As a part of our hospitality-based service, we strive to deliver explanations that exceed the legal requirements when promoting our financial products. We have also agreed with the purport of the "Principles for Customer-Oriented Business Conduct" announced by the Financial Services Agency in March 2017 and expressed our adoption of the principles, while drawing up and announcing our "Basic Policy on Customer-first Operations."

To improve our services and the quality of our response further, we are continuing to conduct a customer service survey. We survey customers regarding their degree of satisfaction with our services and response, and solicit their feedback and requests. Based on the survey results, we have strengthened our initiatives to improve the quality of post-sale follow-up and enhanced the convenience of e-mail services in FY2017.

#### Active post-sale follow-up

Completing the sale of a product is only the beginning of a securities company's relationship with the customer. Follow-up is a key element in building the relationship of trust with the customer. To alleviate customer dissatisfaction or concerns arising after trading, we offer thorough explanations, appropriate proposals, and information regarding market conditions, products, and services as a part of initiatives to reinforce our relationship of trust with customers.

#### Improving in-branch customer service quality

At Daiwa Securities, we have announced our commitment to serve customers sincerely, and strive to provide services that can satisfy any customer. With the aim of creating sales branches enabling senior customers and customers with disabilities to feel secure, we have placed dementia supporters\*<sup>1</sup>, mostly comprising employees engaged in in-house customer service, at all branches. We also completed placing employees with service assistant\*<sup>2</sup> certifications at all branches in FY2016.

We also conduct regular training to maintain and further enhance the quality of customer services. Moreover, we undergo checks on customer services at our branches by external institutions, while staff at our head office check services provided by telephone representatives, whenever necessary.

\*1 A dementia supporter is a person who has an accurate knowledge of dementia and pays close attention to people with dementia and their families. The Ministry of Health, Labour and Welfare has been stepping up the training of supporters across the country as part of its "Dementia Supporter Caravan" project.

\*2 A service assistant is a person certified as having acquired hospitality and safe assistant skills for providing tailored support for senior customers and customers with disabilities.

#### FY2017 customer service survey

Number of respondents:	Overall score of satisfaction with Daiwa Securities
<b>Total of 120,905</b> people (August 2017)	<b>4.86</b> (up 0.09 points year on year) Average score of evaluation on a scale of 1 to 7 (1: very dissatisfied, 7: very satisfied)

**Number of Daiwa Securities employees who have become dementia supporters**

**2,572** people  
(As of March 31, 2017)

**Number of Daiwa Securities employees who have become service assistants**

**314** people  
(As of March 31, 2018)

## Working to Incorporate Customer Voices

### Contact Center Initiatives

Employees at the Contact Center, which serves as our comprehensive remote contact point, have direct contact with customers and play an increasingly crucial role not only as a transaction channel but also in customer support and marketing. In order to maintain and improve contact center operations to meet the demand for high-quality service, we provide training and regular level checks for all Telephone Service Representatives (TSRs). We thus strive to appropriately respond to customers' true needs.

#### Scale of Contact Centers

**820** service points

(500 in Tokyo, 210 in Osaka, and 110 in Fukuoka)

### Customer Support Center Initiatives

Daiwa Securities' Customer Support Center is a department at the head office that handles customer feedback and complaints directly by phone. It is set up within the Compliance Department of Daiwa Securities.

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. In FY2017, the Center received 4,990 calls, down 206 from the previous fiscal year.

## Education Activities in Economics and Finance

### Providing Junior and Senior High School Students with Opportunities to Learn about Finance and the Economy

We launched *okane-no-mikata*, a website for learning about finance and the economy, in March 2016 following the start of a Junior NISA program. We also launched *jyuu-kenkyu-no-mikata*, a website with content that primarily supports summer holiday research assignments for children. In addition, we held events titled "Challenge for Children and Parents: Learn Money & Economy through Quiz" at three venues nationwide. The events, which mainly targeted elementary and junior high school students, were designed to provide the participating children and parents with opportunities to start learning about money.



### Information Website for Child Rearing and Money "SODATTE"

Daiwa Securities opened "SODATTE," an information website for child rearing and money, in April 2016 for the child-rearing generation. With two years having passed since its opening, it has grown to be a website visited by many fans, with 140 columns and more than 800,000 monthly page views on average.

The website sets up five categories, including "Money Lesson," "Family Finances," and "Education Funds" and disseminates columns that provide tips to the child-rearing generation. In May 2017, we also started a feature named "Diagnosis of Your Family Finances," which posts articles on financial planners' advice on money-related concerns. We will continue to update columns monthly as an information site practically supporting child rearing for parents to enable them to learn in an enjoyable way.



# Dissemination of Analysis and Proposals on the Economy, Society, and Investment Information

Daiwa Securities Group provides, in addition to investment information, a wide range of information on the economy and society as a financial services group. We hope that the measures we propose from a long-term perspective will be helpful to a variety of stakeholders.

## Easy-to-Understand Communication of Information

Daiwa Securities publishes information to a wide range of people from institutional and retail investors to those who are about to start investment. The central role in provision of information is played by highly specialized analysts and strategists at the Investment Strategy, Equity Research, Fixed Income and Currency and Commodities Research departments. They provide information mainly through reports based on their unique analysis. Our information is based on the close analysis and collection of data, and we tailor our presentation for retail investors and institutional investors, who are investment professionals, even if the same person is providing that information. For retail investors, we incorporate more visualized reporting.

To remove the general perception that securities investment or securities companies are complicated, we believe it is one of our missions to work toward communicating our analysis in an easy-to-understand way.

## Initiatives to Provide Information on ESG

Daiwa Securities' Equity Research Department is a group of analysts and strategists. They analyze and evaluate information released by companies, and provide investment information and ideas to institutional investors.

The department has designated multiple staff members as responsible for ESG information as part of its efforts to put an organizational structure in place to respond to increased demand for ESG investment following the signing of PRI by the Government Pension Investment Fund (GPIF) in 2015. Specific activities for such members include providing investment information useful for ESG integration to institutional investors, setting up ESG meetings between investors and companies, and hosting expert seminars by subject. For example, in regard to the environment, we held a meeting on biodiversity and natural capital in FY2017, inviting chemical, food, and housing manufacturers. We also held seminars introducing research on the environmental load caused by companies and the capital cost of stocks to university researchers.

Institutional investors have diverse needs, in reflection of their respective investment policies. We will further enhance our ESG information by boosting the analytical skills and communication capabilities of our analysts and strategists.

## Comprehensive Provision of Information and Policy Proposal Activities

Daiwa Institute of Research (DIR), which assumes the think-tank role of Daiwa Securities Group, provides wide-ranging economic and financial analysis and information to the public.

At DIR, we consider it our mission to engage in comprehensive provision of information and policy proposal activities concerning the financial and capital markets and the real economy. We have always sought to provide up-to-date and in-depth information and a unique viewpoint that has never been presented by others. In order to provide information that satisfies the needs of the public, we also exchange information and hold discussions with businesses, investors, public institutions including governments and municipalities, and various economic groups as well as overseas think-tanks and the media. In this way, we are able to analyze the currents and trends of society and share information in the form of published reports. We are also stepping up the release of ESG information, communicating wide-ranging information via our website and "DIR Research Quarterly Review" (our quarterly journal) regarding community vitalization, environmental problems, women's active participation in society, workstyle reform, corporate governance, and other issues.

## Strengthening the Provision of Information

The Research Division of DIR launched the Policy Research Department in FY2017. In addition to providing information on the macro economy and financial and capital markets in and outside of Japan, the company is now focusing on making policy proposals based on multifaceted analysis of such issues as measures for maintaining the sustainability of government finances and the social security system, as well as the directions that society and businesses are required to pursue from an ESG perspective. DIR contributes to society through the communication of information, including realistic proposals aimed at solving issues.

To fulfill the role of a reliable compass as a think-tank, we are engaging in useful research that grasps changes in economic and social trends and satisfies growing needs for information.

# Financial Section

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# 11-Year Financial Summary\*1

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

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

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



Millions of yen (Except as otherwise specified)

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

\*3 Consolidated Capital Adequacy Ratio hereunder is calculated under the principal of Financial Service Agency Public Notice 130 of the Financial Instruments and the Exchange Act (Article 57-17-1).

Numerical data for FY2010 and FY2011 is calculated based on the Basel II standards. Numerical data from FY2012 is calculated based on Basel III standards in line with revision to the aforementioned Financial Services Agency Public Notice.

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

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

## Selected Range of Numerical Data

**G** : Group-wide (excluding equity-method affiliates)

**D** : Daiwa Securities (non-consolidated)

**10** : Daiwa Securities Group Inc., Daiwa Securities Co., Ltd., Daiwa Asset Management Co., Ltd., Daiwa Institute of Research Holdings Ltd., Daiwa Institute of Research Ltd., Daiwa Institute of Research Business Innovation Ltd., Daiwa SB Investments Ltd., Daiwa Securities Business Center Co., Ltd., Daiwa Property Co., Ltd., Daiwa Corporate Investment Co., Ltd. (DCI)

**8** : Daiwa Securities Group Inc., Daiwa Securities Co., Ltd., Daiwa Asset Management Co., Ltd., Daiwa Institute of Research Ltd., Daiwa Institute of Research Business Innovation Ltd., Daiwa SB Investments Ltd., Daiwa Securities Business Center Co., Ltd., Daiwa Corporate Investment Co., Ltd. (DCI)

**2** : Daiwa Securities Group Inc., Daiwa Securities Co., Ltd.

## Personnel Related

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

\*1 Since fiscal 2014, the number of employees stationed overseas has been included in the "Overseas" category.

\*2 This data pertains to Daiwa Securities Group Inc. (including those who simultaneously work for Daiwa Securities).

## Education Related

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

\* This data covers Daiwa Securities.

## Diversity Related

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

\* This data covers two Group companies.

## Work-Life Balance Related

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

## Social Contribution Related

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

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

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

# Twelve-Quarter Financial Summary

Daiwa Securities Group Inc. and Consolidated Subsidiaries

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

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

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

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

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

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

# Management's Discussion and Analysis

## Macroeconomic Conditions in FY2017

### Overseas Markets

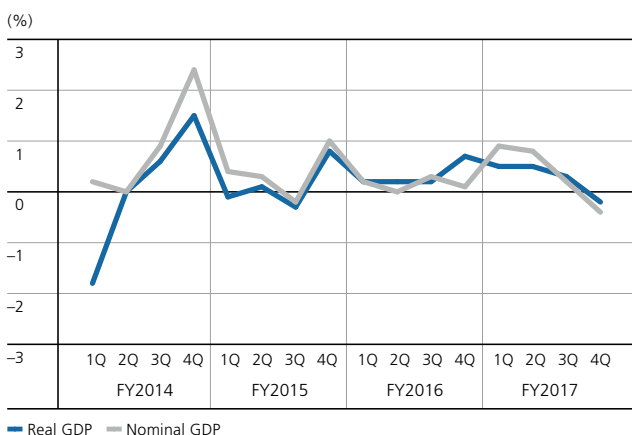
In FY2017, the global economy experienced moderate growth. According to the International Monetary Fund (IMF), the global economy in 2017 surpassed the level recorded in the previous year and exhibited a high rate of growth for the first time in five years. While unable to dispel concerns attributable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

In the January-March 2018 quarter, the rate of quarter-on-quarter real GDP growth on an annualized basis was held under 2.5% because consumer spending growth in the U.S. was suppressed. On the other hand, the rate for the three quarters from April-June 2017 came in at the high level of around 3%. The slowdown in the January-March 2018 quarter was due to low consumer spending growth for the first time in roughly five years. However, in addition to the underlying strengths of stable employment and income conditions, there are signs of an increase in the disposable incomes of households attributable to the taxation system reforms enacted in December 2017, which are having a positive impact on corporate sector earnings and sentiment

and in turn leading to prolonged steady capital investment growth. Taking into consideration heightened interest in labor-saving investments owing mainly to the tight labor market, capital investment activities are receiving an additional boost. However, there are concerns that President Trump's vigorous implementation of protectionist trade policies from February 2018 will have a dampening effect on corporate sector production activity and investment plans. This reflects the potential for an increase in import prices as well as a decrease in export volumes from the U.S. should friction intensify with other nations including China. From a financial perspective, the Federal Reserve Board (FRB) raised interest rates on three occasions during 2017 on the back of firm economic growth. Policy interest rates were also raised in March 2018. At the same time, the FRB began reducing the scale of its assets held from October 2017. Meanwhile, the U.S. stock market remains bullish as a result of the strong economy and expectations following the enactment of taxation system reforms. The New York Dow Jones Industrial Average, for example, hit a record high in January 2018. After that, however, long-term interest rates rose owing to concerns surrounding inflation. In the ensuing period, we have seen instances where stock prices have fallen dramatically due to growing anxiety regarding trade friction.

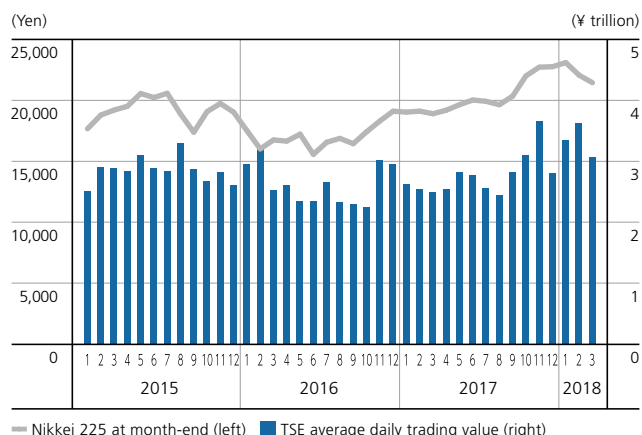
In Europe, the economy continued to experience modest yet stable growth. Real GDP growth across the eurozone in 2017 came in at a high 2.4% for the first time in a decade. In the January-March 2018 quarter, real GDP increased 1.5 percentage points on a quarter-on-quarter annualized basis and 2.5 percentage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

**GDP Growth Rate in Japan**



Note: The above data comprises seasonally adjusted annual rates. Growth rates may not correspond to rates calculated based on total production.  
Source: Cabinet Office, Government of Japan

**Nikkei 255 and Trading Value of TSE**



Source: Tokyo Stock Exchange, Daiwa Institute of Research

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

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

in resource prices including crude oil is providing a tailwind for resource-rich economies. In contrast, the outflow of capital attributable to rising interest rates in such industrialized countries as the U.S. and such measures as the lifting of policy interest rates to protect currencies while combating high inflation due to currency depreciation are creating economic difficulties in certain cases.

### **Japan**

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

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

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

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

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

shown a positive turnaround on the back of a recovery in domestic demand in FY2017 increasing for the first time in two years.

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

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

## Analysis of Consolidated Income Statements

### Total Operating Revenues and Net Operating Revenues

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



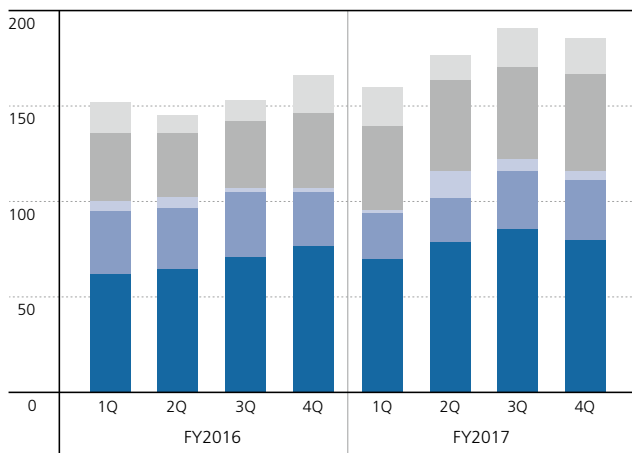
Commissions received were up 14.7% compared with the previous fiscal year, to ¥313.6 billion. Brokerage commission also improved by 21.1%, to ¥73.7 billion owing mainly to the upswing in stock trading. Meanwhile, underwriting activity benefitted from a variety of factors including large-scale PO and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

### Breakdown of Net Operating Revenues

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

### Breakdown of Consolidated Income

(¥ billion)



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

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

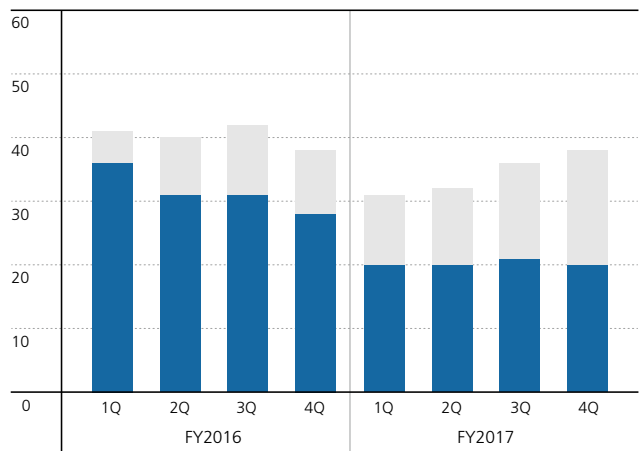
### Revenues (Trading Gain/Loss) from Equity and FICC (Net Gain (Loss) on Trading + Net Financial Income, on Managerial Accounting Basis)

	Billions of yen		
	FY2016	FY2017	YoY
Equity	¥ 35.0	¥ 56.0	60.0%
FICC	126.0	81.0	-35.7%
Total	¥161.0	¥137.0	-14.9%

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

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

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

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

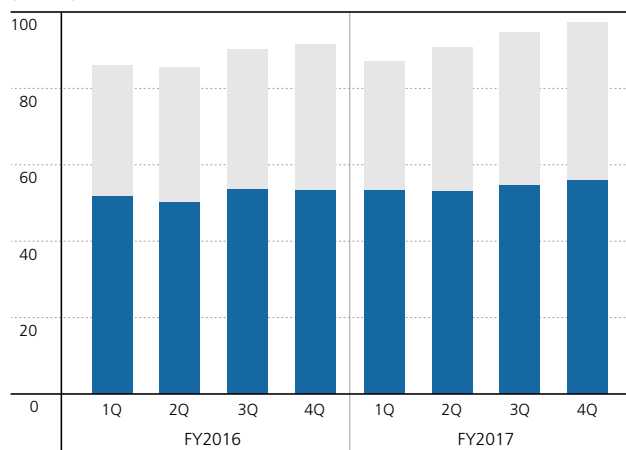
After posting such items as gains in sales of investment securities, extraordinary gains came to ¥10.2 billion, down from ¥17.3 billion in the previous fiscal year. Extraordinary losses totaled ¥12.0 billion, down from ¥13.9 billion in FY2016. These losses included a provision for loss on litigation.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

### Breakdown of SG&A and Income

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

## Cost Structure

(¥ billion)



■ Fixed costs ■ Variable costs

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

## Segment Information

### Retail Division

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

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

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

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

### Wholesale Division

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

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

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

### Asset Management Division

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

## Investment Division

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

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

## Others

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

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

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

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

## Segment Information

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

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

## Overseas Operations

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

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

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

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

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

### Ordinary Income from Overseas Operations, Broken Down by Region

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

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

### Progress in Achieving Target Management Indicators

Daiwa Securities Group identified ROE and the fixed cost coverage ratio as two key numerical targets under its Medium-Term Management Plan "Passion for the Best" 2017, which covered the three-year period from FY2015 to FY2017. The fixed cost coverage ratio is a proprietary indicator that measures the degree to which stable revenues cover such fixed costs as personnel and real estate expenses included in SG&A expenses. Stable

revenues comprise a variety of items including agency fees and asset management fees for investment trusts as well as investment advisory and account management fees for SMA/Fund Wrap management. In FY2017, ROE edged up 0.4 of a percentage point compared with the previous fiscal year, to 8.8%. The fixed cost coverage ratio came in at 68.5%. Despite falling short of the three-year Plan's final fiscal year numerical targets of ROE of 10% or higher and a fixed cost coverage ratio of 75% or higher in FY2017, successful steps have been taken to establish a robust business structure that is resilient to the external environment and to put in place a platform for future growth.

### Analysis of Consolidated Balance Sheets and Cash Flow Statements

#### Assets

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

#### Liabilities and Net Assets

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

of ¥259.0 billion, or 10.5%, compared with the end of FY2016. Specifically, bonds expanded by ¥96.0 billion, or 7.9%, compared with the end of the previous fiscal year, to ¥1,315.3 billion and long-term debt rose by ¥148.5 billion, or 12.6%, year on year, to ¥1,327.7 billion.

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

### **Analysis of Cash Flows**

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

## **Liquidity**

### **Maintaining Financial Efficiency and Stability**

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

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

To ensure financial stability and business continuity, even in the case of sudden changes in the business environment, the Group takes care to maintain an ample reserve of liquidity at all times. Particularly in light of the global financial uncertainty and credit concerns of recent years, the Group has endeavored to maintain ample liquidity on hand by obtaining funds from the market and by borrowing from financial institutions. Furthermore, the Group strives to diversify the maturities and sources of its borrowing, to limit the difficulties it might face should market turmoil prevent it from raising new capital or refinancing existing debt.

The Group is required to observe the minimum consolidated liquidity coverage ratio (LCR) standard (progressively introduced from March 31, 2015) stipulated under Financial Services Agency Public Notice 61 of 2014. The Group's daily average LCR in the fourth quarter of the fiscal year under review was 146.6%, which conforms to the requirements of the aforementioned Financial Services Agency Public Notice. In addition to this requirement, the Group has put in place a liquidity management system that employs a proprietary liquidity management index. Under this system, the Group performs daily checks to ascertain that the liquidity portfolios in place are sufficient to cover the repayment of unsecured short-term funds due within a certain time period as well as the estimated outflow of funds under stress in an appropriate time frame—here a number of stress scenarios are adopted. Also, if stressful conditions are expected to continue for a long period of one year or more, in order to maintain its asset holdings, the Group measures and monitors long-term fundraising conditions so that the Group can continue its business operations even when it becomes impossible to procure funds without collateral for a whole year.

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

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

### Group-Wide Capital Management

Daiwa Securities Group maintains the basic policy of ensuring adequate liquidity. Guided by this policy, Daiwa Securities Group Inc., the holding company of the Group, takes steps to manage and monitor the liquidity of capital on an integrated basis. Assuming that there may be difficulties in procuring new capital or replacing existing capital during periods of both inherent and market stress, the Company carefully monitors the adequacy of its liquidity portfolio in connection with short-term unsecured capital procurement. In addition, the Company expeditiously distributes and provides capital to Group companies as and when required while at the same time promoting the efficient and integrated procurement and management of capital by putting in place a structure that is capable of accommodating requirements within the Group.

### Contingency Funding Plan

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

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

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

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

### Credit Ratings by Major Credit Ratings Agencies

Daiwa Securities Group Inc. and Daiwa Securities Co. Ltd. have been assigned long-term and short-term credit ratings by major credit ratings agencies. These ratings take into account the impact of multiple factors on the Group's creditworthiness. Factors considered by the ratings agencies include current macroeconomic conditions, the business environment of the securities markets, management strategy, Group management structure, the competitive position of the Group within the market, profitability, profit volatility, cost structure elasticity, risk management structure, liquidity conditions, capital policy, adequacy of capital, corporate governance, and other issues.

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

#### Daiwa Securities Group Inc.

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

#### Daiwa Securities

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

# Consolidated Balance Sheets

DAIWA SECURITIES GROUP INC.  
March 31, 2018 and 2017

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

See accompanying notes.



LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
<b>Debt:</b>			
Short-term borrowings (Notes 5, 9 and 12)	¥ 983,471	¥ 811,451	\$ 9,278,028
Commercial paper (Note 5)	105,000	—	990,566
Long-term debt (Notes 5, 9 and 12)	3,015,808	2,787,968	28,451,019
	<b>4,104,279</b>	<b>3,599,419</b>	<b>38,719,613</b>
<b>Payables:</b>			
Payables to customers and counterparties (Notes 5 and 11)	660,251	677,254	6,228,783
Payables related to margin transactions (Notes 3, 5 and 9)	71,345	62,377	673,066
Deposits for banking business (Note 5)	3,388,444	2,985,734	31,966,453
Other (Note 5)	49,297	51,325	465,065
	<b>4,169,337</b>	<b>3,776,690</b>	<b>39,333,367</b>
<b>Collateralized short-term financing agreements</b> (Notes 4, 5 and 22)	<b>5,775,898</b>	<b>6,018,813</b>	<b>54,489,604</b>
<b>Trading liabilities</b> (Notes 5 and 6)	<b>5,030,818</b>	<b>4,658,595</b>	<b>47,460,547</b>
<b>Trade account payables, net</b> (Note 5)	<b>407,184</b>	<b>216,837</b>	<b>3,841,358</b>
<b>Accrued and other liabilities:</b>			
Income taxes payable	9,212	15,084	86,906
Deferred tax liabilities (Note 14)	15,905	12,025	150,047
Accrued bonuses	34,862	30,873	328,887
Retirement benefits (Note 13)	42,425	40,434	400,236
Other (Note 22)	177,357	111,164	1,673,178
	<b>279,761</b>	<b>209,580</b>	<b>2,639,254</b>
<b>Statutory reserves</b> (Note 15)	<b>3,946</b>	<b>3,930</b>	<b>37,226</b>
Total liabilities	<b>19,771,223</b>	<b>18,483,864</b>	<b>186,520,969</b>
<b>Contingent liabilities</b> (Note 16)			
<b>Net assets:</b>			
Owners' equity (Note 17)			
Common stock, no par value;			
Authorized—4,000,000 thousand shares			
Issued—1,699,379 thousand shares	247,397	247,397	2,333,934
Capital surplus	230,714	230,712	2,176,547
Retained earnings	785,731	718,239	7,412,557
Treasury stock at cost	(54,310)	(12,719)	(512,358)
Deposit for subscriptions to treasury stock	4	7	38
	<b>1,209,536</b>	<b>1,183,636</b>	<b>11,410,718</b>
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	61,177	59,923	577,142
Deferred gains or losses on hedges	(130)	435	(1,226)
Translation adjustment	2,550	6,896	24,057
	<b>63,597</b>	<b>67,254</b>	<b>599,973</b>
Stock subscription rights (Note 18)	8,791	8,729	82,934
Non-controlling interests	88,597	83,813	835,821
Total net assets	<b>1,370,521</b>	<b>1,343,432</b>	<b>12,929,446</b>
	<b>¥21,141,744</b>	<b>¥19,827,296</b>	<b>\$199,450,415</b>

See accompanying notes.

# Consolidated Statements of Income

DAIWA SECURITIES GROUP INC.

Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
<b>Operating revenues:</b>			
Commissions	¥313,626	¥273,335	\$2,958,736
Net gain on trading (Note 24)	109,006	128,121	1,028,358
Net gain on private equity and other investments	26,912	14,846	253,887
Interest and dividend income (Note 22)	190,444	143,242	1,796,642
Service fees and other revenues	72,613	56,953	685,028
	<b>712,601</b>	616,497	<b>6,722,651</b>
<b>Interest expense</b> (Note 22)	<b>148,348</b>	98,725	<b>1,399,509</b>
<b>Cost of service fees and other revenues</b>	<b>58,902</b>	45,022	<b>555,679</b>
<b>Net operating revenues</b> (Note 21)	<b>505,351</b>	472,750	<b>4,767,463</b>
<b>Selling, general and administrative expenses</b> (Notes 13 and 25)	<b>370,293</b>	353,688	<b>3,493,330</b>
<b>Operating income</b>	<b>135,058</b>	119,062	<b>1,274,133</b>
<b>Other income (expenses):</b>			
Provision for statutory reserves, net (Note 15)	(16)	29	(151)
Other, net (Note 26)	18,822	19,913	177,566
	<b>18,806</b>	19,942	<b>177,415</b>
<b>Income before income taxes</b>	<b>153,864</b>	139,004	<b>1,451,548</b>
<b>Income taxes</b> (Note 14):			
Current	34,694	39,977	327,302
Deferred	3,848	(5,251)	36,302
	<b>38,542</b>	34,726	<b>363,604</b>
<b>Profit</b>	<b>115,322</b>	104,278	<b>1,087,944</b>
<b>Profit attributable to non-controlling interests</b>	<b>4,742</b>	211	<b>44,736</b>
<b>Profit attributable to owners of parent</b>	<b>¥110,580</b>	¥104,067	<b>\$1,043,208</b>
		Yen	U.S. dollars (Note 1)
<b>Per share amounts:</b>			
Net income	¥66.88	¥61.53	\$0.63
Diluted net income	66.45	61.14	0.63
Cash dividends applicable to the year	28.00	26.00	0.26

See accompanying notes.

# Consolidated Statements of Comprehensive Income

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

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

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

See accompanying notes.

# Consolidated Statements of Changes in Net Assets

DAIWA SECURITIES GROUP INC.

Years ended March 31, 2018 and 2017

	Millions of yen										
	Number of shares of common stock (thousands)	Owners' equity					Accumulated other comprehensive income				
		Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Deposit for subscriptions to treasury stock	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Translation adjustment	Stock subscription rights	Non-controlling interests
<b>Balance at April 1, 2016</b>	1,749,379	¥247,397	¥231,889	¥683,940	¥(29,971)	¥ 2	¥ 98,484	¥(32,993)	¥ 21,083	¥8,959	¥84,215
Cash dividends paid				(42,326)							
Profit attributable to owners of parent				104,067							
Purchase of treasury shares					(13,086)						
Disposal of treasury shares			(186)		1,610						
Retirement of treasury shares	(50,000)		(990)	(27,738)	28,728						
Change of scope of consolidation				296							
Other			(1)			5					
Net changes of items other than owners' equity							(38,561)	33,428	(14,187)	(230)	(402)
<b>Balance at March 31, 2017</b>	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
<b>Balance at March 31, 2018</b>	<b>1,699,379</b>	<b>¥247,397</b>	<b>¥230,714</b>	<b>¥785,731</b>	<b>¥(54,310)</b>	<b>¥ 4</b>	<b>¥ 61,177</b>	<b>¥ (130)</b>	<b>¥ 2,550</b>	<b>¥8,791</b>	<b>¥88,597</b>

	Thousands of U.S. dollars (Note 1)										
		Owners' equity					Accumulated other comprehensive income				
		Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Deposit for subscriptions to treasury stock	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Translation adjustment	Stock subscription rights	Non-controlling interests
<b>Balance at April 1, 2017</b>	\$2,333,934	\$2,176,528	\$6,775,840	\$(119,991)	\$ 66	\$565,311	\$ 4,104	\$ 65,057	\$82,349	\$790,689	
Cash dividends paid			(410,377)								
Profit attributable to owners of parent			1,043,208								
Purchase of treasury shares				(406,877)							
Disposal of treasury shares			(1,264)	14,510							
Retirement of treasury shares											
Change of scope of consolidation				5,150							
Other			19		(28)						
Net changes of items other than owners' equity							11,831	(5,330)	(41,000)	585	45,132
<b>Balance at March 31, 2018</b>	<b>\$2,333,934</b>	<b>\$2,176,547</b>	<b>\$7,412,557</b>	<b>\$(512,358)</b>	<b>\$ 38</b>	<b>\$577,142</b>	<b>\$(1,226)</b>	<b>\$ 24,057</b>	<b>\$82,934</b>	<b>\$835,821</b>	

See accompanying notes.

# Consolidated Statements of Cash Flows

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

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

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

See accompanying notes.

# Notes to Consolidated Financial Statements

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

## 1. Basis of financial statements

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

- Daiwa Securities Co. Ltd. (“Daiwa Securities”)
- Daiwa Asset Management Co. Ltd. (“DAM”)
- Daiwa Institute of Research Holdings Ltd.
- Daiwa Corporate Investment Co., Ltd.
- Daiwa Next Bank, Ltd.

Daiwa Securities operates a retail and a wholesale businesses in Japan. The retail business operates through a network of 154 branches and sales offices as well as non-face-to-face channels, including the Internet and a full-fledged call center to provide online and telephone-based securities-related services. The wholesale business is operated as an encompassing global capital markets business and global investment banking business in good alliance with fellow overseas subsidiaries. DAM is an asset management company of Daiwa, and offers an extensive range of asset trust products.

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

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

## 2. Significant accounting policies

**Consolidation**—The consolidated financial statements include the accounts of the Company and entities which are controlled by the Company, directly or indirectly. Control exists generally when Daiwa holds more than 50% of the voting rights of the entity. Also, control is regarded to exist when Daiwa holds 40% or more of the voting rights of the entity and there are certain facts and circumstances which indicate that Daiwa controls the decision-making body of the entity. Investee entities which meet the conditions of “Guidance on Determining a Subsidiary and an Affiliate” (Accounting Standards Board of Japan (“ASBJ”) Guidance No. 22) are excluded from the consolidation. When more than 50% of the voting rights of the investee entity is held for the purpose of

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

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

The translations of the yen amounts into U.S. dollars are presented solely for the convenience of the readers, using the exchange rate as of March 31, 2018, which was ¥106 to U.S.\$1. The convenience translations should not be construed as representations that the yen amounts have been, could have been, or could be, converted into U.S. dollars at this or any other rate of exchange.

principal investment or venture capital investment businesses where the objective of Daiwa in having control of the investee entity is merely to seek capital gain opportunities, and therefore Daiwa does not intend to operate its business with the investee as a part of the group.

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

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

Goodwill is amortized under the straight-line method within 20 years. If the amount is not material, it will be fully amortized at the date of recognition.

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

**Statements of cash flows**—The Company defines cash equivalents as high liquid investments with original maturities of up to three months.

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

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

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

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

Impairment is assessed for investments including private equity holdings. For marketable securities, if the year-end market value declines 30% or more but less than 50% from the carrying value for individual securities, an impairment loss is recognized if there is no objective evidence of recoverability in value. Recoverability is assessed based on whether the decline is temporary by considering the movements of the market price over the last 12 months and the financial conditions of the issuer. If the year-end market value declines 50% or more from the carrying value, then an impairment loss is recognized immediately. For non-marketable equity investments, Daiwa generally compares the carrying amount and the net asset value of the issuing company attributable to Daiwa's holding share, and recognizes an impairment loss if the net asset value attributable to Daiwa's holding share is significantly lower than the carrying value and such decline is considered other than temporary. For non-marketable investments in “Private equity and other investments” in the accompanying consolidated financial statements, Daiwa reviews the financial conditions of the issuers and provides for allowance for possible investment losses, if necessary.

**Derivatives used for non-trading purposes**—Daiwa records derivative financial instruments at fair value except for certain cases as described below, and recognizes changes in the fair value as gains or losses unless the derivative financial instruments are used for hedging purposes. Valuation gains or losses on hedging instruments are deferred in a separate component within the net assets until the gains or losses on the underlying hedged instruments are realized. Plain vanilla hedging interest swap agreements satisfying the required conditions under Japanese GAAP are not required to be marked-to-market. Interest received or paid on such exempt



interest rate swap agreements for hedging purposes are accrued without being marked-to-market under special treatment. Also, certain forward foreign exchange contracts are exempted from marked-to-market valuation. The premium or discount on such exempt forward foreign exchange contracts used for hedging purposes is allocated to each fiscal term without being marked-to-market under special treatment.

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

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

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

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

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

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

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

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

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

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

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

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

**Translation of foreign currencies—**The Company and its domestic consolidated subsidiaries translate assets and liabilities in foreign currencies into yen at the year-end exchange rate, and translate income and expenses in foreign

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

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

#### Unapplied accounting standard

- Accounting Standard for Revenue Recognition (ASBJ

Statement No. 29 issued on March 30, 2018)

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

#### (a) Overview

It is a comprehensive accounting standard for revenue recognition. Revenue should be recognized by applying following five steps.

Step 1: Identify the contract with a customer.

Step 2: Identify the performance obligations under the contract.

Step 3: Determine the transaction price.

Step 4: Allocate transaction price to the performance obligations under the contract.

Step 5: Recognize revenue when performance obligations are satisfied or as fulfilled.

#### (b) Application date

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

#### (c) Impact of application

The impact is under evaluation as of the filing date of securities report.

### 3. Margin transactions

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

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

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

#### 4. Collateralized short-term financing agreements

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

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

#### 5. Financial instruments

##### 1. Concerning the situation of financial instruments

###### (1) Policy for dealing with financial instruments

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

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

Daiwa appropriately manages the variety of risks incurred by holding financial assets and liabilities with an intent to maintain sound finances.

###### (2) Contents and risk of financial instruments

Daiwa holds financial instruments in the trading business as follows: (a) trading securities and others (stocks and warrants, bonds and investment trusts), loans secured by securities and loans payable secured by securities, margin transaction assets and liabilities, (b) derivatives, traded on exchanges, such as

stock index futures, bond futures, interest rate futures and options for those, (c) derivatives (OTC derivatives), not traded on exchanges, such as interest rate and foreign exchange swaps, forward foreign exchange contracts, currency options, bond options, FRA and OTC securities derivatives, etc. And Daiwa holds operational investment securities, etc. in the investments business, loans and securities, etc. in the banking business, and investment securities for the business relationship, etc.

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

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

Daiwa is raising its capital utilizing corporate bonds, medium-term notes, borrowing from financial institutions, deposits, etc., as well as holding its financial instruments, and

is exposed to liquidity risk. Liquidity risk indicates the risk of suffering losses such that cash management may be impossible and remarkably higher financing costs than usual may be requested as a result of an abrupt change of market environment or unexpected credit crunch of Daiwa, etc.

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

### (3) Risk management system concerning financial instruments

At the meeting of the Board of Directors, Daiwa has resolved the "Risk Management Rule," which states the basic policy of risk management, types of risks that should be managed and responsible executive officers and department for each major risk and conducted risk management of the entire Group based on risk appetite framework. In addition, the Company set the guidelines related to "three lines of defense" to build the risk governance.

Each subsidiary conducts risk management suitable for each business profile and size in accordance with the basic policy of risk management. And the Company monitors the structure and process of subsidiaries' risk management. Also, the Group Risk Management Committee as a sub-committee of the Executive Committee of the Company receives reports on matters such as risk exposure obtained by monitoring of subsidiaries and issues concerning the risk management system of each subsidiary and discusses them. Major subsidiaries regularly hold risk management committee meetings, etc., and strengthen each risk management system.

#### (i) Management of risk of financial instruments held for trading purpose

##### (a) Management of market risk

Daiwa manages its trading business by establishing the limit for VaR which indicates the estimate of the maximum loss amount under a certain probability, position and sensibility etc., considering the financial situation, the business plan and budget of each division. The risk management department of the Company monitors the

market risk of Daiwa and informs the management of the Company on a daily basis. In order to cover the capacity limit of VaR calculated by the statistical hypothesis based on the data obtained for a certain period, the Company applies the stress test with a scenario assuming the impact of an abrupt change in the market and the hypothetical stress events.

#### (Quantitative information concerning market risk)

Major subsidiaries engaged in securities business utilize the historical simulation method (holding period: 1 day, confidence interval: 99%, observation period: 520 business days) to calculate VaR of trading financial investments. Total VaR as of March 31, 2018 (fiscal year-end) was ¥1.1 billion (\$10.4 million). In the meantime, Daiwa executes backtesting which compares calculated VaR and the actual profit/loss to verify its effectiveness. However the VaR statistically figures the risk based on historical market fluctuation and may be sometimes unable to completely capture the risk in the environment that the market unexpectedly changes beyond the estimation.

#### (b) Management of credit risk

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

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

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

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

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

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

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

(Quantitative information concerning market risk)

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

The main financial assets that are influenced by market risk are "operational investment securities" in the investment business and investment securities for the business relationship. As of March 31, 2018, fair value of the listed equities in "operational investment securities" and "investment securities" would fluctuate by ¥15.1 billion (\$142.5 million) if the indices, such as TOPIX, were to change by 10%.

Also, the main financial liabilities in Daiwa that are influenced by market risk are "bonds and notes" and "long-term debt." As of March 31, 2018, if all other risk variables were assumed to be unchanged and the interest rate supposed to be changed by 10 basis points (0.1%), the fair value of "bonds and notes" and "long-term debt" would fluctuate by ¥2.3 billion (\$21.7 million) and ¥0.3 billion (\$2.8 million), respectively.

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

The subsidiary that engages in the banking business utilizes VaR in managing market risk (i.e. the risk of loss caused by changes in fluctuation of value of assets and liabilities (including off-balance liabilities) due to fluctuation of interest, exchange stocks and other risk factors in the

market and the risk of loss which caused by changes in income from assets and liabilities).

When measuring VaR, the subsidiary adopts the historical simulation method (confidence interval: 99%, observation period: 750 business days). In the case of financial instruments held for trading purpose, we convert the number calculated by 1 day holding period to 10 days holding period, and in the case of financial instruments held for other than trading purpose, we convert the number calculated by 20 days holding period to 125 days holding period. The numbers as of March 31, 2018, are ¥0.2 billion (\$1.9 million) and ¥6.5 billion (\$61.3 million), respectively.

The subsidiary periodically does the backtesting of the VaR calculated by risk measuring model and the virtual profits and losses in order to verify the effectiveness of the model. By the backtesting in fiscal year 2017, we estimate that our risk measurement model appropriately captures the market risk. However, the VaR statistically estimates the risk based on historical market fluctuation and may be sometimes unable to completely capture the risk in an environment in which the market unexpectedly changes beyond the estimation.

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

(iii) Management of liquidity

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

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

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

In addition to the regulation of Daiwa's consolidated

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

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

Daiwa has also established a contingency funding plan

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

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

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

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

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

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

## 2. Fair values of financial instruments

The figures stated on the consolidated balance sheets as of March 31, 2018 and 2017, fair value and the difference of those are as below. Any item for which it is extremely difficult to obtain its fair value is not included in the table below (see Note 2).

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

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

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

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

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

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

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

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



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

(5) Receivables related to margin transactions and (14) Payables related to margin transactions

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

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

(6), (16) Collateralized short-term financing agreements

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

(7) Trading assets and (17) Trading liabilities

(a) Trading securities and others

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

(b) Derivative transactions

Derivatives traded at exchange	mainly liquidation price at the exchange or basic price for calculation margin
Interest rate swaps	prices calculated by price valuation models generally acknowledged at the market or the model expanding those, based on expected cash flow calculated from yield curve, price and coupon rate of underlying bond, interest rates, discount rates, volatility, correlation, etc.

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

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

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

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

(9) Short-term borrowings and (10) Commercial paper

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

(11) Long-term debt

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

On the other hand, concerning fair values of bonds and notes whose maturities are longer than one year, if market prices (trading price statistics, etc.) are available in the market, fair values are calculated based on the market prices. If the market prices are not available, fair values are calculated from book values which are adjusted with consideration of interest

rate fluctuations from the issuances and changes of credit spread of the Company. The credit spread of the Company is referred to the interest rate of the latest issuance or market prices of similar bonds issued by the Company, etc.

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

(12) Deposits for banking business

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

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

The discount rate is calculated by yield curve which includes credit spread of Daiwa.

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

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

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

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

(18) Trade account payables, net

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

(Note 2) Any financial product for which it is extremely difficult to obtain a fair value at March 31, 2018 and 2017 is as below and is not included in the “Assets (8)(c) Subsidiaries companies’ stocks and related companies’ stocks and (d) Available-for-sale securities” of fair value information of financial instruments.

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

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

(Note 3) Scheduled redemption amount of financial receivables and securities with a maturity date after March 31, 2018

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

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

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

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

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

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

(Note 4) Scheduled redemption amount of payable to securities finance companies, deposits for banking business, commercial paper and long-term debts after March 31, 2018

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

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

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

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

	Thousands of U.S. dollars			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Payable to securities finance companies	\$ 28,377	\$ —	\$ —	\$ —
Deposits for banking business	31,673,113	293,340	—	—
Commercial paper	990,566	—	—	—
Long-term debts	3,496,661	13,946,698	7,456,264	3,551,396
<b>Total</b>	<b>\$36,188,717</b>	<b>\$14,240,038</b>	<b>\$7,456,264</b>	<b>\$3,551,396</b>

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

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

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

## 6. Trading assets and trading liabilities

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

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

\* Government, corporate and other bonds include convertible bonds.

## 7. Securities other than trading assets

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

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

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

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

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

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

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

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

	Millions of yen		
	Cost	Fair value	Difference
<b>March 31, 2018:</b>			
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
	<b>¥996,311</b>	<b>¥1,079,945</b>	<b>¥83,634</b>

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

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

## 8. Derivatives used for non-trading purposes

### A. Derivatives to which hedge accounting is not applied

Contract amount, fair value and net unrealized gains (losses) of these derivatives at March 31, 2018 and 2017 are as follows:

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

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

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

### B. Derivatives to which hedge accounting is applied

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

				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	

				Millions of yen	
Hedging instrument	Hedge accounting treatment	Main hedged item	Contract amount	Fair value	
Interest swap	Fundamental method	Debt and government bond	¥1,276,179	¥17,062	
	Special treatment	Debt and government bond	—	—	
Currency swap	Allocation method	Debt	31,413	(1,894)	
	Fundamental method	Foreign currency loans and securities	197,692	915	
Interest and currency swap	Integration of special treatment and allocation method	Corporate bond	13,463	2,877	

**March 31, 2018**

Thousands of U.S. dollars

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

**9. Pledged assets**

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

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

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

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

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

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

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

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

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

## 10. Lease transactions

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

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

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

## 11. Payables to customers and counterparties

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

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

## 12. Long-term debt

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

Such request has never been made and such right has never been exercised.

The weighted average interest rate on total outstanding short-term borrowings principally from banks at March 31, 2018 and 2017 was 0.17% and 0.11%, respectively.

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

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



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

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

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

borrowings principally from banks at March 31, 2018 and 2017 was 0.39% and 0.32%, respectively. The weighted average interest rate on total outstanding lease obligations at March 31, 2018 was 1.05%.

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

### 13. Retirement benefits

#### Retirement benefits for employees

##### (1) Defined benefit plans

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

Movement in retirement benefit obligations consisted of the following:

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

## (2) Defined Contribution plan

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

### Retirement benefits for directors

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

## 14. Income taxes

The Company and its domestic consolidated subsidiaries are subject to a number of taxes levied on income. The effective statutory tax rate in Japan was approximately 30.9% for the years ended March 31, 2018 and 2017, respectively. Overseas consolidated subsidiaries are subject to income taxes of the countries in which they operate.

A reconciliation of the difference between the Japanese statutory income tax rate and the effective income tax rate reflected in the consolidated statements of income for the years ended March 31, 2018 and 2017 are as follows:

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

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

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

The Company and certain consolidated subsidiaries provided valuation allowance to reflect the estimated unrealized amount of gross deferred tax assets. The valuation allowance was provided mainly against deferred tax assets for tax loss carry-forwards. In assessing the realizability of deferred tax assets, management considers, as part of its scheduling

exercise, factors such as expected taxable income, reversal of temporary differences and utilization of tax loss carry-forwards, and determines whether it is more likely than not that the assets are not realizable in which case the valuation allowance is provided.

## 15. Statutory reserves

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

## 16. Contingent liabilities

Daiwa had contingent liabilities amounting to ¥90 million (\$849 thousand) and ¥136 million at March 31, 2018 and 2017, respectively, mainly arising as guarantors of employees' borrowings.

## 17. Owners' equity

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

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

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

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Act. The total amount of retained earnings available for dividends in the Company's statutory book of accounts as of March 31, 2018 amounted to ¥347,449 million (\$3,277,821 thousand).

Under Article 459-1 of the Act, the articles of incorporation of the Company stipulate that the Board of Directors is to determine dividends. Cash dividends of ¥15 (\$0.13) per share amounting to ¥24,279 million (\$216,777 thousand) and ¥13 (\$0.12) per share amounting to ¥21,696 million (\$193,714 thousand) were approved by the Board of Directors on May 17, 2018 and October 25, 2017, respectively.

## 18. Share-based payment

Daiwa has various stock option plans.

The shareholders of the Company on June 24, 2005, June 24, 2006, June 23, 2007, June 21, 2008, June 20, 2009, June 26, 2010, June 25, 2011, June 27, 2012, June 26, 2013, June 26, 2014, June 25, 2015, June 28, 2016 and June 28, 2017 approved granting stock options. These options are categorized into two types depending on the scope of the individual persons covered by the plans and exercise conditions. The first is the stock subscription rights that were issued free to directors and executive officers of the Company, its subsidiaries and its

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

The date of approval at the shareholders' meeting, the balance of the exercisable options, exercise price and exercise period for the stock options of the Company at March 31, 2018 are as follows:

Date of approval at the shareholders' meeting	Balance of the exercisable options (The number of shares)	Exercise price (Yen/share (U.S. dollars/share))		Exercise period
June 24, 2005	205,000	¥ 1	(\$ 0.01)	from July 1, 2005 to June 30, 2025
June 24, 2006	134,000	¥ 1	(\$ 0.01)	from July 1, 2006 to June 30, 2026
June 23, 2007	174,000	¥ 1	(\$ 0.01)	from July 1, 2007 to June 30, 2027
June 21, 2008	220,000	¥ 1	(\$ 0.01)	from July 1, 2008 to June 30, 2028
	2,581,000	¥ 881	(\$ 8.31)	from July 1, 2013 to June 20, 2018
June 20, 2009	488,000	¥ 1	(\$ 0.01)	from July 1, 2009 to June 30, 2029
	1,642,000	¥ 496	(\$ 4.68)	from July 1, 2014 to June 19, 2019
June 26, 2010	884,000	¥ 1	(\$ 0.01)	from July 1, 2010 to June 30, 2030
	2,929,000	¥ 380	(\$ 3.58)	from July 1, 2015 to June 25, 2020
June 25, 2011	1,092,000	¥ 1	(\$ 0.01)	from July 1, 2011 to June 30, 2031
	2,757,000	¥ 326	(\$ 3.08)	from July 1, 2016 to June 24, 2021
June 27, 2012	784,000	¥ 1	(\$ 0.01)	from February 12, 2013 to June 30, 2032
	5,170,000	¥ 598	(\$ 5.64)	from July 1, 2017 to June 26, 2022
June 26, 2013	385,000	¥ 1	(\$ 0.01)	from February 10, 2014 to June 30, 2033
	—	¥1,062	(\$10.02)	from July 1, 2018 to June 25, 2023
June 26, 2014	452,000	¥ 1	(\$ 0.01)	from February 9, 2015 to June 30, 2034
	—	¥ 931	(\$ 8.78)	from July 1, 2019 to June 25, 2024
June 25, 2015	578,000	¥ 1	(\$ 0.01)	from February 16, 2016 to June 30, 2035
	—	¥ 733	(\$ 6.92)	from July 1, 2020 to June 24, 2025
June 28, 2016	571,000	¥ 1	(\$ 0.01)	from February 8, 2017 to June 30, 2036
	—	¥ 767	(\$ 7.24)	from July 1, 2021 to June 27, 2026
June 28, 2017	599,000	¥ 1	(\$ 0.01)	from February 8, 2018 to June 30, 2037
	—	¥ 815	(\$ 7.69)	from July 1, 2022 to June 27, 2027

## 19. Investment and rental properties

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

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

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

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

## 20. Capital adequacy requirements

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

Daiwa also announced that it has calculated the consolidated capital adequacy ratio as of March 31, 2018 in accordance with the principal stipulated in Notification 130 Pursuant to Article 57-17-1 of the Financial Instruments and Exchange Act issued by the Japanese Financial Service Agency (i.e., in Basel III method). The consolidated capital adequacy ratio as of March 31, 2018 was 22.28% (unaudited).

## 21. Segment information

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

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

(Net operating revenues by reportable segment)

	Millions of yen						
	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Total
<b>Year ended March 31, 2018:</b>							
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
<b>Total</b>	<b>¥214,248</b>	<b>¥171,193</b>	<b>¥ 49,391</b>	<b>¥27,401</b>	<b>¥462,233</b>	<b>¥41,117</b>	<b>¥503,350</b>

	Millions of yen						
	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Total
Year ended March 31, 2017:							
Net operating revenues:							
Sales to customers	¥162,227	¥182,187	¥ 69,771	¥16,341	¥430,526	¥20,258	¥450,784
Intersegment sales and transfers	25,825	689	(23,333)	(604)	2,577	16,829	19,406
<b>Total</b>	<b>¥188,052</b>	<b>¥182,876</b>	<b>¥ 46,438</b>	<b>¥15,737</b>	<b>¥433,103</b>	<b>¥37,087</b>	<b>¥470,190</b>

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

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

(Impairment losses on fixed assets by reportable segment)

	Millions of yen							
	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Corporate/ Elimination	Total
<b>Year ended March 31, 2018:</b>								
Loss on impairment	¥—	¥—	¥—	¥—	¥—	¥—	¥—	¥—

	Millions of yen							
	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Corporate/ Elimination	Total
Year ended March 31, 2017:								
Loss on impairment	¥—	¥430	¥—	¥—	¥430	¥—	¥—	¥430

	Thousands of U.S. dollars							
	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Corporate/ Elimination	Total
<b>Year ended March 31, 2018:</b>								
Loss on impairment	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—

## 22. Transactions with related parties

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

		Transaction details, amounts and balances			Millions of yen	
Name of related company	Paid-in Capital Millions of yen					2018
Tokyo Tanshi Co., Ltd.	¥10,300	Continual transactions of collateralized short-term financing agreements		Collateralized short-term financing agreements (liabilities)		<b>¥229,063</b>
				Collateralized short-term financing agreements (assets)	¥ 327	<b>726,303</b>
				Receivables—Other	800	<b>17</b>
				Accrued and other liabilities—Other	399	<b>71</b>
				Interest expense	1,162	
Millions of yen						
Name of related company	Paid-in Capital Millions of yen					2017
Tokyo Tanshi Co., Ltd.	¥ 10,300	Continual transactions of collateralized short-term financing agreements		Collateralized short-term financing agreements (liabilities)		¥590,439
				Collateralized short-term financing agreements (assets)	¥ 571	163,881
				Receivables—Other	1,428	51
				Accrued and other liabilities—Other	312	21
				Interest expense	1,006	

Thousands of U.S. dollars

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

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

### 23. Special purpose entities subject to disclosure

A consolidated subsidiary utilized seven special purpose entities for the year ended March 31, 2018 (six for the year ended March 31, 2017) principally for the securitization of structured notes in order to support securitization of monetary assets of customers. The consolidated subsidiary acquires and transfers bonds to those special purpose entities (incorporated in the Cayman Islands) and issues structured notes collateralized by

those bonds. The Company and the consolidated company do not own any shares with voting rights in any of these special purpose entities and have not dispatched any director or employee to them. Notes issued by those special purpose entities subject to disclosure as of the fiscal year ended March 31, 2018 and 2017 are ¥589,153 million (\$5,558,047 thousand) and ¥648,695 million, respectively.

### 24. Net gain on trading

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

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

### 25. Selling, general and administrative expenses

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

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

### 26. Other income (expenses)

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

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

### Impairment loss

(Fiscal year ended March 31, 2017)

Daiwa recognized the impairment losses for the following asset group.

	Condition	Location	Millions of yen	Thousands of U.S. dollars
			Impairment loss	Impairment loss
Assets to be held and used	Low profit-earning assets	Europe	¥430	\$3,839
Total			¥430	\$3,839

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

A decline of the profitability of these assets arose. The book values of certain assets were reduced to recoverable amounts and the amounts of the differences between the book value and recoverable amounts were recorded as an impairment loss of ¥430 million (\$3,839 thousand). All of the amounts occurred due to goodwill.

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

### Provision for loss on litigation

(Fiscal year ended March 31, 2017)

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

(Fiscal year ended March 31, 2018)

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

## 27. Subsequent events

None



# Independent Auditor's Report



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

We have audited the accompanying consolidated financial statements of Daiwa Securities Group Inc. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2018 and 2017, and the consolidated statements of income and comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

## Management's Responsibility for the Consolidated Financial Statements

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

## Auditor's Responsibility

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

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

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

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Daiwa Securities Group Inc. and its consolidated subsidiaries as at March 31, 2018 and 2017, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

## Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2018 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

*KPMG AZSA LLC*

June 28, 2018

Tokyo, Japan

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

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

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## Key Metrics (at consolidated group level)

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

## Composition of Capital Disclosure

Basel III template number	Items	Millions of yen, %	
		Group Consolidated Quarter-End	Exclusion under transitional arrangements
	Common Equity Tier 1 capital: Instruments and reserves	(1)	
1a+2-1c-26	Shareholders' equity	¥1,185,256	
1a	Common stock and capital surplus	478,111	
2	Retained earnings	785,730	
1c	Treasury stock (Δ)	54,306	
26	Planned distributions (Δ)	24,279	
	Others	—	
1b	Stock subscription rights	8,790	
3	Accumulated other comprehensive income (and other reserves)	63,597	¥—
5	Minority interest after adjustments	—	
	Common Equity Tier 1 capital under transitional Basel III rules	—	
	Minority interest	—	
6	Common Equity Tier 1 capital before regulatory adjustments	(a) 1,257,644	
	Common Equity Tier 1 capital: regulatory adjustments	(2)	
8+9	Intangible assets other than mortgage-servicing rights (net of related tax liability)	105,776	—
8	Goodwill (net of related tax liability)	11,170	—
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	94,605	—
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	580	—
11	Cash-flow hedge reserve	(127)	—
12	Shortfall of allowance to expected losses	—	—
13	Securitization gain on sale (as set out in paragraph 562 of Basel II framework)	—	—
14	Gains and losses due to changes in own credit risk on fair valued liabilities	—	—
15	Defined-benefit pension fund net assets	—	—
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	428	—
17	Reciprocal cross-holdings in common equity	—	—
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	4,629	—
19+20+21	Amount exceeding the 10% threshold	—	—
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	—	—
20	Mortgage servicing rights (amount above 10% threshold)	—	—
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	—	—
22	Amount exceeding the 15% threshold	—	—
23	of which: significant investments in the common stock of financials	—	—
24	of which: mortgage servicing rights	—	—
25	of which: deferred tax assets arising from temporary differences	—	—
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	4,016	
28	Total regulatory adjustments to Common equity Tier 1	(b) 115,303	
	Common Equity Tier 1 capital		
29	Common Equity Tier 1 capital (CET1) ((a) - (b))	(c) ¥1,142,340	

Basel III template number	Items	Millions of yen, %	
		Group Consolidated Quarter-End	Exclusion under transitional arrangements
Additional Tier 1 capital: instruments		(3)	
30	31a Shareholders' equity	¥	—
	31b Stock subscription rights		—
	32 Liabilities		—
	Instruments issued by Special Purpose Companies		—
34-35	Minority interest after adjustments		—
33+35	Tier 1 capital under Basel II included in Additional Tier 1 capital under transitional Basel III rules		—
33	Capital instruments issued by Daiwa Securities Group Inc. and its Special Purpose Companies		—
35	Capital instruments issued by consolidated subsidiaries and affiliates (excluding Special Purpose Companies of Daiwa Securities Group Inc.)		—
	Additional Tier 1 capital under transitional Basel III rules		—
	Foreign currency translation adjustment		—
36	Additional Tier 1 capital before regulatory adjustments	(d)	—
Additional Tier 1 capital: regulatory adjustments			
37	Investments in own Additional Tier 1 instruments		¥—
38	Reciprocal cross-holdings in Additional Tier 1 instruments		—
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)		769
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		—
	Regulatory adjustments of additional Tier 1 capital under transitional Basel III rules		—
	Goodwill (net of related tax liability)		—
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions		3,246
43	Total regulatory adjustments to Additional Tier 1 capital	(e)	4,016
Additional Tier 1 capital			
44	Additional Tier 1 capital ((d) - (e))	(f)	—
Tier 1 capital			
45	Tier 1 capital ((c) + (f))	(g)	1,142,340
Tier 2 capital: instruments and allowance		(4)	
46	Shareholders' equity		—
	Stock subscription rights		—
	Liabilities		—
	Capital instruments issued by Special Purpose Companies		—
48-49	Minority interest after adjustments		—
47+49	Tier 2 capital under Basel II included in Tier 2 capital under transitional Basel III rules		—
47	Capital instruments issued by Daiwa Securities Group Inc. and its Special Purpose Companies		—
49	Capital instruments issued by consolidated subsidiaries and affiliates (excluding Special Purpose Companies of Daiwa Securities Group Inc.)		—
50	General allowance included and eligible allowance in Tier 2 capital		—
50a	General allowance		—
50b	Eligible allowance		—
	Tier 2 capital under transitional Basel III rules		—
	Capital instruments		—
	Unrealized holding gain or loss on securities and cash flow hedge reserve		—
51	Tier 2 capital before regulatory adjustments	(h) ¥	—

Basel III template number	Items	Millions of yen, %	
		Group Consolidated Quarter-End	Exclusion under transitional arrangements
Tier 2 capital: regulatory adjustments			
52	Investments in own Tier 2 instruments	¥	—
53	Reciprocal cross-holdings in Tier 2 instruments		—
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)		3,246
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		—
	Tier 2 capital adjustments under transitional Basel III rules		—
	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		—
57	Total regulatory adjustments to Tier 2 capital	(i)	3,246
Tier 2 capital			
58	Tier 2 capital ((h) - (i))	(j)	—
Total capital			
59	Total capital ((g) + (j))	(k)	1,142,340
Risk weighted assets			
	Amount of risk weighted assets under transitional Basel III rules		—
	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)		—
	Intangible assets (other than goodwill)		—
	Deferred tax assets excluding assets arising from temporary differences (net of related tax liability)		—
60	Total risk weighted assets	(l)	5,125,879
Consolidated capital adequacy ratio			
61	Common Equity Tier 1 (as a percentage of risk weighted assets) ((c) / (l))		22.28%
62	Tier 1 (as a percentage of risk weighted assets) ((g) / (l))		22.28%
63	Total capital (as a percentage of risk weighted assets) ((k) / (l))		22.28%
Amounts below the thresholds for deduction (before risk weighting)			
72	Non-significant investments in the capital of other financials		115,098
73	Significant investments in the common stock of financials		33,651
74	Mortgage servicing rights (net of related tax liability)		—
75	Deferred tax assets arising from temporary differences (net of related tax liability)		12,283
Applicable caps on the inclusion of allowance in Tier 2			
76	Allowance eligible for inclusion in Tier 2 in respect of exposures subject to Standardized approach (prior to application of cap)		—
77	Cap on inclusion of allowance in Tier 2 under Standardized approach		—
78	Allowance eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)		—
79	Cap for inclusion of allowance in Tier 2 under internal ratings-based approach		—
Capital instruments subject to phase out arrangements			
82	Current cap on AT1 instruments subject to Phase out arrangements		—
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		—
84	Current cap on T2 instruments subject to Phase out arrangements		—
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		—

## Qualitative Disclosure (Consolidated)

### 1. Scope of consolidation

**A) Discrepancy and the reason in the scope of consolidation defined under consolidated financial statements reported and that for consolidated capital adequacy ratio calculation under the provision of Article 3 of the Consolidated Capital Adequacy Ratio Notification published by Japan FSA (hereunder the Notification).**

Not applicable.

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

Number of consolidated subsidiaries: 59 companies

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

**C) Number of affiliated companies engaged in financial activities, company names, total assets as well as net assets on balance sheets, and businesses of major affiliated companies that engaged in financial activities under the provision of Article 9 of the Notification**

No company is subject to proportionate consolidation methods.

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

Not applicable.

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

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

## 2. Overview of capital adequacy assessment methods

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

### <Economic Capital>

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

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

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

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

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

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

Based on the RAF, the Group’s board has established “Risk Management Rules” to define the basic policies of

### <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.

risk management, which target risk types, as well as the officer or department in charge of each major risk. The basic policies are clarified as the following items:

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

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

## 4. Credit risk

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

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

For counterparty credit risk, the Group assigns a credit limit to each counterparty group, and monitors regularly. Additionally, the Group measures the aggregated counterparty risk. The Group also monitors issuer risk related to the market instruments position held as a result of market making activities.

The Group conducts various activities including product offering, and asset management/investment, and

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

### B) Overview of accounting allowance and write-off standards

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



individually assessed amounts for doubtful and default loans.

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

amount is deducted from the amount of claims by deducting the expected disposal amount of collateral and the estimated recoverable amount due to guarantees. Based on the self-assessment criteria of assets, the sales department and credit examination department conducts assessments for all claims and assets.

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

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

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

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

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

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

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

For derivative and repo-style transactions, bilateral netting agreements are generally set. For transaction where a legally enforceable bilateral netting arrangement exists, the CRM techniques are applied. The Group uses the Comprehensive Approach for the CRM techniques.

Upon the time when its own credit rating is downgraded, additional collateral will be required. The Group carefully monitors the additional collateral amount and, accordingly, such amount falls into the allowable level.

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

### **7. Securitization exposures**

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

The Group is involved in securitization transactions generally as an investor, and, accordingly, holds securitization products under investment and trading

accounts. These securitization products include market risk, credit risk, as well as risks related to the assets, stratified/tranched structure and other. Outstanding exposures and credit soundness of securitization products are periodically monitored by independent risk control departments.

**B) Overview of monitoring framework of the regulation set forth under the provision of Article 227 Paragraph 4 (iii) - (vi) of the Notification**

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

**C) List of special purpose entities (hereunder SPEs) where the Group acts as sponsor, indicating whether the Group consolidates the SPEs into its scope of regulatory consolidation, and affiliated entities that the Group manages or advises and that invest either in the securitization exposures that the Group has securitized or in SPEs that the Group sponsors**

Not applicable.

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

Not applicable.

## 8. Market risk

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

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

**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 ECAs used for securitizations and the type of securitization exposures for which each agency is used**

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

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

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

Not applicable.

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

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

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

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

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

## 9. Operational risk

### A) Risk management policies and procedures

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

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

### B) Methods for the calculation of operational risk amount

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

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

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

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

exposures. These are subject to risk management in each classification.

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

## 11. Interest rate risk

### A) Overview of risk management policies and procedures

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

### B) Overview of the method for measuring interest rate risk

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

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

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

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

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

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

## Quantitative Disclosure (Consolidated)

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

Not applicable.

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

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

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

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

Millions of yen				
Type of allowances	Geographic area	March 2018	Changes	
General allowance		¥ —	¥ —	
Specific allowance	Japan	493	(12,885)	
	Overseas	205	37	
Allowance to specific foreign obligations		—	—	
Type of allowance	Industry	March 2018	Changes	
General allowance		¥ —	¥ —	
Specific allowance	Sovereign	—	—	
	Financial Institutions	—	—	
	Corporate	579	18	
	Individuals	—	—	
	Others	119	(12,866)	
Allowance to specific foreign obligations		—	—	

### C) Aging analysis of accounting past-due exposures

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

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

Not applicable.

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

	Millions of yen
	Exposures
Total	¥717,507

### 4. Other quantitative disclosures

#### OV1: Overview of RWA

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

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

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

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



Millions of yen

	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:				
			Subject to credit risk framework <sup>1</sup>	Subject to counterparty credit risk framework	Subject to the securitization framework <sup>2</sup>	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
21. Intangible assets		105,776	—	—	—	10,113	95,663
22. Goodwill		11,170	—	—	—	7,079	4,091
23. Others		94,605	—	—	—	3,034	91,571
24. Investments and other assets		424,278	424,355	—	—	53,601	—
25. Investment securities		367,196	367,196	—	—	25,414	—
26. Deferred tax assets		3,843	3,926	—	—	3,054	—
27. Others		53,239	53,232	—	—	25,133	—
28. Total noncurrent assets		654,245	424,355	—	—	67,122	216,445
29. Total deferred assets		—	—	—	—	—	—
30. Total assets		¥21,141,743	¥6,572,972	¥10,056,782	¥680,147	¥10,970,620	¥225,093

## Liabilities

31. Notes and accounts payable-trade	¥	7,065	¥	—	¥	—	¥—	¥	—	¥	7,065
32. Trading products		5,030,817	—	2,117,532	—	5,007,437	—	—	—	—	—
33. Trading date accrual		407,184	803	18,808	—	13,909	—	—	—	—	387,572
34. Margin transaction liabilities		71,344	—	71,344	—	—	—	—	—	—	—
35. Loans payable secured by securities		5,775,897	—	6,514,876	—	4,187,775	—	—	—	—	—
36. Deposits from banking business		3,388,444	—	—	—	300,540	—	—	—	3,087,904	—
37. Deposits received		256,858	—	—	—	43,673	—	—	—	213,185	—
38. Guarantee deposits received		420,039	—	—	—	3,293	—	—	—	416,746	—
39. Short-term loans payable		1,091,771	—	—	—	58,275	—	—	—	1,033,496	—
40. Commercial paper		105,000	—	—	—	—	—	—	—	105,000	—
41. Current portion of bonds		261,494	—	—	—	—	—	—	—	261,494	—
42. Income taxes payable		9,211	—	—	—	—	—	—	—	9,211	—
43. Deferred tax liabilities		1,099	—	—	—	—	—	—	—	1,099	—
44. Provision for bonuses		34,862	—	—	—	11,515	—	—	—	23,347	—
45. Other current liabilities		175,115	805	16,180	—	98,125	—	—	—	158,002	—
46. Bonds payable		1,315,349	—	—	—	42,187	—	—	—	1,273,162	—
47. Long-term loans payable		1,327,780	—	—	—	—	—	—	—	1,327,780	—
48. Deferred tax liabilities		14,805	—	—	—	—	—	—	—	14,805	—
49. Net defined benefit liabilities		41,758	—	—	—	—	—	—	—	41,758	—
50. Provision for loss on litigation		24,485	—	—	—	22,517	—	—	—	1,968	—
51. Negative goodwill		—	—	—	—	—	—	—	—	—	—
52. Other noncurrent liabilities		6,889	—	—	—	991	—	—	—	5,898	—
53. Reserves under the special laws		3,945	—	—	—	—	—	—	—	3,945	—
54. Total liabilities		¥19,771,223	¥1,608	¥8,738,742	¥—	¥9,790,238	¥8,373,447	—	—	—	—

1 Amount of "Subject to credit risk framework" excludes amounts of "Subject to counterparty credit risk framework" and "Subject to the securitization framework".

2 Amount of "Subject to the securitization framework" excludes amount of "Subject to the market risk framework".

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

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

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

2 Amount of "Subject to securitization framework" excludes amount of "Subject to market risk framework".

(Note) Differences are mainly due to the following:

- Exposure of derivatives in the trading book is included in both counterparty credit risk and market risk after netting under certain conditions.
- Exposure of SFT assets is computed after netting with SFT liabilities under certain conditions.
- Some off-balance sheet items are included in credit risk.

## CR1: Credit quality of assets

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

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

### CR3: Credit risk mitigation techniques—overview

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

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

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

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

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

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

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

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

### CCR2: Credit valuation adjustment (CVA) capital charge

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

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

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

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

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

### CCR5: Composition of collateral for CCR exposure

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

### CCR6: Credit derivatives exposures

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

### CCR8: Exposures to central counterparties

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

## SEC1: Securitization exposures in the banking book

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

Type of underlying assets	Millions of yen		
	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	—	—	—

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



## SEC2: Securitization exposures in the trading book

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

Type of underlying assets	Millions of yen		
	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	—	—	—

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

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

Not applicable.

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

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

	Millions of yen				
	Total exposures				
	Traditional securitization			Synthetic securitization	
	Of which re-securitization			Of which 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 IRB RBA (including IAA)	—	—	—	—	—
7 IRB SFA	—	—	—	—	—
8 SA/SSFA	—	—	—	—	—
9 1250%	—	—	—	—	—
RWA (by regulatory approach)					
10 IRB RBA (including IAA)	—	—	—	—	—
11 IRB SFA	—	—	—	—	—
12 SA/SSFA	—	—	—	—	—
13 1250%	—	—	—	—	—
Capital charge after cap					
14 IRB RBA (including IAA)	—	—	—	—	—
15 IRB SFA	—	—	—	—	—
16 SA/SSFA	—	—	—	—	—
17 1250%	—	—	—	—	—

Millions of yen

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

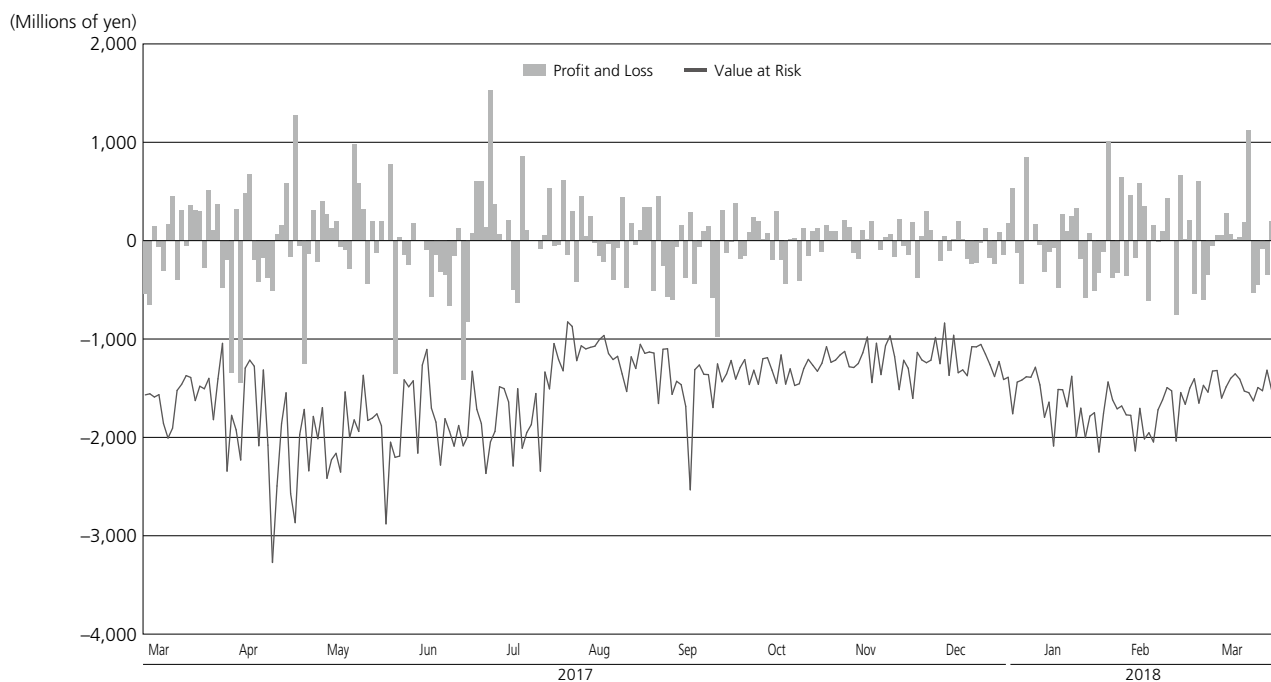
**MR1: Market risk under standardized approach**

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

**MR3: IMA values for trading portfolios**

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

#### MR4: Comparison of VaR estimates with gains/losses



#### IRRBB1: Quantitative information on IRRBB

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

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

## Consolidated Leverage Ratio

### 1. Composition of consolidated leverage ratio

			Millions of yen	
Basel III template number (2)	Basel III template number (1)	Items	March 2018	March 2017
On-balance sheet exposures			(1)	
1		On-balance sheet items before adjustments	¥11,659,677	¥11,334,368
1a	1	Total assets in the consolidated balance sheet	21,141,743	19,827,296
1b	2	Total assets held by group companies which are not included in the scope of the consolidated leverage ratio	—	—
1c	7	Total assets held by group companies which are included in the scope of the consolidated leverage ratio (except for the assets included in the total assets in the consolidated balance sheet)	—	—
1d	3	Assets other than the adjustments that are excluded from the total assets in the consolidated balance sheet	9,482,066	8,492,928
2	7	Common Equity Tier 1 capital: regulatory adjustments	115,303	101,137
3		Total on-balance sheet exposures (excluding derivatives and SFTs)	(A) 11,544,374	11,233,231
Derivative exposures			(2)	
4		Replacement cost associated with all derivatives transactions	432,448	500,144
5		Add-on amounts for PFE associated with all derivatives transactions	1,310,291	1,303,547
		Gross-up for collateral posted in derivative transactions	264,892	254,647
6		Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	—	—
7		Deductions of receivables assets for cash variation margin provided in derivatives transactions	118,441	125,683
8		Exempted CCP leg of client-cleared trade exposures		
9		Adjusted effective notional amount of written credit derivatives	1,551,276	1,964,204
10		Adjusted effective notional offsets and add-on deductions for written credit derivatives	1,253,152	1,693,399
11	4	Total derivative exposures (sum of lines 4 to 10)	(B) 2,187,314	2,203,460
Securities financing transaction exposures			(3)	
12		Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	7,517,198	6,792,105
13		Netted amounts of cash payables and cash receivables of gross SFT assets	1,156,495	1,335,036
14		CCR exposure for SFT assets	211,873	153,878
15		Agent transaction exposures		
16	5	Total securities financing transaction exposures (sum of lines 12 to 15)	(C) 6,572,576	5,610,947
Other off-balance sheet exposures			(4)	
17		Off-balance sheet exposure at gross notional amount	80,259	53,673
18		Adjustments for conversion to credit equivalent amounts	26,485	10,673
19	6	Off-balance sheet items	(D) 53,774	43,000
Capital and total exposures			(5)	
20		Tier 1 capital	(E) 1,142,340	1,131,194
21	8	Total exposures (A)+(B)+(C)+(D)	(F) 20,358,038	19,090,638
22		Basel III consolidated leverage ratio (E)/(F)	5.61%	5.92%

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

There is no significant difference in the consolidated leverage ratio over the previous year.

## Overview of Main Features of Regulatory Capital Instruments

1	Issuer	Daiwa Securities Group Inc.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	NA
3	Governing law(s) of the instrument	Japanese Law
	Regulatory treatment	
4	Transitional Basel III rules	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Group
7	Instrument type (types to be specified by each jurisdiction)	Common stock
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)	
	Consolidated Capital Adequacy Ratio	1,185,256 million Yen
9	Par value of instrument	—
10	Accounting classification	
	Consolidated balance sheets	Shareholders' equity
11	Original date of issuance	—
12	Perpetual or dated	NA
13	Original maturity date	—
14	Issuer call subject to prior supervisory approval	NA
15	Optional call date, contingent call dates and redemption amount	—
16	Subsequent call dates, if applicable	—
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	—
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	NA
22	Noncumulative or cumulative	NA
23	Convertible or non-convertible	NA
24	If convertible, conversion trigger(s)	—
25	If convertible, fully or partially	—
26	If convertible, conversion rate	—
27	If convertible, mandatory or optional conversion	—
28	If convertible, specify instrument type convertible into	—
29	If convertible, specify issuer of instrument it converts into	—
30	Write-down feature	NA
31	If write-down, write-down trigger(s)	—
32	If write-down, full or partial	—
33	If write-down, permanent or temporary	—
34	If temporary write-down, description of write-up mechanism	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts
36	Non-compliant transitioned features	NA
37	If yes, specify non-compliant features	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in July 2006	Stock subscription right issued in July 2007
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	182 million Yen	228 million Yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Stock subscription right	Stock subscription right
11	Original date of issuance	July 1, 2006	July 1, 2007
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 30, 2026	June 30, 2027
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts	Debts
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in July 2008	Stock subscription right series 5
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	213 million Yen	632 million Yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Stock subscription right	Stock subscription right
11	Original date of issuance	July 1, 2008	September 8, 2008
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 30, 2028	June 20, 2018
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts	Debts
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—



1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in July 2009	Stock subscription right series 6
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	283 million Yen	249 million Yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Stock subscription right	Stock subscription right
11	Original date of issuance	July 1, 2009	November 9, 2009
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 30, 2029	June 19, 2019
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts	Debts
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in July 2010	Stock subscription right series 7
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	331 million Yen	243 million Yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Stock subscription right	Stock subscription right
11	Original date of issuance	July 1, 2010	September 1, 2010
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 30, 2030	June 25, 2020
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts	Debts
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in July 2011	Stock subscription right series 8
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	390 million Yen	245 million Yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Stock subscription right	Stock subscription right
11	Original date of issuance	July 1, 2011	September 5, 2011
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 30, 2031	June 24, 2021
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts	Debts
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in February 2013	Stock subscription right series 9
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	445 million Yen	1,004 million Yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Stock subscription right	Stock subscription right
11	Original date of issuance	February 12, 2013	February 12, 2013
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 30, 2032	June 26, 2022
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts	Debts
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in February 2014	Stock subscription right series 10
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	368 million Yen	1,105 million Yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Stock subscription right	Stock subscription right
11	Original date of issuance	February 10, 2014	February 10, 2014
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 30, 2033	June 25, 2023
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts	Debts
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in February 2015	Stock subscription right series 11
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	384 million Yen	733 million Yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Stock subscription right	Stock subscription right
11	Original date of issuance	February 9, 2015	February 9, 2015
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 30, 2034	June 25, 2024
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts	Debts
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in February 2016	Stock subscription right series 12
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	383 million Yen	249 million Yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Stock subscription right	Stock subscription right
11	Original date of issuance	February 16, 2016	February 16, 2016
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 30, 2035	June 24, 2025
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts	Debts
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in February 2017	Stock subscription right series 13
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	404 million Yen	240 million Yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Stock subscription right	Stock subscription right
11	Original date of issuance	February 8, 2017	February 8, 2017
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 30, 2036	June 27, 2026
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts	Debts
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—



1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in February 2018	Stock subscription right series 14
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	435 million Yen	34 million Yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Stock subscription right	Stock subscription right
11	Original date of issuance	February 8, 2018	February 8, 2018
12	Perpetual or dated	Dated	Dated
13	Original maturity date	June 30, 2037	June 27, 2027
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debts	Debts
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

# Balance Sheets

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

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

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
<b>Debt:</b>			
Short-term borrowings (Notes 5, 8 and 18)	¥ 1,207,496	¥ 1,094,876	\$ 11,391,472
Commercial paper (Note 5)	105,000	—	990,566
Long-term debt (Notes 5, 11 and 18)	1,641,975	1,374,011	15,490,330
	<b>2,954,471</b>	<b>2,468,887</b>	<b>27,872,368</b>
<b>Payables:</b>			
Payables to customers and counterparties (Notes 5 and 10)	603,973	581,978	5,697,859
Payables related to margin transactions (Notes 3 and 5)	70,599	61,467	666,028
	<b>674,572</b>	<b>643,445</b>	<b>6,363,887</b>
<b>Collateralized short-term financing agreements</b> (Notes 4, 5 and 18)	<b>2,920,274</b>	<b>2,673,925</b>	<b>27,549,755</b>
<b>Trading liabilities</b> (Notes 5, 6 and 18)	<b>3,850,446</b>	<b>3,529,438</b>	<b>36,324,962</b>
<b>Trading account payables, net</b> (Note 5)	<b>329,873</b>	<b>—</b>	<b>3,112,009</b>
<b>Accrued and other liabilities:</b>			
Income taxes payable	5,026	11,251	47,415
Deferred tax liabilities (Note 13)	655	2,329	6,179
Accrued bonuses	16,585	14,903	156,462
Retirement benefits (Note 12)	30,529	29,127	288,009
Other (Note 18)	96,171	69,412	907,275
	<b>148,966</b>	<b>127,022</b>	<b>1,405,340</b>
<b>Statutory reserves</b> (Note 14)	<b>3,932</b>	<b>3,915</b>	<b>37,094</b>
Total liabilities	<b>10,882,534</b>	<b>9,446,632</b>	<b>102,665,415</b>
<b>Contingent liabilities</b> (Note 15)			
<b>Net assets:</b>			
Owners' equity (Note 16):			
Common stock, no par value;			
Authorized—810,200 shares			
Issued—810,200 shares	100,000	100,000	943,396
Capital surplus	349,920	349,920	3,301,132
Retained earnings	346,250	382,279	3,266,509
	<b>796,170</b>	<b>832,199</b>	<b>7,511,037</b>
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	4,852	6,995	45,774
Total net assets	<b>801,022</b>	<b>839,194</b>	<b>7,556,811</b>
	<b>¥11,683,556</b>	<b>¥10,285,826</b>	<b>\$110,222,226</b>

See accompanying notes.

# Statements of Income

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

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

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

See accompanying notes.

# Statements of Changes in Net Assets

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

	Number of shares of common stock	Owners' equity			Millions of yen
					Accumulated other comprehensive income
		Common stock	Capital surplus	Retained earnings	Valuation difference on available-for-sale securities
<b>Balance at April 1, 2016</b>	810,200	¥100,000	¥349,920	¥ 323,818	¥ 7,427
Profit				58,461	
Net changes of items other than owners' equity					(432)
<b>Balance at March 31, 2017</b>	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)
<b>Balance at March 31, 2018</b>	<b>810,200</b>	<b>¥100,000</b>	<b>¥349,920</b>	<b>¥ 346,250</b>	<b>¥ 4,852</b>

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

See accompanying notes.

# Statements of Cash Flows

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

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

See accompanying notes.

# Notes to Financial Statements

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

## 1. Basis of presentation

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

considered as necessary for fair presentation, is not presented in the accompanying financial statements.

The translations of the yen amounts into U.S. dollars are presented solely for the convenience of the readers, using the exchange rate as of March 31, 2018, which was ¥106 to U.S.\$1. The convenience translations should not be construed as representations that the yen amounts have been, could have been, or could be, converted into U.S. dollars at this or any other rate of exchange.

## 2. Significant accounting policies

**Statements of cash flows**—The Company defines cash equivalents as high liquid investments with original maturities of up to three months.

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

### Securities other than trading assets and trading liabilities

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

average method.

Impairment is assessed for investments including private equity holding. For marketable securities, if the year-end market value declines 30% or more but less than 50% from the carrying value for individual securities, an impairment loss is recognized if there is no objective evidence of recoverability in value. Recoverability is assessed based on whether the decline is temporary by considering the movements of the market price over the last 12 months and the financial conditions of the issuer. If the year-end market value declines 50% or more from the carrying value, then an impairment loss is recognized immediately. For non-marketable equity investments, the Company generally compares the carrying amount and the net asset value of the issuing company attributable to the Company's holding share, and recognizes an impairment loss if the net asset value attributable to the Company's holding share is significantly lower than the carrying value and such decline is considered other than temporary. For non-marketable investments other than equities, the Company reviews the financial conditions of the issuers and provides allowance for possible investment losses, if necessary.

### Collateralized short-term financing agreements

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

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

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

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

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

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

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

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

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

**Income taxes**—Income taxes consist of corporation, enterprise and inhabitant taxes. The provision for current income taxes is computed based on the pre-tax income of the Company with certain adjustments, as appropriate. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit 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 following five steps.

Step 1: Identify the contract with a customer.

Step 2: Identify the performance obligations under the contract.

Step 3: Determine the transaction price.

Step 4: Allocate transaction price to the performance obligations under the contract.

Step 5: Recognize revenue when performance obligations are satisfied or as fulfilled.

##### (b) Application date

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

##### (c) Impact of application

The impact is under evaluation as of the filing date of securities report.



### 3. Margin transactions

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

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

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

### 4. Collateralized short-term financing agreements

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

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

### 5. Financial instruments

#### Qualitative information on financial instruments

##### (1) Policy for dealing with financial instruments

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

The Company holds financial assets and liabilities as follows to execute its businesses such as trading securities and others, derivatives, investment securities, and raises its capital utilizing a variety of financial instruments such as corporate bonds, medium-term notes, borrowing from financial institutions, etc.

Under the Company's basic financing policy that enough liquidity for continuing business should be effectively secured, the Company strives to maintain an appropriate balance between assets and liabilities by diversifying financial measures and maturity dates, and realizing effective and stable finance when it decides to raise capital. Also, the Company uses interest rate swaps and foreign currency swaps, etc., for the purpose of hedging against fluctuation in interest rates and foreign exchange rates.

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

##### (2) Contents and risk of financial instruments

The Company holds financial instruments in the trading

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

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

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

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

The Company enters derivative transactions as broker and end-user. Derivative products have been necessary to deal with a variety of customers' financial needs and as a broker the Company provides customers with financial instruments to meet their requests. For instance, the Company provides customers with forward exchange contracts to hedge the exchange rate risk of foreign currency of foreign bonds held by customers and interest rate swaps to hedge interest rate risk when customers issue corporate bonds, etc. As end-user, the

Company uses interest rate swaps to hedge interest rate risk regarding its financial assets and liabilities and utilize many kinds of futures and options to hedge trading positions.

### (3) Risk management system for financial instruments

The Company has resolved the "Risk Management Rule" at the meeting of the Board of Directors which states the basic policy of risk management, and conducts risk management suitable for each business profile and size in accordance with the basic policy of risk management.

#### (i) Management of risk of financial instruments held for trading purpose

##### (a) Management of market risk

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

##### (Quantitative information concerning market risk)

The Company utilizes the historical simulation method (holding period: 1 day, confidence interval: 99%, observation period: 520 business days) to calculate VaR of trading financial investments. Total VaR as of March 31, 2018 (fiscal year-end) was ¥1.0 billion (\$9.4 million). In the meantime, the Company executes backtesting which compares calculated VaR and the actual profit/loss to verify its effectiveness. However the VaR statistically figures the risk based on historical market fluctuation and may be sometimes unable to completely grasp the risk in the environment that the market unexpectedly changes beyond the estimation.

##### (b) Management of credit risk

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

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

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

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

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

(Quantitative information concerning market risk)

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

Also, the main financial liabilities in the Company that are influenced by market risk are "bonds and notes" and "long-term debt." As of March 31, 2018, if all other risk variables were assumed to be unchanged and the interest rate supposed to be changed by 10 basis points (0.1%), the fair value of "bonds and notes" and "long-term debt" would fluctuate by ¥0.1 billion (\$0.9 million) and ¥1.4 billion (\$13.2 million), respectively.

(iii) Management of liquidity

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

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

methods, the Company realizes the effective and stable capital raise.

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

Further, Daiwa Securities Group Inc.—our parent company collectively manages and monitors the liquidity of Daiwa securities Group Inc. and its subsidiaries ("Daiwa") under the basic policy to secure the appropriate liquidity of Daiwa as a whole. Also, the Company monitors every day if the liquidity portfolio, which should cover financing proceeds without collateral that has a maturity date within a certain period as well as the estimated cash outflow caused by realization of one of some stress scenarios prepared in advance during the same period, is maintained or not.

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

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

**(4) Supplemental explanation on fair value of financial instruments**

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

## Fair values of financial instruments

The figures stated on the balance sheets as of March 31, 2018 and 2017, fair value and the difference of those are as below. Any item for which it is extremely difficult to obtain its fair value is not included in the table below (see Note 2).

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

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

Thousands of U.S. dollars

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

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

(1) Cash and cash equivalents

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

(2) Cash segregated as deposits for regulatory purposes

Cash segregated as deposits for regulatory purposes which consist of cash segregated as deposits for customers and investments in securities like government bonds are calculated based on reasonably calculated prices utilizing yield spread with index interest rates for each term which are defined by immediately previous traded prices including the ones of similar bonds. Other investment products are stated as their book value because fair values are similar to book value and they are settled in the short term.

(3) Trading assets and (11) Trading liabilities

Trading securities

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

Derivatives

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

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

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

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

Payables related to margin transactions consist of customers' borrowings money from securities finance companies and sold amount equivalent of customers generated from margin

transactions. These are stated as their book value as settled in the short term because the former is marked to market and the latter is settled by reversing trades by customers' decisions.

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

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

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

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

(8) Loans receivable from customers and (9) Loans receivables from other than customers  
These are stated as their book value because they are settled in the short term and fair values are similar to book value.

(10) Investment securities

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

Certificates of deposits	Calculated price utilizing the latest traded prices including similar instruments (OTC and broker screen, etc.), and yield spreads (reflected credit spreads and supply-demand) from the corresponding index interest rates (yield curve of major short term interest rates) of the each calculated period
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(16) Short-term borrowings and (17) Commercial paper  
These are stated as their book value because they are settled in the short term and fair values are similar to book value.

(18) Long-term debt  
The fair values of bonds and notes due within one year are stated as their book value since the terms of the settlement period are short and the fair values approximate the book values.

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

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

(Note 2) Any financial product which is extremely difficult to obtain its fair value at March 31, 2018 and 2017 is as below and is not included in the "Assets (10) Investment securities—Other securities" of fair value information of financial instruments.

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

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

(Note 3) Scheduled redemption amount of financial receivables and securities with a maturity date after March 31, 2018

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

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

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

	Thousands of U.S. dollars			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and cash equivalents	\$12,429,698	\$—	\$—	\$—
Cash segregated as deposits for regulatory purposes	3,085,566	—	—	—
Receivables related to margin transactions	2,418,745	—	—	—
Collateralized short-term financing agreements	35,961,566	—	—	—
Short-term guarantee deposits	2,904,623	—	—	—
Investment securities:				
Other securities with a maturity date	—	—	—	—
Other securities	—	—	—	—
<b>Total</b>	<b>\$56,800,198</b>	<b>\$—</b>	<b>\$—</b>	<b>\$—</b>

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

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

(Note 4) Scheduled redemption amount of commercial paper and long-term debt after March 31, 2018

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

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

## 6. Trading assets and trading liabilities

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

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

Government, corporate and other bonds include convertible bonds.

## 7. Securities other than trading assets

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

	Millions of yen		
	Cost	Fair value	Difference
<b>March 31, 2018:</b>			
Equities	¥1,245	¥7,504	¥6,259
Bonds	—	—	—
	<b>¥1,245</b>	<b>¥7,504</b>	<b>¥6,259</b>
<b>March 31, 2017:</b>			
Equities	¥1,468	¥9,912	¥8,444
Bonds	—	—	—
	<b>¥1,468</b>	<b>¥9,912</b>	<b>¥8,444</b>
	Thousands of U.S. dollars		
	Cost	Fair value	Difference
<b>March 31, 2018:</b>			
Equities	\$11,745	\$70,793	\$59,048
Bonds	—	—	—
	<b>\$11,745</b>	<b>\$70,793</b>	<b>\$59,048</b>



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

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

## 8. Pledged assets

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

	2018	Millions of yen 2017	Thousands of U.S. dollars 2018
Short-term borrowings	¥10,000	¥100,000	\$94,340
	<b>¥10,000</b>	¥100,000	<b>\$94,340</b>

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

	2018	Millions of yen 2017	Thousands of U.S. dollars 2018
Trading assets	¥638,006	¥486,573	\$6,018,925
	<b>¥638,006</b>	¥486,573	<b>\$6,018,925</b>

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

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

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

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

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

## 9. Lease transactions

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

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

## 10. Payables to customers and counterparties

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

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

## 11. Long-term debt

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

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

The amount for medium-term notes as of March 31, 2018 includes US\$397,094 thousand and AU\$3,000 thousand of foreign-currency notes.

## 12. Retirement benefits

### Retirement benefits for employees

#### (1) Defined benefit plans

Retirement benefits in the balance sheets as of March 31, 2018 and 2017 are ¥30,478 million (\$287,528 thousand) and

¥29,053 million, respectively. Benefit expenses stated in the statements of income for the years ended March 31, 2018 and 2017 were ¥2,599 million (\$24,519 thousand) and ¥2,450 million, respectively.

Movement in retirement benefit obligations consisted of the following:

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

## (2) Defined Contribution plan

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

## Retirement benefits for directors

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

## 13. Income taxes

A reconciliation of the difference between the statutory income tax rate and the effective income tax rate reflected in the statements of income for the years ended March 31, 2018 and 2017 are as follows:

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

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

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

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

#### 14. Statutory reserves

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

#### 15. Contingent liabilities

The outstanding balances of the guarantees obligated by the Company arising as guarantors of employees' borrowings were ¥68 million (\$642 thousand) and ¥96 million at March 31, 2018 and 2017, respectively. The outstanding balances of

#### 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

#### 17. Segment information

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

"Retail sales" provides broad types of products and services

future eventual operational losses caused by the securities company for customer transactions.

the guarantees obligated by the Company arising as guarantors of derivative transactions of fellow subsidiaries were ¥339 million (\$3,198 thousand) and ¥335 million at March 31, 2018 and 2017, respectively.

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

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

Cash dividends of ¥79,531 (\$755) per share amounting to ¥64,436 million (\$607,887 thousand) were approved by the shareholders' meeting on June 20, 2018.

mainly to individual and unlisted-corporate customers. "Domestic wholesale" consists of "Global markets" and "Global investment banking." "Global markets" sells and trades stock, bonds, foreign exchange and the other derivatives mainly to institutional investors and investors of business, financial and public-interest corporations both at home and abroad. "Global investment banking" provides various investment banking services such as underwriting of securities and advisory of M&A, etc., at home and abroad.

## (Net operating revenues by reportable segment)

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

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

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

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

## (Impairment losses on fixed assets by reportable segment)

Not applicable.

## (Gains on negative goodwill by reportable segment)

Not applicable.

## 18. Transactions with related parties

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

Name of related company	Paid-in Capital	Description of transactions		Account balances
				Millions of yen
				<b>2018</b>
Daiwa Securities Group Inc.	¥247,397 million	Proceeds from Borrowings	Short-term borrowings	<b>¥327,496</b>
		Interest expense (Note 1)	Long-term debt	<b>437,553</b>
			Accrued and other liabilities—Other	<b>2,165</b>
Daiwa Capital Markets Europe Limited	£732 million	Continual transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	<b>¥ 3,700</b>
		Interest income (Note 3)	Collateralized short-term financing agreements (Liabilities)	<b>596,242</b>
		Interest expense (Note 3)		
		Continual transactions of loans	Loans receivable from other than customers	<b>¥166,266</b>
		Interest income (Note 3)	Receivables—Other	<b>763</b>
		Continual transactions of purchase and sale of securities (Notes 2, 3)		
Daiwa Capital Markets America Inc.	\$100 million	Continual transactions of collateralized short-term financial agreements	Trading assets	<b>¥ 31,468</b>
		Interest income (Note 3)	Trading liabilities	<b>40,003</b>
		Interest expense (Note 3)	Collateralized short-term financing agreements (Assets)	<b>¥120,124</b>
Daiwa Capital Markets America Inc.	\$100 million	Continual transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Liabilities)	<b>537,611</b>
		Interest income (Note 3)		
		Interest expense (Note 3)		
Daiwa Asset Management Co. Ltd.	¥15,174 million	Continual transactions of purchase and sale of securities (Notes 2, 3)		
		Agency service agreement for investment trust funds	Receivables—Other	<b>¥ 3,914</b>
Daiwa Asset Management Co. Ltd.	¥15,174 million	Commissions (Note 4)		
Daiwa Next Bank, Ltd.	¥50,000 million	Continual transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	<b>¥121,374</b>
		Interest income (Note 3)		
		Interest expense (Note 3)		
		Continual transactions of purchase and sale of securities (Notes 2, 3)		
		Continual transactions of derivatives (Notes 2, 3)	Trading assets	<b>¥ 189</b>
			Trading liabilities	<b>92</b>

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

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

Terms and conditions of the transactions and transaction policy

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

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

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

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

Name of related company	Paid-in Capital	Description of transactions		Account balances
				Millions of yen
				2017
Daiwa Securities Group Inc.	¥247,397 million	Proceeds from Borrowings	Short-term borrowings	¥374,876
		Interest expense (Note 1)	Long-term debt	277,672
			Accrued and other liabilities—Other	369
Daiwa Capital Markets Europe Limited	£732 million	Continual transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	¥ 2,200
		Interest income (Note 3)	Collateralized short-term financing agreements (Liabilities)	610,256
		Interest expense (Note 3)	Loans receivable from other than customers	¥ 98,278
		Continual transactions of loans	Receivables—Other	228
		Interest income (Note 3)		
		Continual transactions of purchase and sale of securities (Notes 2, 3)		
		Continual transactions of derivatives (Notes 2, 3)	Trading assets	¥ 30,703
	Trading liabilities	39,078		
Daiwa Capital Markets America Inc.	\$100 million	Continual transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	¥ 23,393
		Interest income (Note 3)	Collateralized short-term financing agreements (Liabilities)	619,598
		Interest expense (Note 3)		
		Continual transactions of purchase and sale of securities (Notes 2, 3)		
Daiwa Asset Management Co. Ltd.	¥15,174 million	Agency service agreement for investment trust funds	Receivables—Other	¥ 3,299
		Commissions (Note 4)		¥23,239
Daiwa Next Bank, Ltd.	¥50,000 million	Continual transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	¥146,288
		Interest income (Note 3)		
		Interest expense (Note 3)		
		Continual transactions of purchase and sale of securities (Notes 2, 3)		
		Continual transactions of derivatives (Notes 2, 3)	Trading assets	¥ 2,144
	Trading liabilities	2,829		

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

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

Terms and conditions of the transactions and transaction policy

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

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

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

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

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

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

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

Terms and conditions of the transactions and transaction policy

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

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

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

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



## 19. Special purpose entities subject to disclosure

The Company utilized seven special purpose entities for the year ended March 31, 2018 (six for the year ended March 31, 2017) principally for the securitization of structured notes in order to support securitization of monetary assets of customers. The Company acquires and transfers bonds to those special purpose entities (incorporated in the Cayman Islands) and issues structured notes collateralized by those bonds. The

Company does not own any shares with voting rights in any of these special purpose entities and has not dispatched any director or employee to them. Notes issued by those special purpose entities subject to disclosure as of the fiscal years ended March 31, 2018 and 2017 are ¥589,153 million (\$5,558,047 thousand) and ¥648,695 million, respectively.

## 20. Net gain on trading

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

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

## 21. Selling, general and administrative expenses

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

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

## 22. Other income (expenses)

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

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

## 23. Subsequent events

None

# Independent Auditor's Report



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

We have audited the accompanying financial statements of Daiwa Securities Co. Ltd., which comprise the balance sheets as at March 31, 2018 and 2017, and the statements of income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

## Management's Responsibility for the Financial Statements

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

## Auditor's Responsibility

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

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

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

## Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Daiwa Securities Co. Ltd. as at March 31, 2018 and 2017, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

## Convenience Translation

The U.S. dollar amounts in the accompanying financial statements with respect to the year ended March 31, 2018 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the financial statements.

**KPMG AZSA LLC**

June 28, 2018  
Tokyo, Japan

# 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, 2018)

## Number of Shareholders

133,177 (as of March 31, 2018)

## 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](mailto:ir-section@daiwa.co.jp)

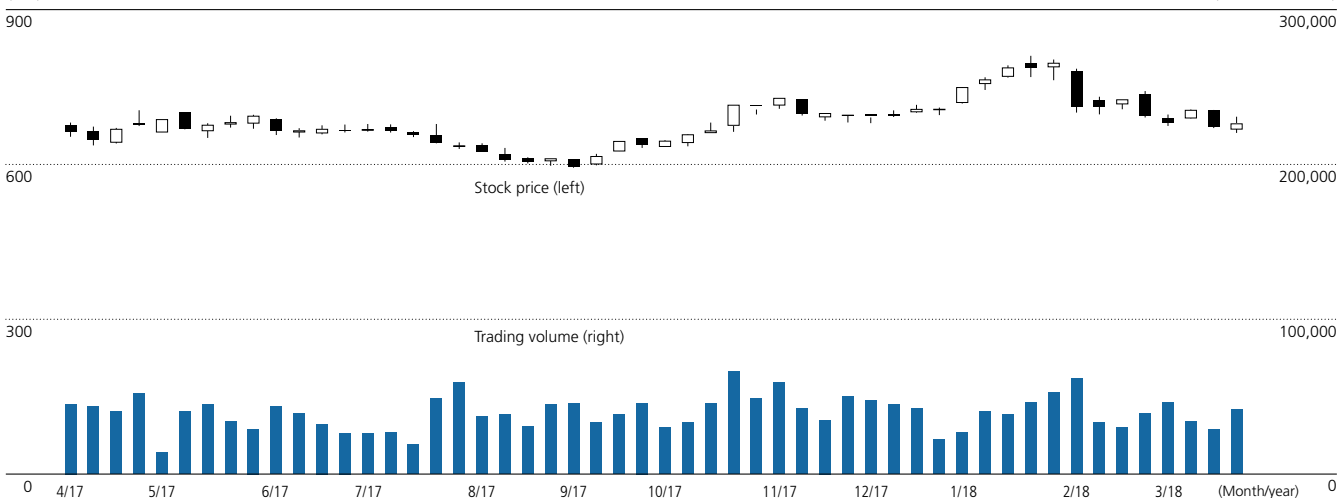
URL: <http://www.daiwa-grp.jp/english/ir/>

## Stock Information

### 1. Stock Price and Trading Volume on the Tokyo Stock Exchange (April 1, 2017–March 31, 2018)

(Yen)

(Thousand shares)



### 2. Major Shareholders (As of March 31, 2018)

Name	Number of shares held (Thousands)	% of total outstanding shares
The Master Trust Bank of Japan, Ltd. Trust Account	86,301	5.33
Japan Trustee Services Bank, Ltd. Trust Account	84,206	5.20
Barclays Capital Securities Ltd.	34,220	2.11
Japan Trustee Services Bank, Ltd. Trust Account 5	32,260	1.99
Nippon Life Insurance Company	31,164	1.92
Taiyo Life Insurance Company	31,140	1.92
STATE STREET BANK WEST CLIENT – TREATY 505234	30,213	1.86
STATE STREET BANK AND TRUST COMPANY 505223	24,236	1.49
Japan Trustee Services Bank, Ltd. Trust Account 1	23,950	1.47
Japan Trustee Services Bank, Ltd. Trust Account 2	23,865	1.47

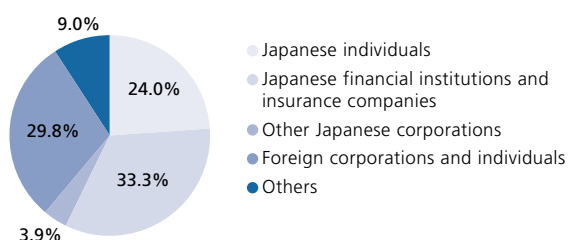
Note: Treasury stock of 80,765,494 shares is excluded for calculating the percentage of the above list of major shareholders.

### 3. Stock Price on the Tokyo Stock Exchange

(April 1, 2017–March 31, 2018)

Open	High	Low	Close	Average daily trading volume
¥676.0	¥810.5	¥593.7	¥678.7	8,466 thousand shares

### 4. Breakdown of Shareholders (As of March 31, 2018)



# Officers

(As of August 1, 2018)

## Daiwa Securities Group Inc.

### Directors

(Members of the Board)

<b>Chairman of the Board</b> Takashi Hibino	<b>Outside Directors</b> Keiichi Tadaki Tadashi Onodera
<b>Directors</b> Seiji Nakata Toshihiro Matsui Kazuo Takahashi Koichi Matsushita Keiko Tashiro Mikita Komatsu Morimasa Matsuda	<b>Directors</b> Michiaki Ogasawara Hirotaka Takeuchi Ikuo Nishikawa Eriko Kawai

### Corporate Executive Officers

<b>President and CEO</b> Seiji Nakata*	<b>Executive Managing Directors</b> Masaru Shirataki Atsushi Mochizuki Akihiko Ogino Junichi Arihara (CRO and CDO)
<b>Deputy Presidents</b> Toshihiro Matsui* (COO) Kazuo Takahashi Koichi Matsushita Nobuyuki Iwamoto Yoriyuki Kusaki	<b>Corporate Executive Officer</b> Takashi Hibino
<b>Senior Executive Managing Directors</b> Keiko Tashiro Mikita Komatsu (CFO) Masahisa Nakagawa (CIO)	

\* Representative Corporate Executive Officers

### Executive Officers

<b>Senior Executive Managing Directors</b> Yoshimasa Nagase Hironori Oka	<b>Senior Managing Directors</b> Tomoyuki Murase Shiko Yanagisawa Tomonori Tsuji Eiji Sato
<b>Executive Managing Directors</b> Takayuki Sawano Hideki Araki	

## Daiwa Securities Co. Ltd.

### Directors

(Members of the Board)

<b>Chairman of the Board</b> Takashi Hibino*	<b>Senior Executive Managing Directors</b> Keiko Tashiro Shinji Kawakami Mikita Komatsu Masahisa Nakagawa Tadao Sakashima Masahiro Kobayashi
<b>President</b> Seiji Nakata*	<b>Executive Managing Directors</b> Keisuke Natsume Hiromi Uemura Yoshinori Matsumoto Masataka Tsujimoto
<b>Deputy Presidents</b> Toshihiro Matsui* Kazuo Takahashi* Koichi Matsushita*	
<b>Senior Executive Managing Directors</b> Yoshimasa Nagase* Junichi Aizawa Koichi Maruo Yuichi Akai	

\* Representative Directors

### Audit & Supervisory Board Members

Shuzo Takami Sumiyuki Akaiwa* Morimasa Matsuda Hiroshi Obayashi*
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\* Outside Audit & Supervisory Board Member

### Executive Officers

<b>Executive Managing Directors</b> Masaru Shirataki Hiroyuki Nomura Hiroshi Hara Yasushi Iwasaki Yoshihisa Kaneko Atsushi Mochizuki Naoto Shimomura Akihiko Ogino Junichi Arihara Shinsuke Niizuma	<b>Senior Executive Managing Directors</b> Yoshifumi Otsuka Tomoo Fujioka Kana Shirakawa Hirotaka Shirokawa Mitsuru Fujita Tomoyuki Murase Sungho Kang Toshiya Tadokoro Hiroko Sakurai Hiroki Ikeda	<b>Senior Managing Directors</b> Tomoki Igura Kei Sano Futoshi Sekine Tomonori Tsuji Eiji Sato Toru Yamamoto Junichi Serizawa Hidenobu Shirota Isao Tsujioka Tsutomu Kobayashi Mineo Takatsuka Tsutomu Takahashi
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# Domestic Group Companies

(As of August 1, 2018)

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## Daiwa Securities Co. Ltd.

GranTokyo North Tower  
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6752, Japan  
Tel: +(81) 3-5555-2111

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## Daiwa Asset Management Co. Ltd.

GranTokyo North Tower  
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6753, Japan  
Tel: +(81) 3-5555-3111

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## Daiwa Institute of Research Holdings Ltd.

15-6, Fuyuki, Koto-ku, Tokyo 135-8460, Japan  
Tel: +(81) 3-5620-5501

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## Daiwa Institute of Research Ltd.

15-6, Fuyuki, Koto-ku, Tokyo 135-8460, Japan  
Tel: +(81) 3-5620-5100

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## Daiwa Institute of Research Business Innovation Ltd.

1-14-5 Eitai, Koto-ku, Tokyo 135-0034, Japan  
Tel: +(81) 3-5931-8600

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## DIR Information Systems Co., Ltd.

1-14-6 Eitai, Koto-ku, Tokyo 135-0034, Japan  
Tel: +(81) 3-6365-2580

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## Daiwa SB Investments Ltd.

2-1, Kasumigaseki 3-chome, Chiyoda-ku, Tokyo 100-0013, Japan  
Tel: +(81) 3-6205-0200

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## Daiwa Securities Business Center Co. Ltd.

3-2, Toyo 2-chome, Koto-ku, Tokyo 135-0016, Japan  
Tel: +(81) 3-5633-6100

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## Daiwa Property Co., Ltd.

2-1, Kyobashi 1-chome, Chuo-ku, Tokyo 104-0031, Japan  
Tel: +(81) 3-5555-4700

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## Daiwa Next Bank, Ltd.

GranTokyo North Tower  
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6756, Japan  
Tel: +(81) 3-5555-6500

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## Daiwa Corporate Investment Co., Ltd.

GranTokyo North Tower  
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6756, Japan  
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## Daiwa PI Partners Co. Ltd.

GranTokyo North Tower  
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6730, Japan  
Tel: +(81) 3-5555-6001

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## Daiwa Securities SMBC Principal Investments Co. Ltd.

GranTokyo North Tower  
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6754, Japan  
Tel: +(81) 3-5555-6111

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## Daiwa Fund Consulting Co. Ltd.

GranTokyo North Tower  
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Tel: +(81) 3-5555-6550

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## Daiwa Real Estate Asset Management Co. Ltd.

2-1, Ginza 6-chome, Chuo-ku, Tokyo 104-0061, Japan  
Tel: +(81) 3-6215-9500

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## Daiwa Investor Relations Co. Ltd.

2-1, Kyobashi 1-chome, Chuo-ku, Tokyo 104-0031, Japan  
Tel: +(81) 3-5555-4111

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## Daiwa Securities Media Networks Co. Ltd.

GranTokyo North Tower  
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Tel: +(81) 3-5555-1175

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## Daiwa Office Services Co., Ltd.

2-1, Kyobashi 1-chome, Chuo-ku, Tokyo 104-0031, Japan  
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## Retela Crea Securities Co., Ltd.

2-1, Kyobashi 1-chome, Chuo-ku, Tokyo 104-0031, Japan  
Tel: +(81) 3-6385-0611

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## Mi-Casa Asset Management Inc.

16-12, Shinbashi 6-chome, Minato-ku, Tokyo 105-0004, Japan  
Tel: +(81) 3-5425-5600

# Overseas Group Companies

(As of August 2018)

## Daiwa Securities Group Inc.

### Daiwa Capital Markets America Inc.

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### DCS Advisory (New York)

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Tel: +(1) 212-904-9400

### Daiwa Capital Markets Europe Limited

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#### Geneva Branch

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Tel: +(41) 22-818-74-00

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#### Moscow Representative Office

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### Daiwa Corporate Advisory SAS (France)

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## Daiwa Securities Co. Ltd.

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### Daiwa Capital Markets Singapore Limited

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### Daiwa Securities Capital Markets Korea Co., Ltd.

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### Daiwa Capital Markets Australia Limited

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Tel: +(61) 3-9916-1300

### Daiwa Capital Markets India Private Limited

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Bandra East, Mumbai 400051  
Tel: +(91) 22-6622-1000

### Daiwa-Cathay Capital Markets Co., Ltd.

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Tel: +(886) 2-2723-9698

### DBP-Daiwa Capital Markets Philippines, Inc.

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Tel: +(632) 737-3000

### Daiwa (Shanghai) Corporate Strategic Advisory Co. Ltd.

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Pudong, Shanghai  
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### Myanmar Securities Exchange Centre Co., Ltd.

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# Daiwa Securities Group

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