

Daiwa Capital Markets Europe Limited

Annual report and financial statements for the year ended 31 March 2018

Company registered number: 01487359

MONDAY



A7KYT2CP

A12

17/12/2018

#126

COMPANIES HOUSE

Contents

	Page(s)
	2 - 3
Chairman's Statement	4 - 13
Strategic Report	14 - 16
Directors' Report	17
Statement of Directors' responsibilities in respect of the Strategic Report, the Directors Report and the Financial Statements	18 - 20
Independent Auditor's Report	21
Statement of Comprehensive Income	22
Balance Sheet	23
Statement of Changes in Equity	24 - 61
Notes to the Financial Statements	

Chairman's Statement

For the year ended 31 March 2018, Daiwa Capital Markets Europe Limited ("DCME") continued to make progress against its core objectives of providing a first class service to clients, building a sustainable business model that delivers a return to the shareholder and creating a culture which attracts and retains top quality staff.

DCME recorded an operating profit of £7.3m up from £0.9m for the prior year. 2018 saw the return of strong primary revenue, with an overall increase of over 400%Y/Y after a very disappointing 2017. This benefited the Equities, Equity Capital Markets and Convertible Bonds businesses. By contrast fixed income markets were challenging and consequently our Fixed Income division had a difficult year. Our Principal Investments business continued to grow its loan portfolio, in the development finance and bridging loan space, which led to stronger revenue and allowed the business to move into profit. The Debt Capital Markets business was impacted by a change of group strategy resulting in reduced Uridashi revenue. Cost control continued to be a focus, resulting in a broadly flat cost base year on year. This meant that the revenue improvement drove an equivalent increase in operating profit.

DCME's corporate advisory subsidiary DC Advisory (not included within these results) has continued to go from strength to strength, cementing itself as one of the top mid-cap M&A advisory businesses in Europe. The acquisition by the group of Signal Hill and Sagent Advisors in the US, now rebranded DCS Advisory, will further help to strengthen Daiwa's global M&A strategy. A second consecutive year of strong profitability and cash generation has meant that the recoverability of DCME's loan to DC Advisory Holdings Limited has improved materially, leading to a reversal of £20m in impairments taken in prior years.

In February 2018, the Appeals Court rejected the company's appeal against the legal claim brought by the liquidators of Singularis Holdings Limited. DCME has applied to the Supreme Court for permission to appeal the decision of the Appeals Court. While DCME continues to strongly defend itself against this claim, in light of the Appeals Court decision the Board has made the prudent decision to fully provide for this claim and all associated interest and costs. This resulted in a charge of £59.7m for the year. Two other legal claims, which were in progress against the firm at the start of the year, namely CalPERs and the Administrators of Kaupthing Bank, concluded in favour of DCME. For the first time in many years the company faces no material downside risk from litigation, and the simplified business model and an enhanced focus on industry best practice has significantly reduced the prospects of future litigation.

Market, political and regulatory forces continue to pose headwinds and challenges to our business model. Brexit is a prime example of the challenges facing the company and our industry in general. Nonetheless, the company remains committed to serving its clients and meeting these challenges with energy and optimism. Brexit provides uncertainty about DCME's ability to continue to service its EU-based clients after Brexit. To ensure continuity for these clients, DCME has established a German subsidiary (Daiwa Capital Markets Deutschland GmbH). An application for regulatory approval was submitted to the BaFin, in December 2017. This new business will be up and running well in advance of Brexit day. Another challenge facing DCME (and the market in general) is MiFID II which came into force in January 2018. DCME is focused on delivering our client's needs, which we hope will help us gain market share and allow us to benefit from a reduction in competition as the market consolidates.

Chairman's Statement

I believe that DCME's mixture of businesses and its position within the Daiwa group will continue to serve it well. Its strong links to Japan and Asia make it ideally placed to source Japanese and Asian financial products for European investors. At the same time it is well positioned to supply European investment products to Japanese investors. We remain committed to delivering the best quality service to our customers, and I look forward to the future with confidence. I would like to take this opportunity to thank all our staff and clients for their continued commitment to the Daiwa Group.



Yours sincerely,

Shiko Yanagisawa

Chairman

Daiwa Capital Markets Europe Limited

Strategic Review

Introduction

The purpose of this report is to provide users of these Financial Statements with an insight into Daiwa Capital Markets Europe's ("DCME") business, strategy and the risks and opportunities associated with that strategy. The report includes commentary on the company's performance, Key Performance Indicators (KPIs), an outline of how DCME is structured, an overview of future prospects and the risks the business faces together with the strategy to mitigate these risks.

Business Model

DCME is the UK subsidiary of Daiwa Securities Group Inc. ("DSGI") and as such its business model is closely aligned to that of the parent group. DCME's purpose, within the Group, is to provide access to Japan and Asia for European clients and access to Europe for Daiwa Group clients. That access is in both primary and secondary markets. DCME is authorised and regulated by the Financial Conduct Authority ("FCA").

DCME's primary office, in Europe, is based at 5 King William Street, London. It has branches in Geneva and Bahrain and representative offices in Moscow and Paris.

DCME is structured along product lines, consistent across the Group, which allows for global product strategies and management. Global and local product heads, along with DCME senior management, work together to determine business priorities and strategy.

DCME provides M&A and Debt Advisory services through its wholly owned subsidiary group DC Advisory. DC Advisory operates through separately incorporated entities in the UK, France and Germany. The UK business (DC Advisory Limited) is regulated by the FCA. The results of DC Advisory are not consolidated in these financial statements.

Following the 2016 referendum on the UK's continued membership of the European Union (EU), the UK gave formal notice of its intention to leave the EU, (effective from 29 March 2019). DCME has established a German subsidiary, Daiwa Capital Markets Deutschland GmbH (DCMD) (incorporated December 2017), which is currently in the process of obtaining regulatory approval in Germany. The initial aim of the entity is to protect Daiwa Group relationships with existing EEA clients and maintain access to EEA clients and products for Daiwa Group's clients. In the medium term the objective is to increase client and product coverage in the EEA through a local presence. The results of DCMD are not consolidated in these financial statements.

Review of businesses, performance and strategy

DCME's 2018 pre-tax result was a loss on ordinary activities of £32.6m (2017: loss of £83.4m) after taking into account £59.7m of Net litigation expense (2017: £81.3m) and a £20m reversal of Loan Impairment (2017: included a £3m Goodwill Impairment).

At the Operating profit before litigation and impairment adjustments level DCME reported a profit of £7.3m (2017: £0.9m).

Net operating income increased £7m (6.4%) y-o-y, while Administrative Expenses increased by £0.6m (0.6%). The markedly stronger performance was driven by a significant increase in primary Equity and Convertible Bond revenue.

Strategic Review

A strong focus on cost control ensured the increase in costs remained well below inflation and the revenue growth, contributing to the improved operating income.

Looking forward DCME foresees that markets will be generally supportive and that in particular higher interest rates will provide more market opportunity for the Fixed Income and Convertible Bond businesses. We also anticipate that primary revenue will continue to be healthy. On a more cautious note, in common with the market, our Equities business will be negatively impacted by the introduction of MiFID II (in January 2018) and the end of the traditional bundled equity brokerage model. The uncertainties around "Brexit", on our business model and the wider European economy, will continue to provide headwinds to our strategy.

Litigation provision

During the financial year, DCME appealed unsuccessfully to the Appeals Court following the judgment handed down in 2017 in the legal claim brought by the liquidators of Singularis Holdings Limited. DCME has filed an application for permission to appeal to the Supreme Court and that decision is pending. However, in light of the Appeals Court judgment DCME increased its litigation provision by £59.7m. The provision now covers the full litigation claim, including interest and costs. There is thus no further material downside risk associated with this case.

The two other litigation cases, reported in the prior year, concluded in the firms favour during the year. There are no pending litigation cases as at 31 March 2018, other than the fully provisioned case detailed above.

Equities

The Equity Division includes investment research and advisory related agency brokerage with a core focus on Pan Asian equities. The division provides investment advice in the form of buy and sell recommendations on listed equities to institutional clients using Daiwa Group's research product. It offers execution services using the Group's access to the Tokyo Stock Exchange and to other Asian exchanges. In addition to secondary equity brokerage, the division distributes equity-linked primary issues originated by other parts of the Daiwa Group. The Pan Asian Equity desk serves a wide range of traditional and alternative fund managers throughout Europe and the Middle East. Additionally, the division provides European research and execution services to Japanese institutional investors and to the Daiwa Securities Group through a distribution partnership with Sanford C. Bernstein.

The Equity Division had a good year with a 26% y-o-y increase in total revenue. Primary activity in the year was particularly strong, increasing 285% y-o-y after a particularly poor 2017, with some meaningful mandates from Japanese global offerings, including the Japan Post follow-on offering. Secondary markets also traded well for most of the financial year, on the back of solid global equity markets, including Japanese and Asian markets, hitting recent highs. In Japan, the Liberal Democratic Party's October 2017 general election victory, bolstered investor confidence encouraging overseas investor flows to return to the market with more conviction.

Although 2018 was a successful year, DCME continues to face a countervailing challenge from the tightening of regulatory constraints, on its brokerage business model, being ushered in by MiFID II. The central tenet of MiFID II in respect of equities, that research and execution must be fully unbundled, disrupts the industry brokerage model that has endured since the 1930's. This environmental challenge is, of course, not unique to Daiwa but aspects of our historic business model add to the risk of disruption. This is because our traditional reliance on corporate access has been undermined by the strict enforcement of the FCA rule, forbidding the reward of corporate access through execution commissions. Meanwhile the FCA's requirement that research payments are made by fund managers only

Strategic Review

for research, which can be evidenced as being 'substantive', raises the research quality bar sharply. Given the multiple constituents for which Daiwa's global research is designed, ranging from retail through Japanese institutional to overseas institutional, our product tends to the lowest common denominator. That being said, our Japan research product remains competitive for Japan specialists. Research discussions with clients have progressed well, with the majority of clients signed up to pay for Daiwa research. That having being said there is clear downward pressure on revenue resulting from unbundling.

For 2019 we expect global risk appetite towards equities to continue to be heavily influenced by the divergent paths of the Federal Reserve (tightening) and the ECB and BOJ (both easing quantitatively) continuing to engender bouts of volatility but generally underpinning solid markets.

Looking forward the Equity Division is still focused on establishing a viable business model for the MiFID II regime. We believe that the new environment will justify two broad strategic emphases:

- A greater focus on Pan Asian execution revenues.
- A deeper degree of integration of our Japan and Asian product sales to sharpen our Pan Asian USP.

Distinctiveness is vital. It is critical to be able to offer a product which stands out from our peers and which clients cannot easily replicate in-house. Our challenge is to make Daiwa indispensable to key clients as they assemble much narrower lists of broking counterparties to work with in the unbundled era.

Fixed Income ("FI")

The Fixed Income Division consists of the following core business lines; investment grade Credit Trading; Government Bond Trading; Repo; MTN; Debt Syndication and Sales. The Sales desk is responsible for placement of Daiwa's Fixed Income global product range, both secondary and primary, with European clients. The MTN desk primarily provides a facilitation service to Tokyo's MTN and structured product business. The MTN desk does not take any market or credit risk. The Repo desk provides a financing function to the division, by arranging secured funding for its balance sheet positions. In addition the Repo desk provides a client facilitation service to the Group and external clients by undertaking a financing matched book. The Debt Syndication desk provides origination advice to borrowers and coordinates with other members of transaction underwriting syndicates.

FI had a disappointing year with markets remaining challenging, resulting in revenue being down 39% y-o-y. With the exception of Government trading and Debt Syndication, all areas were down y-o-y. Credit Trading had a particularly challenging year having to contend with low volatility, tightening of credit spreads and high funding costs. The Debt Syndication desk had a very good year with issuance conditions being extremely strong and transactions were well received.

Looking forward to 2019 we anticipate that higher rates will provide more volatility in both bonds and equities leading to more opportunity. Our core business of high grade fixed income will be in better shape given expectation of higher yields. Therefore we anticipate a significantly stronger year for Credit Trading and Government Bond Trading.

International Convertible Bonds ("ICB")

International Convertible Bonds makes markets in Japanese and Asian convertible bonds to its European and Asian client base, aiming to generate revenues by capturing bid-offer spreads. The division has a presence in both London and Hong Kong which allows it to service clients in both Asian and European time zones. It does not always receive

Strategic Review

simultaneous matching buy and sell orders so carries some bond inventory awaiting sale. In addition to market making activity, ICB seeks to participate in the primary market working closely with Daiwa's Equity Capital Markets (ECM) presence in both Japanese and Asian markets. The Japanese market is where Daiwa has strong corporate relationships and the business retains a market leading position in primary CB deals.

ICB had an excellent 2018 with revenues up 102% y-o-y. This was entirely due to the strong year for primary revenue, but which comes off a record low year in 2017. Primary revenue has seen a significant pick up as overall Japan primary issuance increased 42% y-o-y and Daiwa improved its league position. Secondary revenue remained flat reflecting tougher market conditions, particularly in the first 9 months of the year, with the global low volatility environment putting pressure on CB valuations.

Going forward into 2019 secondary revenue is expected to improve with improved levels of market volatility. Primary revenue whilst lower (after the strong 2018) should remain healthy as primary issuance should be supported by a large expiry calendar over the next 3 years, as deals that came to market at the early stages of Abenomics come up for expiry. Revenue should also be supported by the changing interest rate cycle globally which supports CB issuance generally.

Debt Capital Markets ("DCM")

The DCM department forms part of the Investment Banking Division and is primarily a marketing and co-ordination function to develop business with international borrowers in the primary / new issue market for debt product, targeted at Japanese and non-Japanese based retail and institutional investors.

DCM reported weaker revenue, down 34% y-o-y. 2018 saw a strong revenue performance from public deals, aimed at International and Japanese institutional investors in USD/JPY/AUD and selected other currencies, despite continued low issuance volumes overall in the Yen markets. Uridashi revenue (non-yen denominated bonds issued outside of Japan and sold to Japanese retail investors), however, was significantly lower due to a change in Daiwa Group retail product distribution methodology and strategy.

Going forward there are a number of positive areas to focus on, which should help drive the business forward. Daiwa has a strong franchise in Socially Responsible Investment bonds, and this should lead to more business if the sector continues to grow. Our new Australian Dollar initiative has taken strong root, and we expect to see revenue from this structure grow further. We have a larger pool of potential issuers including several debut names in the Samurai Bond (yen denominated bond issued by a non-Japanese company) market as Japanese investors warm to lower rated credits and European names generally. Partially offsetting this we do not see a recovery in Uridashi revenue.

Equity Capital Markets ("ECM")

The ECM department forms part of the Investment Banking Division and its main role is the origination and execution of International tranches of Equity and Convertible Bonds issued by Japanese and Asian issuers.

2018 was a very strong year for ECM with revenues up 340% y-o-y. The year saw a turn-around in capital raised via equity issuance in Japan, reaching its highest level since 2011 and surpassing 100 deals. The majority of equity offerings were sell-downs from governmental owned entities, taking the opportunity of the robust market environment. Convertible Bond issuance was also strong, as mentioned above, contributing to the significant increase in revenue. It is worth noting the y-o-y improvement was on the back of a poor primary performance in 2017.

Strategic Review

Going forward our expectations are that revenue will remain at an elevated level as we see a bigger pipeline for global secondary public offerings and initial public offerings. The significant Convertible Bond expiry calendar (and thus refinancing requirement) should contribute to a strong performance in Convertible Bond primary revenue. ECM will continue to focus on deepening and increasing its investor relationships.

Principal Investments ("PI")

The aim of the division is to diversify DCME's revenue by investing the firm's funds via the provision of loans, for development or bridging finance projects, for residential or student accommodation. Geographically the business is concerned with London, the South East, and regional cities with strong transport links to London. Bridging finance is permitted for commercial opportunities.

This relatively new business made its first loan in 2016 and by the end of financial year 2018 PI had underwritten 10 loans of which 7 were outstanding at the year end. Revenue was therefore considerably up (+616%) y-o-y, and is projected to increase over the next three years as the business grows.

Key Financial and Performance Indicators (KFI/KPIs)

DCME's core objectives are to maximise the return for our shareholder whilst maintaining a strong capital base. KPIs and KFIs are therefore focused on measuring business performance against plan, headcount, return on equity and providing clear visibility on the management of capital, funding and liquidity.

KPIs	<u>2018</u>	<u>2017</u>
Performance against Plan		
Revenue	-2.5%	+1.4%
Overheads (exc. restructuring costs, goodwill amortisation and impairment adjustments)	+4.0%	-4.0%
Total headcount (including non-perm staff)	-0.2%	+4.5%
Voluntary staff turnover	8%	8%
Actual Performance		
Return on Equity (before goodwill impairment and net litigation expense)	1.5%	0.2%
Loss on ordinary activities before tax	(£32.6m)	(£83.4m)

These KPIs show that DCME's revenue for 2018 was slightly under plan but this was offset by below plan overheads. Headcount has also been closely managed and ended the year with slightly lower numbers than budgeted.

KFIs

Capital	<u>2018</u>	<u>2017</u>
	£m	£m
Regulatory Capital Resources	476	506
Tier 1 Capital Ratio	45.7%	44.8%

Unsecured Funding Daiwa Group	<u>2018</u>		<u>2017</u>	
	£bn		£bn	
	Usage	Limit	Usage	Limit
	1.12	1.28	0.70	0.88

Strategic Review

DCME derives a significant proportion of unsecured funding from Daiwa Securities Group Inc (DSGI). DSGI is also the majority shareholder in the company. DCME is therefore sensitive to changes in the Group's resource allocation strategy.

As can be seen in the ratios above, DCME has significant levels of excess capital, which on one hand make achieving a reasonable return on equity difficult, but on the other hand is essential for 'business as usual', as the Large Exposure requirements of the European Capital Adequacy Regulation and Directive (collectively referred to as CRD IV) are linked to capital levels. Without this large capital base DCME could face significant trading volume restrictions as a result of limits within the Large Exposure regime. Additionally this capital is a source of funding for DCME and would require replacement with an alternative source if reduced. There are currently no indications from the parent that they are requiring repatriation of capital.

Principal Risks and Uncertainties Facing the Company

Brexit

DCME is well advanced in its solution to a worst case Brexit. Expectations are that DCMD will obtain regulatory approval, necessary to protect Group revenue, during the summer of 2018. The project, to build out the infrastructure and hire the necessary staff, is progressing well, with a target date for the first client trade set for January 2019.

Despite the robust preparations to protect the firm from a worst case Brexit scenario, there are significant unknowns regarding the UK's future relationship with the European Union, our client's response, our competitor's response and the impact the final outcome will have on markets. While we anticipate there could be positives in the medium term our expectation is that the short term impact will be negative. The cost associated with setting up the operations in Germany will not be covered by increased business in the short term.

Geographic and Market Exposure

DCME's business is focused principally in the capital markets, with its key geographic focus being Japan, Asia (ex Japan) and Europe. As such the company is exposed to the economic and regulatory challenges that impact the industry and geographic locations as a whole.

Group Exposure

While the company operates as a stand-alone entity, meeting the regulatory requirements to survive a failure of the parent undertaking, the reality is that it operates within a wider Group and its fortunes are entwined with the successes and failures of the wider Group.

The Daiwa Group has a distinct Japanese domestic bias, with a significant retail franchise within the Japanese market. As such, the wider strategic risks and uncertainties faced by the company are similar to those which are relevant to the Parent and Japanese economy as a whole. The Daiwa Securities Group has experienced a very strong year, with Net Operating Revenue (+6.9%), Ordinary Income (+14.8%) and Profit Attributable to Owners of Parent (+6.3%) all increasing y-o-y for the first time in 4 years. Group ROE was 8.8% (2017: 8.4%). The performance was against the backdrop of favourable market conditions in Japan, with the Nikkei 225 up over 13% over the financial year, and equity issuance reaching the highest levels since 2011. "Abenomics" presents a strategic opportunity to the Daiwa Group, as its fortunes are closely correlated to the success of the Japanese stock market

Strategic Review

and the wider Japanese economy. With this opportunity comes the risk that failure will result in a significant under performance in expected results for the Group and the knock-on implications for individual business lines.

A significant portion of DCME's revenue comes from primary activity (i.e. the origination and distribution of new debt and equity issues for our clients). DCME is reliant on other Daiwa offices for revenue relating to those transactions originating in Japan and Asia. DCME thus has very little control over the outturn related to primary activity, which could result in both positive and negative material deviations from plan. Conversely transactions originated by DCME and sold into the Daiwa network will result in a distribution of the fee pool across the Daiwa Group. While our expectation is that DCME would be a net beneficiary of this two way activity we are reliant on the rest of the Group and not in full control of the outcome. This is, however, a key area of business for the Group and a core reason for DCME's existence.

Changes in Group strategy and/or product line strategy could have a direct impact on DCME and its strategy. Differences between Group and local strategy need to be actively managed to avoid negatively impacting DCME. The inclusion of Tokyo senior management on DCME's Board, a Japanese Chairman and COO and close communication between DCME division heads and their global product heads helps to avoid these types of conflicts.

Resource Constraints / Business Focus

DCME is continuing the process of transforming its business to be less reliant on proprietary trading and more focused on customer driven flow. Despite this, a large part of the business is and will continue to require taking on balance sheet positions in a market making capacity. Taking these positions requires access to both funding and capital, which DCME currently has. There is, however, a risk that with increased focus on return on equity, amongst Japanese firms, that the current low returns will result in the Group re-deploying resources currently allocated to Europe, which would severely constrain the business. Any changes in resource allocation would, however, be carefully considered and implemented in an orderly way.

Conversely a shift away from proprietary activity to client driven activity increases our exposure to our client base and the changing landscape of the global investment community. A strong shift away from our key markets by clients will have a greater impact on our revenue generating ability. Regulation, such as MiFID II poses further risks to our business and that of our client base.

Daiwa Europe Specific Risks and Uncertainties

DCME continues to maintain its balance sheet in high quality liquid assets, with only 1% of the asset base being invested in sub-investment grade credit (refer to note 30 of the accounts for further details).

Outside of those risks and uncertainties faced by the market and the Group, DCME has its own set of risks and uncertainties which it faces and which management are focused on ensuring that mitigating controls and actions are in place to address. The principal risks and uncertainties faced by the company, outside of economic risks, are as follows:

Strategic Review

Risk	Impact / Probability	Change in risk Y-o-Y	Mitigation of risk
Liquidity risk	High Impact / Low Probability	<p>Central bank policy has started to diverge, with the US tightening while the ECB and BOJ continue to persist with accommodative monetary policy.</p> <p>Market conditions, however, have been fairly stable, without any significant liquidity constraints for DCME. Daiwa Group's liquidity position also remains strong.</p>	<p>DCME has a dedicated liquidity risk management section focused on assessment, monitoring and reporting of liquidity risk. The section aims to evolve and improve all aspects of liquidity risk management on a continuous basis, as well as implement the associated liquidity regulations.</p> <p>DCME takes a conservative approach to liquidity risk management. DCME manages liquidity at levels such that it remains (i) cash flow positive over all time periods up to 1 month under a combined market and name specific liquidity stress, and (ii) cash flow positive for at least one year under a market stress.</p> <p>DCME holds a significant liquid asset buffer, which can be readily converted into cash when required. The trading portfolio also consists of high quality assets, most of which are deemed extremely liquid.</p>
Regulatory changes	High Impact / High Probability	<p>Increased oversight and expectations, from the Regulator, has led to greater requirements for capital and liquidity.</p> <p>New regulation and reporting requirements have increased the need for regulatory and compliance resources, as well as absorbing significantly more of senior management and Board time.</p>	<p>The on-going raft of regulatory changes continues to provide significant challenges to the industry, both in terms of implementation and compliance. Meeting regulatory requirements is not just a high priority for DCME Board members but for the Group as a whole.</p> <p>DCME mitigates the implementation risks by employing experienced regulatory and project staff. A dedicated regulatory policy section exists, to ensure we are not only dealing with current changes, but can also be forward looking to address future changes in a timely manner. In addition, the regulatory quality assurance section seeks to further enhance controls and ensure accuracy and completeness of data amidst the on-going change.</p> <p>The appropriate committees within DCME's governance structure are made aware of the</p>

Strategic Review

			<p>changes, the impact on DCME, the cost and resources required to achieve implementation on the mandatory deadlines. The Risk and Asset and Liability Committee (RALCO) has detailed oversight of all prudential regulatory change while ultimate responsibility lies with the Board.</p> <p>In addition the compliance with and impact on business, of regulatory change is reduced by maintaining a fairly vanilla product and service offering.</p>
Competitive pressure	High Impact / Medium Probability	<p>Unchanged.</p> <p>Staff turnover in the year was 10.5%, and voluntary turnover was below 7.6%, which is low for the industry. No material risks crystallised during the year as a result of key staff departures.</p>	<p>The key competitive pressure we face is staff retention, which the company attempts to mitigate by ensuring compensation is competitive and promoting a positive culture of work/life balance.</p>
Operational Risks (not covered separately)	High/Medium Impact/ Medium Probability	<p>Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events and covers a variety of risk factors from rogue trading, and securities fraud to BCP events, such as the failure of critical systems.</p> <p>Year on year this risk has remained broadly unchanged, with some improvement to the rate of change in DCME's IT infrastructure offset by heightened market concerns around cyber-crime.</p>	<p>DCME has a common firm-wide framework overseen by a central Operational Risk Management (ORM) function, with ownership of the actual risks residing with the managers responsible for the relevant business process.</p> <p>DCME utilises a number of firm-wide processes and tools for the identification, recording, assessment, monitoring, prevention and mitigation of operational risks.</p> <p>Risk mitigation actions arising from the core components of the firm's Operational Risk Framework are centrally tracked by ORM and the status reported to the Operational Risk & Compliance Committee (ORCC).</p> <p>A significant firm wide initiative, to address the risks posed by cyber-crime has been implemented, led by Tokyo, with material resources allocated, at the Group level.</p> <p>A strategic initiative to improve the firm's IT resiliency following the failure of an outsourced data centre facility in 2016, remains in progress.</p>

Strategic Review

			The action plan for the resiliency initiative is reported to and monitored by the Operations Committee, Executive Committee and Board.
Litigation Risks	High Impact / Medium Probability	<p>Exposure to the risk of litigation is an inherent risk in the securities market and is further increased during periods of market volatility and corporate failures.</p> <p>DCME faces litigation risk from both current and historic activities, so while the current business model is simpler than in prior years, the risks remain. The longer the current strategy continues the lower the litigation risk from past activity becomes.</p> <p>Note 25 details the current Singularis litigation case, which has now been fully provided for and possess negligible future downside risk. All other litigation cases outstanding have also been resolved during the financial year.</p> <p>Litigation risks in the market have been increasing over the last few years, as regulatory fines and penalties increase litigation risks on those firms being penalised by the Regulator. For DCME this increased risk is offset by a simplification in business model and increased allocation of capital resources.</p>	<p>While DCME's business model is relatively simple and our exposure to litigation has in recent years been limited, our capital market and securities trading activities have nevertheless resulted in potential exposure to litigation. Additionally risks arise from operational events, such as settlements, as evidenced by the Singularis litigation.</p> <p>While our primary approach to mitigating these risks is through appropriate on-boarding controls and risk management techniques combined with good quality, market standard legal documentation; our view based on our own experiences and events in the market is that it is difficult to eliminate these risks entirely.</p>

The strategic report was approved by the Board on 19 June 2018 and signed on their behalf by:



Keith Meekins
Chief Executive Officer

Directors' report

The directors present their annual report on the affairs of Daiwa Capital Markets Europe Limited ('the company'), together with the financial statements and independent auditor's report, for the year ended 31 March 2018.

Principal Activities

Daiwa Capital Markets Europe Limited is a wholly owned subsidiary of Daiwa International Holdings Inc, which is a wholly owned subsidiary of Daiwa Securities Group Inc. ('Daiwa Group'), one of the largest brokerage and banking groups in Japan. The primary activities of the company are to provide investment banking services in Equities, Fixed Income, Convertible Bonds, financing for development real estate projects and Corporate Finance Advisory, through its pan-European subsidiary group Daiwa Corporate Advisory. The company also has a branch network across Europe and the Middle East primarily involved in Equity Sales, and a German subsidiary (Daiwa Capital Markets Deutschland GmbH) established to service EU based customers following the UK's withdrawal from the EU.

Results and Dividends

The audited financial statements for the year ended 31 March 2018 are set out on pages 21 to 61. The company's loss for the year after taxation was £30.6m (2017: Loss of £83.3m). The Strategic Review provides commentary and background on the company's performance.

The directors do not recommend payment of a dividend in respect of the current financial year (2017: £nil).

Risk Management

In the normal course of its business, the company will be exposed to a range of operational and financial risks including market, credit, liquidity, operational and conduct risks. A strong risk discipline is vital in maintaining financial health, providing reassurance to regulators and counterparties and ensuring that business decisions are optimised for risk-return considerations.

The Board is responsible for setting an overall risk appetite based on the company's revenue plans, tolerance for risk and underlying capital base. The Board Risk Committee, chaired by an independent non-executive director, has delegated responsibility, from the Board, for oversight of high-level risk management. The risk management framework includes a governance structure of risk committees and officers, together with a dedicated independent risk function to provide comprehensive risk monitoring, reporting and control. Reporting and control of risk is undertaken both locally within the company and globally within the Daiwa Group.

The company actively manages its exposure to market risk (such as interest rates or foreign exchange) and credit risk, using a variety of techniques including value-at-risk, sensitivity limits, exposure limits, stress testing, diversification, mitigation by collateral and hedging. As part of its hedging activity, the company utilises derivative products such as swaps, futures and options. Notes 30 and 31 to the financial statements provide a full explanation of the company's financial and capital risk management objectives and policies, and exposure to market, credit and liquidity risk.

Financial Instruments

Buying and selling financial instruments, including risk management products, is integral to the company's activities.

Directors' report

Directors' and Officers' Indemnities

The company maintained insurance against liabilities for all directors and officers of the company during the financial year and at the date of this report.

Employee Consultation

The company places considerable value on the involvement of its employees and continues its previous practice of keeping them informed on matters affecting them as employees, and on the various factors affecting the performance of the company, through regular senior management forums, news feeds and other measures.

Charitable Contributions

The company contributed £40,584 (2017: £40,349) to charities during the course of the year.

Disabled Employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Environmental Measures

Environmental measures undertaken during the year include the recycling of waste, the use of biodegradable disposables and the efficient disposal of obsolete electrical items. Procurement decisions relating to premises actively consider the energy efficiency standards of new equipment. Our consultants are helping us identify better energy efficient approaches to electrical systems where we aim to exceed legislative standards. We have achieved substantial savings in energy consumption due to improvements in equipment efficiency and controls. In addition, the company continues to support the Group in the development of financial product offerings with an environmental theme.

Going Concern

The directors' assessment of the company's ability to continue as a going concern is an ongoing management function. This assessment is based upon an assessment of liquidity & funding, capital adequacy and cash flow forecasts that are prepared by the company and its subsidiaries in the normal course of its resource management. For the purpose of the ongoing assessment, various stress scenarios to the normal operating environment have been identified and considered.

The company's directors believe there are no material uncertainties that may cast significant doubt about the company's ability to continue as a going concern.

Directors' report

Directors

The following directors have held office throughout the year and to the date of these accounts except where otherwise noted:

Name	Title	Nationality	Appointed/ Resigned/Retired	Committee Members *
Shiko Yanagisawa	Chairman	Japanese	Appointed – 1 October 2017	AC, BR, RC, NC
Junichi Arihara	Chairman	Japanese	Resigned – 30 September 2017	-
Keith Meekins	Chief Executive Officer	British	-	EC, CC
Jun Hayakawa	Chief Operating Officer	Japanese	-	EC, CC
Junichi Arihara	Non-Executive Director	Japanese	Appointed – 1 October 2017	BR, RC, NC
Hiroki Ikeda	Non-Executive Director	Japanese	-	RC, NC
Sung-Ho Kang	Non-Executive Director	Korean	Retired – 31 March 2018	-
Keiko Tashiro	Non-Executive Director	Japanese	-	RC, NC
Douglas van den Aardweg	Independent Non-Executive Director	British	Appointed – 15 May 2017	AC, BR, RC, NC
Peter Goshawk	Independent Non-Executive Director	British	-	AC, BR, RC, NC

Reflects committee membership as at 31 March 2018 or subsequently appointed

BR - Board Risk Committee*, AC - Audit Committee*, RC - Remuneration Committee, EC - Executive Committee, NC - Nominations Committee, CC – Conduct and Reputational Risk Committee

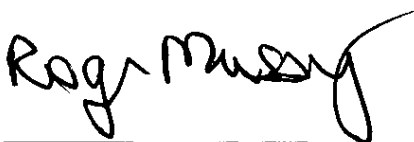
*Membership of the Board Risk and Audit Committees also includes Alex Monnas who is not a DCME director.

Disclosure of Information to Auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and the directors have taken all the steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent Auditors

Pursuant to Section 489 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.



By order of the Board:
Roger Massey
Secretary

5 King William Street
London,
EC4N 7DA
19 June 2018

16 DAIWA CAPITAL MARKETS EUROPE LIMITED
Annual Report and Financial Statements for the year ended 31 March 2018

Statement of Directors Responsibilities

Statement of Directors' responsibilities in respect of the Strategic Report, the Directors Report and the Financial Statements

The directors are responsible for preparing the Strategic Report, the Directors Report and the financial statements in accordance with applicable law and regulations.

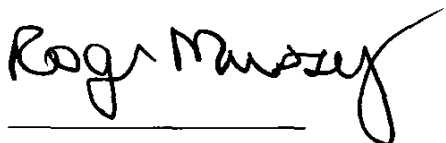
Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



By order of the Board:
Roger Massey
Secretary

5 King William Street
London
EC4N 7DA

19 June 2018

Independent Auditor's Report

Independent Auditor's Report to the Members of Daiwa Capital Markets Europe Limited

Opinion

We have audited the financial statements of Daiwa Capital Markets Europe Limited ("the company") for the year ended 31 March 2018 which comprise the Statement of comprehensive income, Balance sheet, Statement of changes in equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;

Independent Auditor's Report

- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 17, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent

19 DAIWA CAPITAL MARKETS EUROPE LIMITED

Annual Report and Financial Statements for the year ended 31 March 2018

Independent Auditor's Report

permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Zaffarali Khakoo (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

19 June 2018

STATEMENT OF COMPREHENSIVE INCOME
For the Financial Year ended 31 March 2018

	Note	2018	2017
		£'000	£'000
Fee and commission income	2	83,659	65,741
Fee and commission expense	2	(31,241)	(30,300)
Net trading revenue	3	22,669	33,932
Other income	4	33,631	31,057
Total non-interest income		108,718	100,430
Interest income and similar receivables	5	88,221	73,743
Interest payable and similar charges	6	(80,640)	(64,835)
Net interest income		7,581	8,908
Net operating income		116,299	109,338
Administrative expenses*	7	(109,049)	(108,421)
Operating profit before litigation and impairment adjustments		7,250	917
Goodwill impairment*		-	(3,038)
Loan impairment writeback*	9	19,862	-
Net litigation expense*	10	(59,686)	(81,310)
Loss on ordinary activities before tax		(32,574)	(83,431)
Tax credit on ordinary activities	11	1,989	179
Loss for the financial year		(30,585)	(83,252)
Other comprehensive income			
Exchange adjustments on fair value reserve		33	89
Movement on fair value reserve		97	40
Deferred tax recognised in equity		(24)	(14)
Total comprehensive loss for the financial year		(30,479)	(83,137)

*Total administrative expenses (including impairment adjustments and net litigation expense) amounted to £148,873k (2017: £192,769k).

The accompanying notes on pages 24 to 61 are an integral part of the financial statements.

BALANCE SHEET

As at 31 March 2018

Company registered number: 01487359

	Note	2018 £'000	2017 £'000
Fixed assets			
Intangible assets	12	7,094	8,090
Tangible assets	13	11,479	12,715
Available for sale investments	14	1,402	1,270
Investments in subsidiary undertakings	15	641	-
		20,616	22,075
Current assets			
Debtors	16	8,402,416	8,206,516
Financial assets held for trading	18	2,473,421	2,410,902
Financial assets designated at FVTPL	19	24,411	-
Cash at bank and in hand	20	74,257	110,766
		10,974,505	10,728,184
Current liabilities			
Creditors: amounts falling due within one year	21	(9,504,559)	(8,690,576)
Financial liabilities held for trading	18	(1,032,181)	(1,449,154)
		(10,536,740)	(10,139,730)
Net current assets		437,765	588,454
Total assets less current liabilities		458,381	610,529
Debtors: amounts falling due after more than one year	23	176,688	6,152
Creditors: amounts falling due after more than one year	24	(1,768)	(1,828)
Provisions for liabilities	25	(151,825)	(102,898)
Net assets		481,476	511,955
Capital and reserves			
Called-up share capital	26	732,121	732,121
Reserves		(250,645)	(220,166)
Shareholders' funds (all equity interests)		481,476	511,955

The financial statements were approved by the Board on 19 June 2018 and signed on their behalf by:



Keith Meekins

Chief Executive Officer

The accompanying notes on pages 24 to 61 are an integral part of the financial statements.

22 DAIWA CAPITAL MARKETS EUROPE LIMITED

Annual Report and Financial Statements for the year ended 31 March 2018

STATEMENT OF CHANGES IN EQUITY

The table below presents the changes in Equity for the year ended 31 March 2018:

	Called-up Share Capital	Fair Value reserve	Capital reserve	Profit and loss account	Total
	£'000	£'000	£'000	£'000	£'000
Beginning of year	732,121	991	13,908	(235,065)	511,955
Loss for the financial year	-	-	-	(30,585)	(30,585)
Exchange differences	-	33	-	-	33
Revaluation of available for sale investments	-	97	-	-	97
Deferred tax liability on fair value gain on available for sale investments	-	(24)	-	-	(24)
End of year	<u>732,121</u>	<u>1,097</u>	<u>13,908</u>	<u>(265,650)</u>	<u>481,476</u>

The table below presents the changes in Equity for the year ended 31 March 2017:

	Called-up Share Capital	Fair Value reserve	Capital reserve	Profit and loss account	Total
	£'000	£'000	£'000	£'000	£'000
Beginning of year	732,121	876	13,908	(151,813)	595,092
Loss for the financial year	-	-	-	(83,252)	(83,252)
Exchange differences	-	89	-	-	89
Revaluation of available for sale investments	-	40	-	-	40
Deferred tax liability on fair value gain on available for sale investments	-	(14)	-	-	(14)
End of year	<u>732,121</u>	<u>991</u>	<u>13,908</u>	<u>(235,065)</u>	<u>511,955</u>

Notes to the Financial Statements

1 Accounting policies

A summary of the principal company accounting policies is set out below. Except where indicated, they have been applied consistently throughout the current and preceding year.

a) Statement of compliance

The financial statements are prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of certain assets, including investments and financial instruments and in accordance with the Companies Act 2006.

The financial statements of the company for the year ended 31 March 2018 have been prepared in accordance with the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland (FRS 102) issued by the Financial Reporting Council.

b) Basis of preparation

The results of the company's overseas branches are incorporated within the company's results. Any exchange gains and losses are reported through the company's profit and loss account.

In accordance with s401 of the Companies Act 2006 the company has not prepared consolidated financial statements on the basis that it is exempt from the obligation to prepare and deliver group financial statements. The company is a wholly owned subsidiary of Daiwa Securities Group Inc. incorporated in Japan, which prepares group financial statements.

These financial statements present information about Daiwa Capital Markets Europe Limited as an individual undertaking and not about its group.

c) Disclosure exemptions

In accordance with disclosure exemptions available under FRS 102 set out in paragraph 1.12 (except for the disclosure exemptions from Section 11 Basic Financial Instruments and Section 12 Other Financial Instruments Issues); the directors have adopted certain disclosure exemptions. The directors have not prepared a cash flow statement for the year on the grounds that a parent undertaking included the company in its own published consolidated financial statements.

A reconciliation of the number of shares outstanding at the beginning and at the end of the year has not been presented. The company is exempt from specific share based payment disclosures under share based payment arrangements that existed during the period and the directors have not made full disclosures. The equivalent disclosures required by FRS 102 are included in the consolidated financial statements of Daiwa Securities Group Inc. in Japan in which the company's results are consolidated. See note 34 for details on where the company's ultimate parent company, Daiwa Securities Group Inc.'s, consolidated financial statements may be obtained from.

The company is also exempt from disclosing key management compensation in total under Section 33 Related Party Disclosure of FRS 102. Directors' remuneration is disclosed as required by the Companies Act 2006 in note 33.

Notes to the Financial Statements

1 Accounting policies (continued)

d) *Intangible assets*

Goodwill

Goodwill represents the excess of the fair value of purchase price and costs directly attributable to the acquisition over the purchase of identifiable assets acquired and the liabilities assumed on acquisition. Goodwill is capitalised as an intangible asset and amortised through the profit and loss account on a straight line basis over its expected useful economic life. Capitalised goodwill is reviewed for impairment at each reporting date.

Impairment losses recognised for goodwill are not reversed in subsequent periods, even if the reasons for the impairment loss have ceased to apply.

For the purpose of calculating goodwill, fair values of acquired assets and liabilities assumed are determined by reference to market values, where available, or by reference to the current price at which similar assets could be acquired or similar obligations entered into.

Computer software

Computer software is shown at cost less accumulated amortisation and impairment, if any, and reviewed for impairment if necessary. Where appropriate, the labour costs of the company's own employees are capitalised if an asset is self-constructed, provided that those costs are directly attributable to bringing the asset into working condition. Amortisation is provided on these assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Intangible assets:	Rate per annum
Computer software	20 – 33%

Amortisation is not charged on intangible assets until they have been completed and brought into operation.

e) *Tangible assets*

Tangible assets are shown at cost less accumulated depreciation and impairment, if any, and reviewed for impairment if necessary. Depreciation is provided on these assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Tangible assets:	Rate per annum
Computer hardware and other office machinery	20 – 33%
Motor vehicles	25%
Office furniture, fittings and equipment	0 – 33%

Depreciation is not charged on assets in course of construction until they have been completed and brought into operation.

Notes to the Financial Statements

1 Accounting policies (continued)

f) Financial assets and liabilities

The company has adopted the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement (as adopted for use in the EU) and the disclosure requirements of Section 11 Basic Financial Instruments and Section 12 Other Financial Instruments. The scope of IAS 39 applies to all of the company's financial instruments at balance sheet date.

The company classifies its financial assets in the following categories:

Financial assets

The company classifies its financial assets in four categories:

- financial assets at fair value through profit and loss;
- loans and receivables (measured at amortised cost);
- held to maturity investments (measured at amortised cost);
- available for sale financial assets (measured at fair value with fair value changes recorded in other comprehensive income).

Management determines the classification of financial assets and liabilities at initial recognition. The company had no assets in the category "held to maturity investments" in the current or prior year.

Financial assets at fair value through profit or loss

This category includes:

- Financial assets held for trading. Instruments are classified as held for trading if they are:
 - (i) acquired principally for the purposes of selling or repurchasing in the near term, including marketable securities; or
 - (ii) part of a portfolio of identified financial assets that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
 - (iii) a derivative.
- Financial assets designated at time of initial recognition at fair value through profit and loss ("FVTPL"). Instruments are classified in this way if either of the following circumstances apply:
 - (i) it significantly reduces a recognition or measurement inconsistency that would otherwise occur (an "accounting mismatch"); or
 - (ii) the instrument forms part of a group of financial assets whose performance is evaluated on a fair value basis in accordance with a documented investment strategy, and that information is provided to key management personnel on this basis.

Financial assets at FVTPL are recognised initially at fair value and transaction costs are taken directly to the profit and loss account. Gains and losses arising from changes in fair value are included directly in the profit and loss account.

Notes to the Financial Statements

1 Accounting policies (continued)

Purchases and sales of financial assets held for trading are recognised on settlement date basis, being the date on which legal title to the traded instruments changes hands.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale.

Loans and receivables are initially recognised at fair value including direct and incremental transaction costs. They are subsequently valued at amortised cost, using the effective interest method.

Loans and receivables are assessed at each reporting date to determine whether there is objective evidence of impairment.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are designated as available for sale and are not recognised into any of the other categories described above. They are initially recognised at fair value including direct and incremental transaction costs. They are subsequently held at fair value. Gains and losses arising from changes in fair value are included in a fair value reserve until sale when the cumulative gain or loss is transferred to the profit and loss account. The available for sale assets are reviewed for impairment if necessary.

Purchases and sales of financial assets available for sale are recognised on trade date, being the date on which the company commits to purchase or sell the asset.

Financial liabilities

Financial liabilities are measured at the original amount, except for financial liabilities held for trading, which are measured at fair value through profit and loss. Financial liabilities include non-derivative marketable securities, derivative financial instruments or trading liabilities. Other financial liabilities (including other payables) are subsequently measured at amortised cost using the effective interest rate method.

Notes to the Financial Statements

1 Accounting policies (continued)

The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or when appropriate, a shorter period, to the carrying amount of the financial liability on initial recognition. The effective interest rate is determined on the basis of the carrying amount of the financial liability at initial recognition.

g) Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost less impairment.

h) Income and expense

Fee and commission

Fee and commission income is recognised in the profit and loss account when the related services are provided. Fee and commission expense is recognised when services are received.

Net trading revenue

Gains and losses arising from changes in fair value of financial assets and liabilities held for trading are included in the profit and loss account as net trading revenue.

Other income

Other income mainly consists of costs recharged to group companies for services, which are recognised when the services are provided.

Interest income and similar receivables, interest payable and similar charges

Interest income and interest expense are recognised based upon the effective interest method.

Arrangement and Exit Fees on loans are treated as part of the funding aspect of the loan and are recognised over the life of the loan using the effective interest method. They are disclosed as interest in the financial statements.

i) Determining fair value

Where the classification of a financial instrument requires it to be stated at fair value, this is determined by reference to the quoted bid price or offer price (as appropriate) in an active market wherever possible. Where no such active market exists for the particular asset or liability, the company uses a valuation technique to arrive at the fair value including the use of prices obtained in recent arms-length transactions, discounted cash flow analyses, option pricing models and other valuation techniques commonly used by market participants.

Where appropriate, valuations are adjusted to account for various factors including time value, volatility factors and underlying share prices in respect of options, warrants and convertible bonds; and counterparty credit quality, bid/offer and future administration costs for OTC derivatives.

Profits and losses are only recognised on initial recognition when such profits can be measured solely by reference to observable current market transactions or valuation techniques based solely on observable market inputs.

Notes to the Financial Statements

1 Accounting policies (continued)

For each class of financial assets and/or liabilities recognised at fair value, the company utilises the following hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

j) Offsetting of assets and liabilities

Assets and liabilities, which are considered to be financial assets and liabilities for the purposes of FRS 102, are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to either settle on a net basis, or realise the asset and settle the liability simultaneously.

k) Taxation

Current tax is recognised for the amount of tax payable (or receivable) in respect of the taxable profit (or loss) for the current or prior periods using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences arising when items are included in a tax assessment in one period and recognised in the financial statements in another. Deferred tax is calculated using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference.

Deferred tax assets are only recognised to the extent that it is probable they will be recoverable against future taxable profits or deferred tax liability reversals.

Deferred tax assets and deferred tax liabilities are offset only if the group has a legally enforceable right to offset and the amounts relate to taxes levied by the same taxation authority.

l) Pension costs

Pension benefits are provided through a defined contribution scheme (group personal pension plan) to which the company contributes a percentage based on each member's earnings. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

m) Foreign currency

The financial statements are presented in Sterling, which is the functional currency of the company. Items included in the financial statements are measured using their functional currency, being the currency of the primary economic environment in which the company operates.

Notes to the Financial Statements

1 Accounting policies (continued)

Monetary assets and liabilities denominated in foreign currencies at the year end are reported in the functional currency at the rates of exchange prevailing at the year end. Income and expenses denominated in foreign currency are recorded in the functional currency at the exchange rate prevailing at the end of the month in which they arise and any gains or losses arising are reflected in the profit and loss account.

n) Leases

The company enters into operating leases as described in note 27. Rentals under operating leases are charged on a straight-line basis over the lease term. The company has not entered into any finance leases during the year (2017: £nil).

o) Securities purchased/sold subject to resale/repurchase agreements (including stock borrowing and lending)

Securities may be lent or sold subject to a commitment to repurchase them (a 'repo'). Such securities are retained on the balance sheet when substantially all the risks and rewards of ownership remain with the company, and the counterparty liability is included separately on the balance sheet as appropriate.

Similarly, where the company borrows or purchases securities subject to a commitment to resell them (a 'reverse repo') but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans, and the securities are not included in the balance sheet.

The difference between sale and repurchase price is accrued over the life of the agreement using the effective interest method.

Securities lent to counterparties are retained in the financial statements. Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, at which point the obligation to repurchase the securities is recorded as a trading liability at fair value. Any subsequent gains or losses are included in net trading income.

p) Collateral

The company enters into master agreements with counterparties whenever possible and, when appropriate, obtains collateral. Master agreements provide that, if an event of default occurs, all outstanding transactions with the counterparty will fall due and all amounts outstanding will be settled on a net basis.

The company obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the company a claim on these assets for both existing and future liabilities. The company also receives collateral in the form of cash or securities in respect of other credit instruments, such as stock borrowing contracts, and derivative contracts in order to reduce credit risk. Collateral received in the form of securities is not recorded on the balance sheet. Collateral received in the form of cash is recorded on the balance sheet with a corresponding liability. Any interest payable or receivable arising is recorded as interest expense or interest income respectively.

Notes to the Financial Statements

1 Accounting policies (continued)

The company measures the market value of the securities borrowed and loaned against collateral on a daily basis. Additional collateral is obtained as necessary to ensure such transactions remain adequately collateralised.

q) *Related party transactions*

In accordance with exemptions granted under FRS 102 the directors have not disclosed related party transactions with other entities included in the consolidated financial statements of Daiwa Securities Group Inc.

r) *Share based payments to employees*

Daiwa Securities Group Inc., Daiwa Capital Markets Europe Limited's ultimate parent company, engages in equity settled share based payment transactions in respect of services received from certain employees of the company. The fair value of the services received is measured by reference to the fair value of the shares or share options granted on the date of the grant. The cost of the employee services received in respect of the shares or share options granted is recognised in the profit and loss account over the period that the services are received, which is the vesting period. The fair value of the options granted is determined using option pricing models, which take into account the exercise price of the option, the current share price, the risk free interest rate, the expected volatility of the share price over the life of the option and other relevant factors. In respect of vesting conditions related to market conditions, the charges for the services received are recognised regardless of whether or not the market related vesting condition is met.

s) *Deferred Compensation*

The company has various deferred compensation arrangements in place at the year end. Staff compensation may include awards in the form of deferred bonuses in cash and cash-settled share based payments. The vesting of deferred bonuses is dependent on future service and can be subject to claw back provisions.

Deferred bonuses are only payable once the conditions of the deferred arrangement have been met and will, at a minimum, require the employee to be an employee in good standing at the payment date. Deferred compensation costs are recognised over the period of service, if it is more likely than not that the amounts will be paid out. The awards are expensed over the required service period and accruals are adjusted for changes to respective vesting dates that the awards are expected to be paid out. Any accrued interest and change in value of share based payments, will be booked through the profit and loss account in the period to which they relate.

t) *Provisions and contingent liabilities*

Provisions are recognised if the company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If these conditions are not met, no provision is recognised. The amount recognised as a provision is measured at the directors' best estimate of the consideration required to settle the obligation as of the balance sheet date, the expense is recognised in the profit and loss account, taking into account the risks and uncertainties surrounding the obligation.

Notes to the Financial Statements

1 Accounting policies (continued)

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed, unless they are remote.

u) Impairment of non-financial assets

The carrying amounts of the company's non-financial assets, such as goodwill and investment in subsidiary, are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. The investment in subsidiary is carried at cost and reviewed for impairment at each reporting date. Capitalised goodwill is reviewed for impairment at each reporting date.

Impairment losses are recognised in the profit and loss account. Impairment losses recognised for goodwill are not reversed in subsequent periods, even if the reasons for the impairment loss have ceased to apply.

Calculation of recoverable amount

The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the expected future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the rate of return expected on an equally risky investment. For an asset that does not generate largely independent income streams, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Reversals of impairment

Where the recoverable amount increases as a result of a change in economic conditions or in the expected use of the asset then the resultant reversal of the impairment loss should be recognised in the current period (with the exception of goodwill).

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2 Fee and commission income and expense

Fee and commission income and expense consists mainly of equity related brokerage commissions and new issue related fees, expenses and shared commissions.

Notes to the Financial Statements

3 Net trading revenue

Net trading revenue is the net gains/(losses) on financial assets or financial liabilities classified as held for trading.

4 Other income

	2018 £'000	2017 £'000
Costs recharged to group companies	32,579	30,230
Settlement of claim against IT service supplier	-	827
Release of surplus withholding tax penalty	1,052	-
	<u>33,631</u>	<u>31,057</u>

5 Interest income and similar receivables

	2018 £'000	2017 £'000
Interest and dividend income – held for trading	31,717	25,884
Interest income – other financial assets	56,504	47,859
	<u>88,221</u>	<u>73,743</u>

Included in the above is interest received from group companies amounting to £21.6m (2017: £18.0m).

6 Interest payable and similar charges

	2018 £'000	2017 £'000
Bank loans and overdrafts	18,191	9,217
Interest expense – held for trading	3,063	5,927
Interest expense – other financial liabilities	59,386	49,691
	<u>80,640</u>	<u>64,835</u>

Included in the above is interest paid to group companies amounting to £31.6m (2017: £20.2m).

Notes to the Financial Statements

7 Administrative expenses

Administrative expenses are analysed as follows:

	2018	2017
	£'000	£'000
Permanent staff costs (see note 8)	65,953	64,139
Non-permanent staff costs	4,306	4,452
Depreciation of tangible assets (see note 13)	2,523	2,535
Amortisation of intangible assets (see note 12)	2,908	4,721
Premises costs	5,906	5,702
External technology, communication and data costs	14,504	15,333
Net costs recharged by group companies	5,792	4,461
Other costs	7,157	7,078
Total	<u>109,049</u>	<u>108,421</u>

Administrative expenses include the following fees paid to the company's auditors:

	2018	2017
	£'000	£'000
Fees payable to the company's auditor for the audit of the company's financial statements	223	206
Fees payable to the company's auditor and its associates for other services:		
- audit related assurance services	192	195
- tax advisory service	-	3
- governance and credit risk review	-	110
- all other services	-	16
Fees payable to un-associated auditor in respect of overseas branch regulatory requirements	74	75

8 Staff costs

Employee costs during the year amounted to:

	2018	2017
	£'000	£'000
Wages and salaries	55,616	54,524
Social security costs	6,554	6,162
Pension costs – defined contribution plan	3,783	3,453
	<u>65,953</u>	<u>64,139</u>

Notes to the Financial Statements

8 Staff costs (continued)

The average monthly number of staff employed by the company during the year was as follows:

	2018 Number	2017 Number
Front Office		
Equity	47	45
Fixed Income	39	37
Debt and Equity Capital Markets	17	19
Other (CBs, Derivatives and Principal Investments)	17	21
Back Office Support	245	234
	<u>365</u>	<u>356</u>

The average monthly number of staff employed by the company overseas (included above) was as follows:

	2018 Number	2017 Number
<i>Branches</i>		
Bahrain	7	7
Geneva	11	11
	<u>18</u>	<u>18</u>
<i>Representative offices</i>		
Moscow	3	3
Paris	2	2
	<u>23</u>	<u>23</u>

9 Loan impairment writeback

In the year £19,862k of loan impairment was written back (see note 16).

10 Net litigation expense

In the year £59,686k was the net expense for providing against pending litigation (2017: £81,310k). Details of pending litigation are disclosed in note 25.

Notes to the Financial Statements

11 Tax credit on ordinary activities

The tax credit is based upon the standard UK corporation tax rate of 19% (2017: 20%) and comprises:

	2018 £'000	2017 £'000
UK and overseas corporation tax:		
Group relief: prior year	168	128
Group relief: current year	1,821	-
Overseas taxation	-	51
Total tax credited on ordinary activities	<u>1,989</u>	<u>179</u>

The tax assessed on the loss on ordinary activities for the year is lower than the standard UK corporation tax rate.

The reconciliation is provided below:

	2018 £'000	2017 £'000
Loss on ordinary activities before tax	<u>(32,574)</u>	<u>(83,431)</u>
Taxation at UK standard corporation rate of 19% (2017: 20%)	6,189	16,686
Effects of:		
Permanent differences	3,730	(52)
Effects of unrecognised timing differences including losses	(9,919)	(16,634)
Overseas taxation	-	51
Group relief surrendered	1,989	128
Company tax credit for the year	<u>1,989</u>	<u>179</u>

The company has a net deferred tax liability of £0.3m (2017: £0.2m). This is attributable to deferred taxation that would arise if the timing differences on investments held for sale were realised after the end of the reporting period.

Notes to the Financial Statements

11 Tax credit on ordinary activities (continued)

A residual deferred tax asset totalling £66.4m (2017: £58.1m) for all timing differences including UK tax losses and capital allowances has not been recognised because it is the directors' assessment that it is not sufficiently certain that there will be sufficient taxable profits available in the foreseeable future against which these losses and allowances can be utilised.

Reductions in the UK corporation tax rate to 19% from 1 April 2017 and a further reduction to 17% (effective from 1 April 2020) were substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax liability at 31 March 2018 has been calculated using the rate of 17% substantively enacted at the balance sheet date and is the tax rate applicable for the period in which the asset is expected to realise.

The effect of the rate reductions has created a reduction in the residual tax asset which has been included in the figures above.

12 Intangible assets

Cost	Goodwill £'000	Software £'000	Assets in course of construction £'000	Total £'000
Beginning of year	29,180	31,145	884	61,209
Additions	-	-	1,912	1,912
Disposals	-	(2,959)	-	(2,959)
Transfers	-	1,584	(1,584)	-
End of year	<u>29,180</u>	<u>29,770</u>	<u>1,212</u>	<u>60,162</u>
Amortisation				
Beginning of year	25,980	27,139	-	53,119
Charge	893	2,015	-	2,908
Impairment charge	-	-	-	-
Disposals	-	(2,959)	-	(2,959)
End of year	<u>26,873</u>	<u>26,195</u>	<u>-</u>	<u>53,068</u>
Net book value				
At 31 March 2018	<u>2,307</u>	<u>3,575</u>	<u>1,212</u>	<u>7,094</u>
At 31 March 2017	<u>3,200</u>	<u>4,006</u>	<u>884</u>	<u>8,090</u>

The assets in course of construction comprise computer software.

Notes to the Financial Statements

12 Intangible assets (continued)

On 19 November 2010 the company acquired the global convertible bond (ex-US) business of KBC via an asset purchase. The goodwill arising on acquisition is being amortised on a straight-line basis over ten years. This is the period over which the directors estimate as the useful economic life.

The company's accounting policy is to carry goodwill at amortised cost and review for impairment at each reporting date. A review of impairment of goodwill is measured as the difference between the carrying amount of the asset and its recoverable amount, with the recoverable amount being based on the higher of the fair value less costs to sell and value in use of the assets to which it relates.

In the opinion of the directors, the most appropriate estimate of the recoverable amount is the value in use of the Convertible Bond business. The value in use is measured by discounting cash flows, over a period of 3 years plus the terminal value, applying a discount rate of 25% and a perpetuity growth rate of 1.25%, this is consistent with the prior year.

Based on the conservative end of the discount range and a mid-point growth rate, as being the best indication of the value in use, the directors believe there has been no impairment to the carrying value of the goodwill (2017: impairment of £3,038k).

13 Tangible assets

	Furniture, fittings and equipment £'000	Computer hardware £'000	Motor vehicles £'000	Assets in course of construction £'000	Total £'000
Cost					
Beginning of year	14,656	6,034	39	199	20,928
Additions	-	-	-	1,287	1,287
Disposals	(6)	(62)	-	-	(68)
Transfers	88	842	-	(930)	-
End of year	<u>14,738</u>	<u>6,814</u>	<u>39</u>	<u>556</u>	<u>22,147</u>
Depreciation					
Beginning of year	4,120	4,054	39	-	8,213
Charge	1,280	1,243	-	-	2,523
Disposals	(6)	(62)	-	-	(68)
End of year	<u>5,394</u>	<u>5,235</u>	<u>39</u>	<u>-</u>	<u>10,668</u>
Net book value					
At 31 March 2018	<u>9,344</u>	<u>1,579</u>	<u>-</u>	<u>556</u>	<u>11,479</u>
At 31 March 2017	<u>10,536</u>	<u>1,980</u>	<u>-</u>	<u>199</u>	<u>12,715</u>

The assets in course of construction comprise furniture, fittings and equipment, and computer hardware.

Notes to the Financial Statements

14 Available for sale investments

	2018 £'000	2017 £'000
Unlisted investments	1,402	1,270
The movement in the year was as follows:		
	2018 £'000	2017 £'000
Beginning of year	1,270	1,139
Exchange differences	35	91
Revaluation profit transferred to reserves	97	40
Disposals	-	-
End of year	1,402	1,270

15 Investments in subsidiary undertakings

The company had two subsidiary undertakings as at 31st March 2018. The percentage of the issued share capital held by the company is equivalent to the percentage of voting rights held.

Name of company	Country of reg office	Principal activity	Percentage of equity and voting rights held
Daiwa Corporate Advisory Holdings Limited	UK	Investment Holding Company	100%
Daiwa Capital Markets Deutschland GmbH ("DCMD")	Germany	Investment Bank and Broker Dealer	100%

The movement in the company's investments in subsidiary undertakings was as follows:

	2018 £'000	2017 £'000
Beginning of year	-	-
Addition	641	-
End of year	641	-

Notes to the Financial Statements

15 Investments in subsidiary undertakings (continued)

In the opinion of the directors, the most appropriate estimate of the recoverable amount is the value in use of Daiwa Corporate Advisory Holdings Limited. The value in use is measured by discounting cash flows, over a period of 3 years, plus the terminal value, applying a discount rate using a high – low range of 14% – 22% and a perpetuity growth rate range of 1.5% to 2.0%, consistent with the prior year. In the opinion of the directors, the nil carrying value of the investment remains appropriate.

DCMD was incorporated in December 2017, with £641k of share capital. At the balance sheet date the company held this sum in cash. In the opinion of the directors, the cost is the appropriate carrying value.

16 Debtors

Debtors comprise the following amounts:

	2018			2017		
	Financial Assets	Non Financial Assets	Total	Financial Assets	Non Financial Assets	Total
	Loans and Receivables	Other		Loans and Receivables	Other	
	£'000	£'000	£'000	£'000	£'000	£'000
Trade debtors	8,473	-	8,473	8,932	-	8,932
Amounts owed by parent group undertakings *	4,574,216	-	4,574,216	5,286,436	-	5,286,436
Amounts owed by subsidiary undertakings	26,811	1,490	28,301	8,186	-	8,186
VAT	-	785	785	-	1,027	1,027
Deposits paid for reverse repurchase agreements and securities borrowed	3,726,810	-	3,726,810	2,844,768	-	2,844,768
Other debtors	36,120	-	36,120	33,243	-	33,243
Corporation tax recoverable	-	231	231	-	95	95
Prepayments and accrued income	20,288	7,192	27,480	16,261	7,568	23,829
	<u>8,392,718</u>	<u>9,698</u>	<u>8,402,416</u>	<u>8,197,826</u>	<u>8,690</u>	<u>8,206,516</u>

*Amounts owed by parent group undertakings includes £4,420m for Deposits paid for reverse repurchase agreements (2017: £5,193m).

Notes to the Financial Statements

16 Debtors (continued)

The carrying amount of debtors approximates to their fair value.

The company's accounting policy is to carry loans and receivables at amortised cost and review for impairment where necessary. As at 31st March 2018, it is the directors' opinion that there has been sufficient improvement to the recoverability of the intercompany loan to Daiwa Corporate Advisory Holdings Limited to warrant a reversal of part of the impairment booked against the loan in prior years. In the opinion of the directors £19.9m of the £27.7m impairment should be reversed. For purposes of valuation the loan is treated as an equity investment and compared against the value in use. The value in use is measured by discounting cash flows, over a period of 3 years, plus the terminal value, applying a discount rate using a high – low range of 14% – 22% and a perpetuity growth rate range of 1.5% to 2.0%, consistent with the prior year.

Prepayments and accrued income include £64,511 of defined contribution pension scheme prepayments (2017: £91,030) in relation to certain overseas branch pension schemes.

17 Deferred tax

	2018 £'000	2017 £'000
Deferred tax liability (note 21)	(266)	(242)
The movement in the year was as follows:		
	2018 £'000	2017 £'000
Beginning of year	(242)	(228)
Charged to the Reserves	(24)	(14)
End of year	(266)	(242)

The deferred tax liability is attributable to the taxation that would arise if the timing differences on Available for sale investments was realised after the end of the reporting period.

18 Financial assets and liabilities held for trading

The company's financial assets and liabilities held for trading consist of marketable securities, classified as held for trading, and derivative financial instruments, comprising futures and forwards, options, swaps and forward foreign currency contracts. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than in a forced or liquidation sale and excludes accrued interest.

Notes to the Financial Statements

18 Financial assets and liabilities held for trading (continued)

	2018	2017
	£'000	£'000
<u>Financial Assets</u>		
Non Derivative marketable securities		
Equities	6,278	2,716
Government, Government Agency Bonds, and Municipal Bonds	367,728	463,378
Corporate Debt (inc. Convertible Bonds)	1,603,916	1,429,806
Total	<u>1,977,922</u>	<u>1,895,900</u>
of which listed	1,809,044	1,653,496
Derivative financial instruments		
Futures & Forwards	2,629	2,377
Options	47,665	49,645
Swaps	445,205	462,980
Total	<u>495,499</u>	<u>515,002</u>
of which listed	147	167
Total financial assets held for trading	<u>2,473,421</u>	<u>2,410,902</u>
<u>Financial Liabilities</u>		
Non Derivative marketable securities		
Equities	136,691	90,728
Government, Government Agency Bonds, and Municipal Bonds	299,635	625,209
Corporate Debt (inc. Convertible Bonds)	116,358	224,495
Total	<u>552,684</u>	<u>940,432</u>
of which listed	541,948	781,678
Derivative financial instruments		
Futures & Forwards	4,134	3,320
Options	33,547	42,860
Swaps	437,604	460,762
Other	4,212	1,780
Total	<u>479,497</u>	<u>508,722</u>
of which listed	1,449	739
Total financial liabilities held for trading	<u>1,032,181</u>	<u>1,449,154</u>

Notes to the Financial Statements

19 Financial assets designated at Fair Value Through Profit and Loss (FVTPL)

	2018 £'000	2017 £'000
Government, Government Agency Bonds, and Municipal Bonds	10,144	-
Corporate Debt (inc Convertible Bonds)	14,267	-
Total*	24,411	-
of which listed	20,850	-

*Balance forms part of DCME's liquid asset buffer, and is managed as a new strategy that seeks to minimise cost.

20 Cash at bank and in hand

	2018 £'000	2017 £'000
Cash at bank and in hand	74,257	110,766
of which deposits with parent group undertakings	815	1,608

The carrying amount of cash at bank and in hand approximates to its fair value.

21 Creditors: amounts falling due within one year

	2018			2017		
	Financial Liabilities	Non Financial Liabilities	Total	Financial Liabilities	Non Financial Liabilities	Total
	Other	Other		Other	Other	
	£'000	£'000	£'000	£'000	£'000	£'000
Other short term borrowings	71,413	-	71,413	79,911	-	79,911
Overdrafts	28	-	28	15,041	-	15,041
Trade Creditors	6,726	-	6,726	13,335	-	13,335
Amounts owed to parent group undertakings*	1,840,333	-	1,840,333	1,705,366	-	1,705,366
Deposits received for repurchase agreements and securities lent	7,555,072	-	7,555,072	6,841,594	-	6,841,594
Deferred tax liability	-	266	266	-	242	242
Other creditors:						
- social security and PAYE	-	1,582	1,582	-	1,392	1,392
- other creditors	4,351	16	4,367	6,484	11	6,495
Accruals and deferred income	24,772	-	24,772	27,200	-	27,200
	9,502,695	1,864	9,504,559	8,688,931	1,645	8,690,576

*Amounts owed to parent group undertakings includes £434m for Deposits received for repurchase agreements (2017: £691m).

Notes to the Financial Statements

21 Creditors: amounts falling due within one year (continued)

The carrying amount of creditors approximates to their fair value.

The company had a total unsecured borrowing facility of ¥190bn/£1.274bn (2017: ¥123bn/£0.881bn) from Daiwa Securities Company Ltd which was provided on an uncommitted basis, as at 31 March 2018 and at 31 March 2017. At 31 March 2018 ¥167bn/£1.12bn (2017: ¥98bn/£0.701bn) was drawn on the facility.

There are no amounts included within overdrafts due to group undertakings (2017: £nil). The company has £27,181 due to clearing agents which is secured principally by securities held on the company's trading accounts with those clearing agents (2017: £15,040,492).

Accruals and deferred income include defined contribution pension schemes accruals of £2,999, (2017: £1,032), all of which relates to certain overseas branch pension schemes.

22 Analysis of Financial Assets and Liabilities by Measurement Basis

	Financial Assets and Liabilities measured at fair value £'000	Available for Sale Investments £'000	Financial Assets and Liabilities at amortised cost £'000	2018 Total £'000
Financial Assets				
Cash at bank and in hand	-	-	74,257	74,257
Financial assets held for trading	2,473,421	-	-	2,473,421
Financial assets designated at FVTPL	24,411	-	-	24,411
Available for sale investments	-	1,402	-	1,402
Debtors – Loans and Receivables	-	-	8,392,718	8,392,718
	2,497,832	1,402	8,466,975	10,966,209
Financial Liabilities				
Financial liabilities held for trading	1,032,181	-	-	1,032,181
Creditors falling due within one year – Financial Liabilities	-	-	9,502,695	9,502,695
Creditors falling due after one year	-	-	1,768	1,768
	1,032,181	-	9,504,463	10,536,644

Notes to the Financial Statements

22 Analysis of Financial Assets and Liabilities by Measurement Basis (continued)

	Financial Assets and Liabilities measured at fair value	Available for Sale Investments	Financial Assets and Liabilities at amortised cost	2017 Total
	£'000	£'000	£'000	£'000
Financial Assets				
Cash at bank and in hand	-	-	110,766	110,766
Financial assets held for trading	2,410,902	-	-	2,410,902
Financial assets designated at FVTPL	-	-	-	-
Available for sale investments	-	1,270	-	1,270
Debtors – Loans and Receivables	-	-	8,197,826	8,197,826
	<u>2,410,902</u>	<u>1,270</u>	<u>8,308,592</u>	<u>10,720,764</u>
Financial Liabilities				
Financial liabilities held for trading	1,449,154	-	-	1,449,154
Creditors falling due within one year – Financial Liabilities	-	-	8,688,931	8,688,931
Creditors falling due after one year	-	-	1,828	1,828
	<u>1,449,154</u>	<u>-</u>	<u>8,690,759</u>	<u>10,139,913</u>

23 Debtors: amounts falling due after more than one year

	2018 £'000	2017 £'000
Financial Assets – Loans and Receivables	34,533	2,652
Financial Assets – Other Debtors*	142,155	3,500
	<u>176,688</u>	<u>6,152</u>

*the balance represents funds held by the Courts Funds Office in an Escrow account pending the conclusion of litigation detailed in Note 25.

24 Creditors: amounts falling due after more than one year

	2018 £'000	2017 £'000
Accruals and deferred income	<u>1,768</u>	<u>1,828</u>

Accruals and deferred income comprises deferred compensation costs and social security costs falling due after more than one year.

Notes to the Financial Statements

25 Provisions for liabilities

The company recognises a provision for a liability if the company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The table below represents the present value of the anticipated liability of the company:

	2018			2017		
	Pending litigation	Redundancy, restructuring and onerous contracts	Total	Pending litigation	Redundancy, restructuring and onerous contracts	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Beginning of year	101,869	1,029	102,898	1,389	1,873	3,262
Additional provision	61,226	440	61,666	100,271	828	101,099
Release of provision	(1,540)	-	(1,540)	-	-	-
Exchange adjustments	(9,671)	-	(9,671)	209	-	209
Utilised during the year	(600)	(928)	(1,528)	-	(1,672)	(1,672)
Total	151,284	541	151,825	101,869	1,029	102,898

Pending litigation

Singularis Holdings Limited

On 1 February 2018, the Appeals Court rejected the company's appeal against the legal claim brought by the liquidators of Singularis Holdings Limited ("SHL"). The company has applied to the Supreme Court for permission to appeal the decision of the Court of Appeal. At the date of the accounts the Supreme Court decision is pending. In light of these developments the directors believe that it is appropriate to make a full provision for the award amount plus interest and expenses totalling £151m.

Redundancy, restructuring and onerous contracts

Provision is made for anticipated costs of restructuring and reorganisation, including redundancy costs, and contractual obligations. An obligation exists when the company has a detailed formal plan for restructuring a business and has raised valid expectations in those affected by the restructuring by announcing its main features or starting to implement the plan.

Notes to the Financial Statements

26 Called-up share capital

	2018 £'000	2017 £'000
<i>Allotted, called-up and fully paid</i>		
Ordinary shares of £1 each	<u>732,121</u>	<u>732,121</u>

27 Financial commitments

a) *Loan commitments*

As at 31 March 2018, undrawn but committed loan facilities amounted to £37.6m (2017: £38.2m).

b) *Capital commitments*

As at 31 March 2018, capital expenditure contracted for but not provided for amounted to £0.4m (2017: £0.02m).

c) *Contingent liabilities*

As at 31 March 2018 there was no pending litigation.

d) *Lease commitments*

The company leases a number of properties and certain items of office machinery under operating leases. The minimum annual rentals under these leases are as follows:

	2018			2017		
	Property £'000	Other £'000	Total £'000	Property £'000	Other £'000	Total £'000
Operating leases						
which expire						
- within 1 year	14	-	14	14	18	32
- within 2-5 years	142	8	150	196	-	196
- after 5 years	3,008	-	3,008	2,975	-	2,975
	<u>3,164</u>	<u>8</u>	<u>3,172</u>	<u>3,185</u>	<u>18</u>	<u>3,203</u>

Notes to the Financial Statements

27 Financial commitments (continued)

e) *Pension arrangements*

Pension benefits for the majority of staff are provided in the UK through a defined contribution scheme to which the company contributes a percentage based on each member's pensionable salary, between 8% and 20%. Under the core scheme, employee contributions are voluntary. A contribution matching scheme is in operation to encourage a good pension outcome for the members. All aspects of the scheme including governance, communication and the scheme design are fully compliant with automatic enrolment. Due to legislative reasons, the company may choose to provide a cash allowance to those members of staff who are impacted by the Lifetime Allowance or Annual Allowance.

The amount charged in the profit and loss account for pension costs of the company under both the contributory and non-contributory sections of the group personal pension plan was £3.8m (2017: £3.5m).

The UK scheme also covers the following companies: Daiwa Asset Management (Europe) Ltd, Daiwa SB Investments (UK) Ltd and the Daiwa Anglo Japanese Foundation. Separate schemes are administered in respect of staff employed in the company's overseas branches and representative offices. The total cost in relation to branch pension schemes was £184,102 (2017: £192,684).

The company's ultimate parent undertaking, Daiwa Securities Group Inc., operates separate pension schemes of which certain employees seconded to the company from Japan are members. The total cost in relation to these pension schemes was £190,086 (2017: £194,828).

f) *VAT*

The company is registered for VAT purposes in a group of undertakings which share a common registration number. As a result, it has jointly guaranteed the VAT liability of the VAT group, and failure by other members of the group would give rise to additional liabilities for the company. The directors are of the opinion that no such liability is likely to arise.

28 Share based payments

The company's ultimate parent company, Daiwa Securities Group Inc., operates a share scheme of which certain employees seconded to the company from Japan are members.

The "Daiwa Securities Group Inc. Head Office New Stock Reservation Rights" scheme was introduced in September 2004, and is open to certain selected employees of the Daiwa Securities Group. Under the plan, the employees were granted share options over Daiwa Securities Group Inc. shares.

Notes to the Financial Statements

28 Share based payments (continued)

In accordance with FRS 102, the fair value of the equity-settled share based payments to employees is determined at the date of grant and is expensed on a straight line basis over the vesting period based on the company's estimate of options that will eventually vest. The weighted average fair value of options granted in the year was ¥60.26 (2017: ¥90.03) and the total charge for the year was £44,431 (2017: £40,737).

The company is exempt from specific share based payment disclosures under share based payment arrangements that existed during the period and the full disclosures as required by FRS 102 have not been disclosed as explained within accounting policies set out in note 1. The equivalent disclosures required by FRS 102 are included in the consolidated financial statements of the Daiwa Securities Group Inc. in Japan in which the company's results are consolidated.

29 Collateral

The company enters into repurchase agreements and engages in stock borrowing and lending as part of its funding, market-making and position management activities. The table below summarises the position at the reporting date:

	2018 £bn	2017 £bn
Securities Received		
Securities received as collateral/borrowed	8.9	8.6
Source:		
Matched Book Repo Activity	7.3	6.8
Liquid Asset Buffer	1.0	0.9
Securities Borrowed	0.6	0.9
Total	8.9	8.6
Securities Pledged		
Securities pledged as collateral/lent	8.7	8.1
Use:		
Firm Funding Repo Activity	1.4	1.3
Matched Book Repo Activity	7.3	6.8
Total	8.7	8.1

Notes to the Financial Statements

30 Financial risk management

Exposures to risk

In the normal course of its business the company is exposed to a range of financial risks including market, credit and liquidity risk. Market risk exposures arise from trading book positions held in Fixed Income, Equity, Derivative and Convertible instruments. Credit risk exposures arise from unsettled/outstanding trades in the event of counterparty failure and the deterioration of the credit quality of issuers of debt securities, resulting in a fall in the value of the company's holding of assets. Liquidity risk is the risk that the company does not have sufficient financial resources to meet its obligations when they fall due, or can secure such resources only at excessive cost.

Objectives, policies and processes for managing risk

The Board is responsible for setting and monitoring the company's risk appetite and is responsible for oversight of the risk management function. The Board Risk Committee is directly accountable to the Board and has delegated responsibility for oversight of the risk management at a high level. The company's objective is to have comprehensive and timely control and disclosure of key risk measures and exposures with daily reports being made available to all division heads, local senior management and the immediate parent company in Tokyo. Senior management participate in the risk management process through the company's Risk and Assets and Liabilities Committee (RALCO) and other division-specific risk focus groups.

Responsibility for day-to-day control and monitoring rests with the Risk Management Division for market and credit risk and the Finance & Operations Division for liquidity risk, both of which have a reporting line that is independent from the sales and trading areas. For liquidity risk there is also a secondary reporting line into the Chief Risk Officer in order to ensure a comprehensive and consistent approach to risk management across the company. The divisions employ a variety of risk management tools including a policy of limit control and exception reporting for both the proprietary and unsettled client positions.

Market risk

Market risk is controlled and monitored using a range of risk management tools including VaR, basis point value (BPV) limits, and scenario and stress testing. A variety of limits are set locally within parent company rules – by instrument rating, issuer, geographic location, and both cumulative and aged holdings. External ratings, where available, are applied to all securities. Should the security not be rated, an external issuer rating is used and in the absence of any external rating an internal issuer rating would be applied.

All material market risks, including those arising from market making and proprietary trading, are subject to VaR analysis on a daily basis. The VaR analysis for the year was as follows:

	2018 £'000	2017 £'000
Year-end	1,246	1,535
Average	1,192	1,394
Maximum	1,574	1,786
Minimum	832	1,085

Notes to the Financial Statements

30 Financial risk management (continued)

VaR is measured using an historic simulation methodology at a 99% confidence level, with a 1-day holding period and a 560 day observation period. All trading book positions are also subject to other sensitivity analyses including BPV (gross and net) and credit spread (by rating, per issuer, per country, cumulative net and gross).

The VaR numbers shown for 2018 incorporate full diversification offsets between businesses. The decrease in VaR, compared to 2017, is mostly due to reductions in secondary credit trading inventory throughout the year.

Credit risk

Counterparty exposure is managed by rigorous on-boarding procedures, counterparty rating, limit setting (notional, credit and settlement, where necessary), exposure monitoring and exception reporting. Appropriate legal agreements are entered into according to product. Risk mitigation is also conducted daily via collateral management activity.

Internal ratings are applied to all counterparties and are a key component in determining the risk appetite and size of limit assigned to each client. The company determines internal ratings through a scorecard-based approach using publicly available information and accounts, and verifying broad consistency with external ratings provided by external credit rating assessment institutions (ECAI). No material counterpart losses were suffered during the year.

The maximum exposure to credit risk, gross of collateral, by class of financial asset as at the year-end was represented by the carrying amount as follows:

	2018 £'000	2017 £'000
Available for sale investments	1,402	1,270
Financial assets at fair value through profit and loss:		
Derivative financial instruments	495,499	515,002
Marketable securities	1,977,922	1,895,900
Financial assets designated at FVTPL	24,411	-
Loans and receivables:		
Debtors - Loans and receivables	8,392,718	8,197,826
Cash at bank and in hand	74,257	110,766
	<u>10,966,209</u>	<u>10,720,764</u>

Notes to the Financial Statements

30 Financial risk management (continued)

The credit quality by class of financial asset can be assessed by reference to the company's credit monitoring process, described above, as follows:

Credit Rating	2018						2017					
	Sub-Investment Grade					Total	Sub-Investment Grade					Total
	AAA	AA	A	BBB	Investment Grade		AAA	AA	A	BBB	Investment Grade	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Available for sale investments	-	1,402	-	-	-	1,402	-	1,270	-	-	-	1,270
Debtors - Loans and Receivables	7,880	703,594	6,403,892	1,180,233	97,119	8,392,718	5,345	503,648	6,167,461	501,470	1,019,902	8,197,826
Derivative financial instruments	18	217,030	277,823	628	-	495,499	-	221,210	292,710	509	573	515,002
Marketable securities	581,670	575,567	480,421	307,123	33,141	1,977,922	605,810	720,932	338,905	188,278	41,975	1,895,900
Fin assets designated at FVTPL	14,267	10,144	-	-	-	24,411	-	-	-	-	-	-
Cash at bank and in hand	-	60,400	11,546	1,349	962	74,257	-	7,868	96,768	3,943	2,187	110,766
	<u>603,835</u>	<u>1,568,137</u>	<u>7,173,682</u>	<u>1,489,333</u>	<u>131,222</u>	<u>10,966,209</u>	<u>611,155</u>	<u>1,454,928</u>	<u>6,895,844</u>	<u>694,200</u>	<u>1,064,637</u>	<u>10,720,764</u>

Funding and Liquidity Risk Management

The company's funding and liquidity risk management objective is to ensure that the company has adequate funding and liquidity resources to support its business activities and meet its financial obligations as they fall due under normal and stressed conditions. In order to achieve this objective, the company's funding mix is calibrated to provide stable and cost effective sources of finance to accommodate market disruptions over both the short and long term.

DCME is governed by the Financial Conduct Authority's (FCA's) prudential liquidity regime in the UK. The FCA requires the company to undertake an annual assessment into the adequacy of its liquidity resources and liquidity risk management framework. This self-assessment process is called an Individual Liquidity Adequacy Assessment (ILAA) which is reviewed and approved by the Board, and it is subject to a Supervisory Liquidity Review Process (SLRP), conducted by the FCA. The SLRP leads to Individual Liquidity Guidance (ILG) being conferred on the company that requires the company to adhere to minimum quantitative standards on liquidity. The company maintains an adequate liquid asset buffer and sufficient funding sources which ensures that it meets regulatory requirements at all times.

Notes to the Financial Statements

30 Financial risk management (continued)

Funding

Primary sources of funding include:

1. The company's own capital and reserves which serve as the longest dated and most stable form of finance;
2. Secured financing (repos collateralised with the company's highly liquid trading book assets) from a diverse pool of counterparties, with the largest volume of trading conducted through Central Clearing Counterparties (CCPs);
3. Additional ISDA collateral posted by the parent company to cover regulatory capital exposure on certain back to back derivative trades; and
4. Access to an unsecured, uncommitted funding facility from the parent.

Liquidity Risk

Liquidity risk is quantified through stress tests that assess the impact of a variety of scenarios that could affect the liquidity profile of the balance sheet. To assess the impact from the liquidity risk drivers, assumptions have to be made regarding the evolution of DCME's balance sheet following a liquidity shock being described in the scenario and include (but are not limited to) multiple downgrades of the parent's credit rating, severe disruptions in the wholesale markets, impaired functioning of the FX markets, increase in margin calls at the company's clearers and counterparties being unable to settle trades on contractual settlement dates. Management actions are modelled to counterbalance the outflows incurred, including liquidation of the liquid asset buffer with an estimated haircut and assumed speed of execution. Results are expressed in the form of a 'liquidity coverage ratio' which quantify the mismatch between liquidity resources and liquidity requirements. Our stress testing assumptions are reviewed on a regular basis throughout the year.

The company's liquidity risk appetite statement requires the company to be able to survive a combined liquidity event (market wide and idiosyncratic scenario) on a stand alone basis (without parental support) for at least one month before senior management intervention e.g. through a forced sale of inventory or closure of elements of the business. The Board has also set a risk appetite statement around the company's expected survival period (a minimum of 1 year) during severe market shocks and a risk appetite statement around average residual tenor of unsecured deposits (funding) from the parent.

Liquidity risk is managed through:

1. Balance sheet controls that ensure current and planned divisional funding usage is in line with Board agreed business plans;
2. Mismatch controls that limit the amount of funding gaps that the company/individual business lines can run;
3. Material currency gap limits, which ensures access to core currencies in the event of a stress;
4. A suite of early warning indicators (EWIs) that monitor emerging vulnerabilities in markets where the company has business interests;
5. Holding an unencumbered liquid asset buffer commensurate with the results of stress testing that enable the company to absorb the short term effects of a severe liquidity shock; and
6. A comprehensive contingency funding plan (CFP) that details senior management action during a liquidity event to ensure that the company's core franchise remains intact.

Notes to the Financial Statements

30 Financial risk management (continued)

Governance

DCME's Board is ultimately responsible for the management of funding and liquidity risk. The Board delegates this responsibility, via the Chief Executive Officer, to the Executive Committee which further delegates the responsibility for operational oversight and management of funding and liquidity risk to DCME's RALCO. Independent non-executive review of the company's liquidity framework is undertaken by the company's Board Risk Committee on behalf of the Board. The Liquidity Risk Management (LRM) section undertakes day to day monitoring of the company's funding and liquidity position. Treasury is responsible for operational liquidity management in respect of raising unsecured financing for the company and managing the company's liquid asset buffer portfolio. The Operations, LRM, Credit Risk and Treasury sections at DCME coordinate elements of intra-day liquidity management.

Liquidity Reserves

The company maintains a pool of high quality liquid assets that consists exclusively of unencumbered assets, representing resources immediately available to meet liquidity requirements in a stress situation. The liquidity asset buffer typically comprises high credit quality government bonds denominated in multiple currencies reflecting the currency mix of the company's underlying balance sheet. The company also includes in its liquidity pool, certain highly liquid senior bonds issued by multilateral development banks such as the European Investment Bank.

The contractual maturity profile of financial liabilities is as follows:

						2018
	On demand	Less than 1 month	1 to 3 months	3 months to year	Between 1-5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Marketable Securities	552,684	-	-	-	-	552,684
Derivative Financial Instruments	479,497	-	-	-	-	479,497
Deposits received for repurchase agreements and securities lent	670,976	6,559,752	736,222	-	-	7,966,950
Other Financial Liabilities	309,369	192,929	763,931	269,516	1,768	1,537,513
Total	2,012,526	6,752,681	1,500,153	269,516	1,768	10,536,644

Notes to the Financial Statements

30 Financial risk management (continued)

	On demand	Less than 1 month	1 to 3 months	3 months to year	Between 1-5 years	2017 Total
	£'000	£'000	£'000	£'000	£'000	£'000
Marketable Securities	940,432	-	-	-	-	940,432
Derivative Financial Instruments	508,722	-	-	-	-	508,722
Deposits received for repurchase agreements and securities lent	847,311	5,710,552	965,420	-	-	7,523,283
Other Financial Liabilities	352,937	119,819	334,919	357,973	1,828	1,167,476
Total	2,649,402	5,830,371	1,300,339	357,973	1,828	10,139,913

The "On demand" time bucket includes balances with open maturity or due over night.

Derivative financial instruments and marketable securities have been included in the 'On demand' time bucket at their fair value or approximate thereto. Classification of derivative instruments in the on demand bucket, rather than presentation based on contractual maturity, is considered to be prudent given the potential for various triggers embedded in some of DCME's derivative contracts.

Financial liabilities not in the trading portfolio are presented on an undiscounted contractual cash flows basis and (with the exception of deferred staff bonuses) all fall due within one year. As at 31 March 2018, the undiscounted contractual cash flows approximates to the carrying amounts on the balance sheet (2017: approximates to the carrying amounts).

31 Capital risk management

Regulatory capital resources requirement

The company is regulated by the Financial Conduct Authority (FCA) in the UK and is subject to minimum capital requirements imposed by the Regulator and by the European Capital Adequacy Regulation and Directive (collectively referred to as CRD IV¹). The EU Capital Adequacy framework, like its predecessor, consists of three "pillars".

Pillar 1 sets forth the rules for calculating the minimum capital requirements for market risk, credit risk and operational risk. The company has adopted the standardised approach for its Pillar 1 capital resources requirement calculation.

¹ The "CRD IV" package of regulation (EU/575/2013) and directive (2013/36/EU) came into force on 1 January 2014 and covers capital resources ("own funds"), capital requirements ("own funds requirements") and liquidity & stable funding requirements.

Notes to the Financial Statements

31 Capital risk management (continued)

The Pillar 2 rules require regulated firms to establish an Internal Capital Adequacy Assessment Process (ICAAP), which forms the basis for an on-going self-assessment of their risk profile; with this being used to determine a "Pillar 2" capital resources requirement independent of, but no lower than, the minimum capital requirements imposed by Pillar 1.

The Pillar 2 process involves a supervisory review ("SREP") as a result of which the FCA provides firms with individual capital guidance (ICG); which is effectively an additional capital resources requirement to be applied to the Pillar 1 minimum.

The Pillar 3 rules require regulated firms to publish certain risk and capital disclosures typically either as part of the annual financial statements, or by being made available on the company's website. Disclosures will be updated as a minimum on an annual basis and made available on the company's website as soon as practicable.

Since the coming into force of CRD IV, the company has been categorised as a "full scope" IFPRU 730K investment firm under the revised framework. "IFPRU" refers to the "Prudential Sourcebook for Investment Firms", part of the FCA's Handbook of Rules and Guidance. During the year, no breaches of the company's capital requirement were reported to the FCA.

Capital Management

The company's capital management objectives are to ensure that the company maintains sufficient capital resources to support its business and planned strategic developments and that it complies with the regulatory capital requirements at all times. It is the company's policy to maintain a strong capital base commensurate with its risk appetite.

Formal procedures are in place to monitor and manage capital resources on an active and timely basis. Responsibility for day to day monitoring of capital adequacy rests with the regulatory reporting function. Daily and periodic reports are prepared and distributed to local senior management and reported to head office in Tokyo.

The company manages its capital usage through limit setting, capital allocation and capital planning. A Risk, Asset and Liability Management Committee, reporting to the Executive Committee, is in place to oversee the management of capital and carry out periodic assessment of the company's capital resources requirements.

<i>Regulatory Capital</i>	2018	2017
	£'000	£'000
Common Equity Tier 1 Capital	475,993	506,478
Additional Tier 1 Capital	-	-
Total Tier 2 Capital	-	-
Regulatory capital resources	<u>475,993</u>	<u>506,478</u>

Notes to the Financial Statements

31 Capital risk management (continued)

	2018 £'000	2017 £'000
Shareholders' funds	481,476	511,955
Prudent Valuation adjustment (unaudited)	(2,535)	(2,277)
Intangible Assets – Goodwill	(2,307)	(3,200)
Material holdings	(641)	-
Regulatory capital resources	<u>475,993</u>	<u>506,478</u>

32 Fair Value estimation

The following table sets out fair value measurements as at 31 March 2018 using the FRS 102 fair value measurement hierarchy.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	2018 Total £'000
Assets				
Available for sale investments	-	-	1,402	1,402
Financial assets at fair value through profit and loss:				
Derivative financial instruments	147	495,352	-	495,499
Marketable securities	1,917,610	59,019	1,293	1,977,922
Financial assets designated at FVTPL	24,411	-	-	24,411
Total assets	<u>1,942,168</u>	<u>554,371</u>	<u>2,695</u>	<u>2,499,234</u>
Liabilities				
Financial liabilities at fair value through profit and loss:				
Derivative financial instruments	1,449	478,048	-	479,497
Marketable securities	546,261	6,423	-	552,684
Total liabilities	<u>547,710</u>	<u>484,471</u>	<u>-</u>	<u>1,032,181</u>

Notes to the Financial Statements

32 Fair Value estimation (continued)

There have been no transfers into Level 3 from Level 2. A reconciliation of fair value measurement in Level 3 is set out below.

Level 3 financial assets are valued based upon parameters which are unobservable in the market. The level 3 marketable securities are valued based upon a fundamental analysis of expected recovery value. The level 3 available for sale investments are valued by reference to the published net asset per share.

The following table presents the changes in level 3 instruments for the year ended 31 March 2018.

	Available for sale investments	Derivative financial instruments	Marketable securities	2018 Total
	£'000	£'000	£'000	£'000
Assets				
Beginning of the year	1,270	-	1,747	3,017
Transfers into Level 3	-	-	-	-
Purchases/Issues	-	-	-	-
Sales/Maturities	-	-	(276)	(276)
Revaluation	97	-	(22)	75
Exchange differences	35	-	(156)	(121)
Gains/(losses)	-	-	-	-
End of year	1,402	-	1,293	2,695

There were no level 3 liabilities in the year ended 31 March 2018.

Notes to the Financial Statements

32 Fair Value estimation (continued)

The following table sets out fair value measurements as at 31 March 2017 using the FRS 102 fair value measurement hierarchy.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	2017 Total £'000
Assets				
Available for sale investments	-	-	1,270	1,270
Financial assets at fair value through profit and loss:				
Derivative financial instruments	167	514,835	-	515,002
Marketable securities	1,851,857	42,296	1,747	1,895,900
Financial assets designated at FVTPL	-	-	-	-
Total assets	1,852,024	557,131	3,017	2,412,172
Liabilities				
Financial liabilities at fair value through profit and loss:				
Derivative financial instruments	739	507,983	-	508,722
Marketable securities	940,432	-	-	940,432
Total liabilities	941,171	507,983	-	1,449,154

The following table presents the changes in level 3 instruments for the year ended 31 March 2017.

	Available for sale investments £'000	Derivative financial instruments £'000	Marketable securities £'000	2017 Total £'000
Assets				
Beginning of the year	1,139	-	3,142	4,281
Transfers into Level 3	-	-	-	-
Purchases/Issues	-	-	-	-
Sales/Maturities	-	-	(1,311)	(1,311)
Revaluation	40	-	(312)	(272)
Exchange differences	91	-	228	319
Gains/(losses)	-	-	-	-
End of year	1,270	-	1,747	3,017

There were no level 3 liabilities in the year ended 31 March 2017.

Notes to the Financial Statements

33 Related party transactions

Directors' remuneration

The remuneration of the directors was as follows:

	2018 £'000	2017 £'000
Emoluments	2,002	1,327
Company contributions to group personal pension plans	11	11
	<u>2,013</u>	<u>1,338</u>

Pensions

The number of directors who were members of group personal pension plans was as follows:

	2018 Number	2017 Number
Money purchase schemes	<u>1</u>	<u>1</u>

Highest paid director

The above amounts for remuneration include the following in respect of the highest paid director:

	2018 £'000	2017 £'000
Emoluments	908	907
Company contributions to group personal pension plans	-	-
	<u>908</u>	<u>907</u>

Emoluments include all salary and benefits accruing to directors, plus the current year cash portion of bonus awards and the vesting cash position of deferred awards.

34 Ultimate parent company

The company is a wholly owned subsidiary of Daiwa International Holdings Inc., itself a wholly owned subsidiary of Daiwa Securities Group Inc. incorporated in Japan. The parent company of the largest and smallest group that includes the company and for which group financial statements are prepared is Daiwa Securities Group Inc. The consolidated financial statements of this group, prepared under Japanese generally accepted accounting practice, are available to the public and may be obtained from 5 King William Street, London EC4N 7DA.

Notes to the Financial Statements

35 Country by Country Reporting and Disclosure of Return on Assets

a) Country by country reporting

The following reporting has been prepared to comply with the requirements set out in Article 89 of the European Union Capital Requirements Directive IV.

Location	Principal Activities	Turnover £'000	Profit or (Loss) before tax £'000	Corporation Tax (amount credited) £'000	Average Headcount
United Kingdom	1	108,701	(32,975)	1,989	342
Switzerland	2	4,721	473	-	11
Bahrain	2	1,918	405	-	7
Russia	3	620	(174)	-	3
France	3	339	(303)	-	2
		<u>116,299</u>	<u>(32,574)</u>	<u>1,989</u>	<u>365</u>

The above analysis takes into account the internal allocation of costs based upon estimated usage of support functions.

Principal activities:

1. The primary activities of the head office are to provide investment banking services in Equities, Fixed Income, Convertible Bonds, and financing of development real estate projects.
2. The branches in Switzerland and Bahrain exist to facilitate sales activity in their local regions on behalf of DCME London.
3. The representative offices in France and Russia exist to source business opportunities for DCME London in those countries.

Public subsidies received:

The company receives no public subsidies.

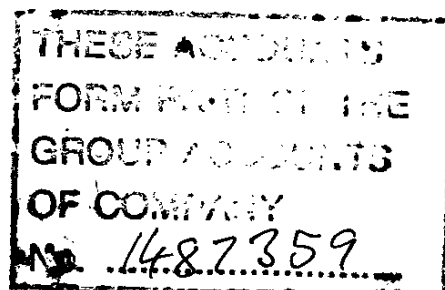
b) Return on Assets

According to Article 90 of the European Union Capital Requirements Directive IV DCME are required to disclose the return on net assets (being defined as net profit after tax). For the year ended 31 March 2018 this was -6.4%.

Daiwa Securities Group

Integrated Report 2018

Year ended March 31, 2018



Sustainability & Innovation

Contents

2	Corporate Summary
2	To Our Stakeholders
4	Our DNA Underpinning Sustainable Growth in Concert with Society
6	Daiwa Securities Group Value Creation Model
8	Corporate History
10	FY2017 Topics
12	Business Strategy
12	Message from the CEO
20	Message from the CFO
22	Daiwa Securities Group Snapshot
23	SDGs Feature
23	Initiatives Aimed at Securing the Sustainable Growth of Daiwa Securities Group and Society
24	Passion for PROSPERITY
27	Passion for PEOPLE
34	Passion for PARTNERSHIP
38	Passion for the PLANET
41	Passion for PEACE
42	Special Dialogue: Creating the Future through SDGs
46	Strategies by Division
47	Daiwa Securities Group Business Divisions
48	Retail Division
53	Wholesale Division
57	Asset Management Division
61	Investment Division
62	Other
63	Special Dialogue: The Securities Business of the Future and Innovation
68	Strategic IT Utilization and Cybersecurity Initiatives
69	Management Systems
70	Message from the Chairman of the Board
72	Medium-Term Management Plan "Passion for the Best" 2020 Formulation Process
74	Special Discussion between Three Committee Chairpersons
78	Directors (Members of the Board)
80	Corporate Executive Officers
81	Corporate Governance System
86	Risk Appetite Framework
87	Risk Management
92	IT Strategy and the Management of Systemic Risk
93	Compliance
94	Disclosure and Dialogue with Investors
95	CSR Management
96	Role and Social Responsibilities of the Financial Services
98	Provision of Quality Service to Customers
99	Working to Incorporate Customer Voices
99	Education Activities in Economics and Finance
100	Dissemination of Analysis and Proposals on the Economy, Society, and Investment Information
101	Financial Section
102	11-Year Financial Summary
104	Non-Financial Information Highlights (Personnel/Social Contribution Related)
106	Twelve-Quarter Financial Summary
108	Management's Discussion and Analysis
118	Consolidated Financial Statements
218	Other Information
218	Daiwa Securities Group Inc. Corporate Data
218	Stock Information
219	Officers
220	Domestic Group Companies
221	Overseas Group Companies

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



FTSE4Good



FTSE Blossom Japan



MSCI 2018 Constituent
MSCI Japan Empowering Women Index (WIN)

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).



Network Japan
WE SUPPORT

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.

中田 誠 司

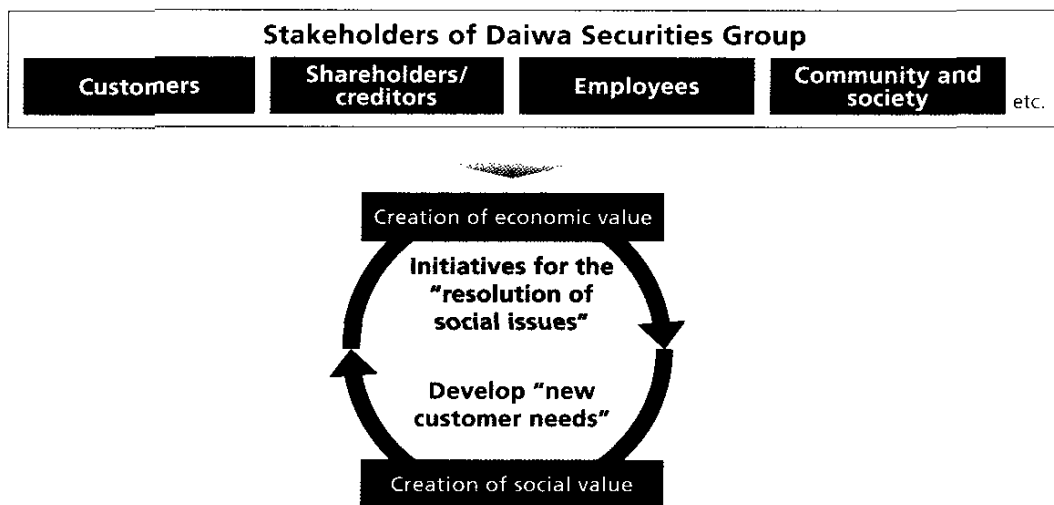
Seiji Nakata

President and CEO
Daiwa Securities Group Inc.

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

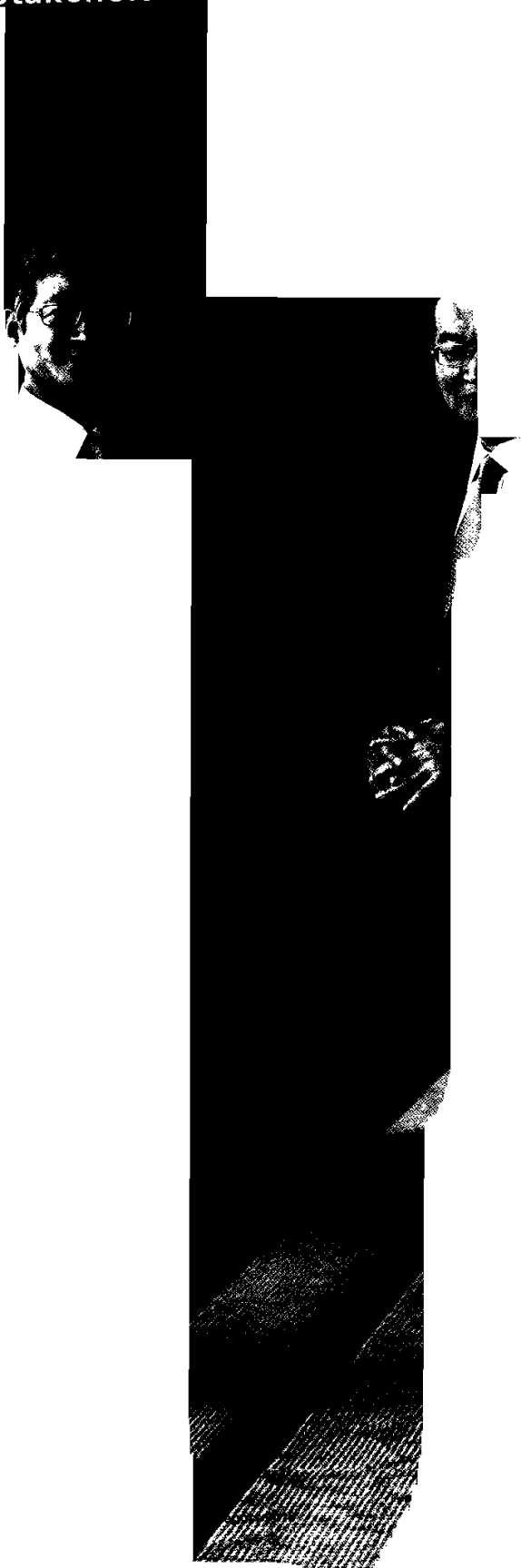


Cycle of Shared Value Creation



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

o 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.

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

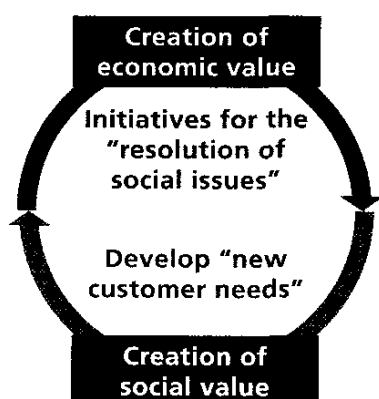
In FY2014, Daiwa Securities Group held hearings with each of its departments to ascertain the expectations of stakeholders and changes in social trends. Drawing from its findings, the Group identified CSR materiality based on its three pillars.

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



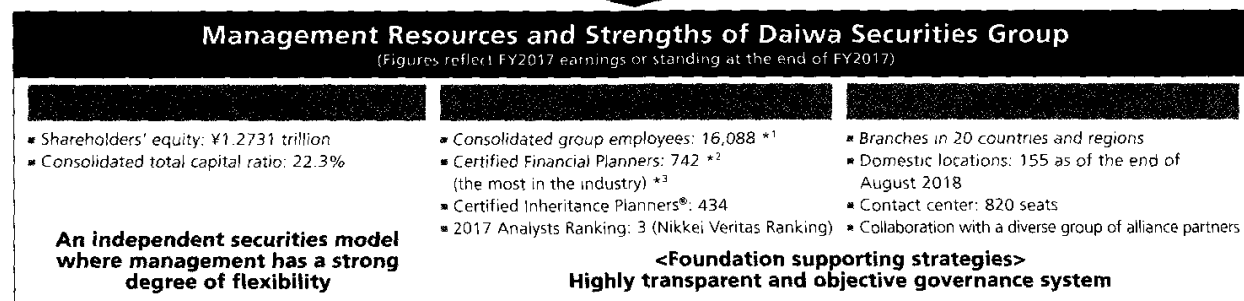
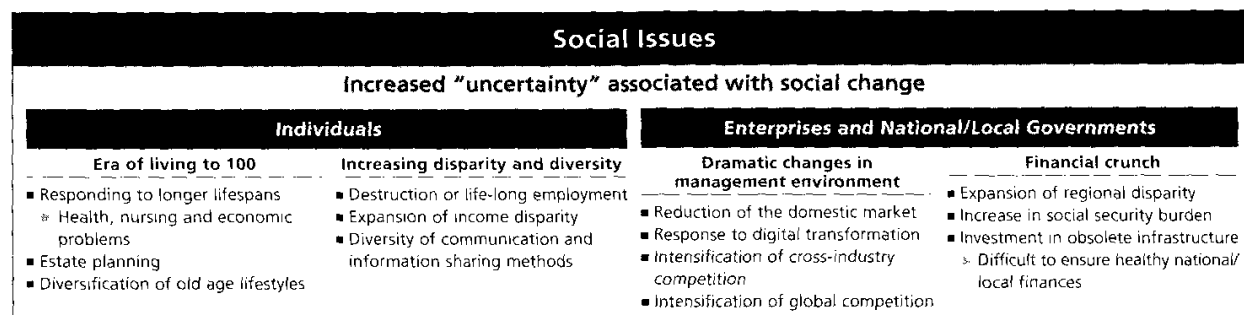
SUSTAINABLE DEVELOPMENT GOALS



SDGs×"Finance" SDGs×"Technology"

SDGs×"Local Community" SDGs×"Life"

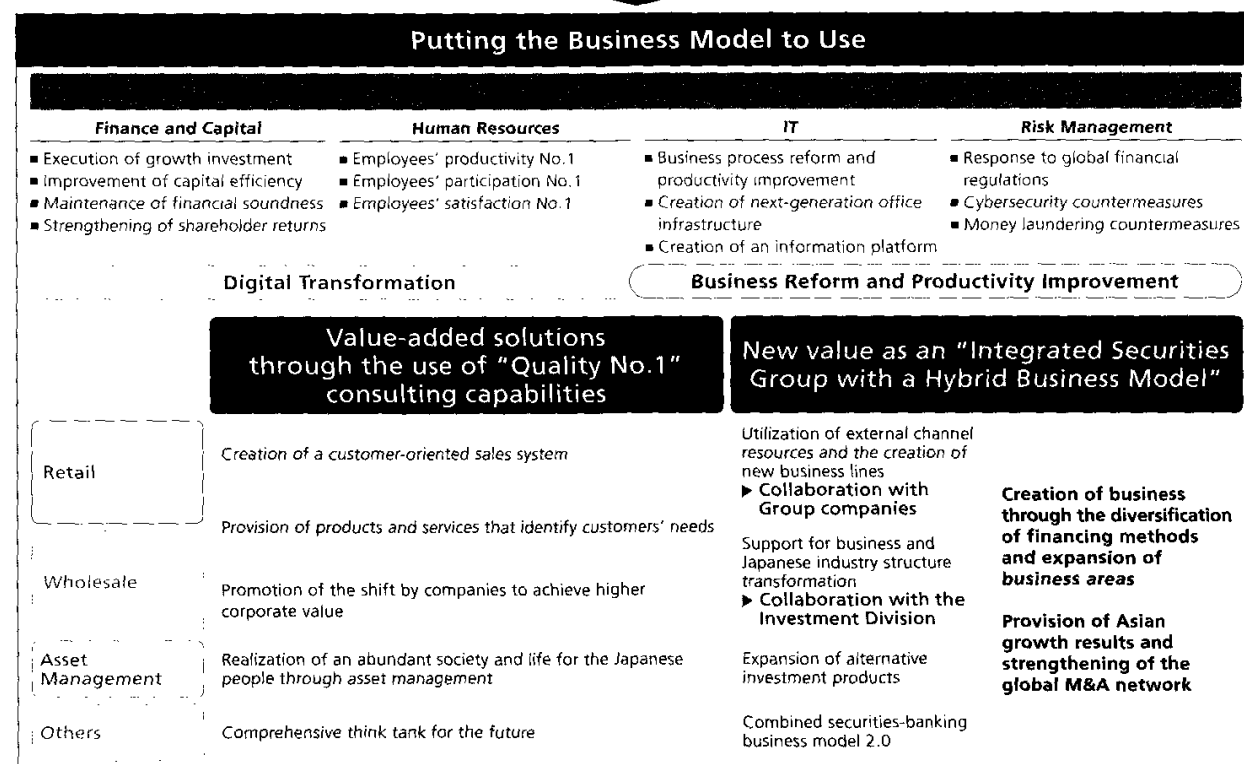
Daiwa Securities Group Value Creation Model



*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	
Reinvestment	Retail Division Net operating revenues ¥214.2 billion Ordinary income ¥51.3 billion	Supporting asset formation to meet the life plan needs of people <ul style="list-style-type: none"> ■ Accounts with balances: 2,989,000 ■ Online trading accounts: 3,214,000 ■ NISA accounts (cumulative): 829,000 ■ Wrap account service customers: 134,000 	
	Wholesale Division Net operating revenues ¥171.1 billion Ordinary income ¥45.3 billion	Improve customer satisfaction <ul style="list-style-type: none"> ■ Customer satisfaction: 4.86 (7-point scale, Daiwa Securities FY 2017 customer service survey: 121,000 responses) 	
	Asset Management Division Net operating revenues ¥49.3 billion Ordinary income ¥29.1 billion <ul style="list-style-type: none"> ■ AUM of publicly offered stock investment trusts <ul style="list-style-type: none"> Daiwa Asset Management ¥14.1 trillion Daiwa SB Investments ¥2.2 trillion ■ Assets under management of real estate AM business ¥883.2 billion 	Providing diversified international investment opportunities <ul style="list-style-type: none"> ■ Balance of foreign currency-based assets (not disclosed) 	
	Investment Division Net operating revenues ¥27.4 billion Ordinary income ¥24.4 billion	Supporting corporate financing and restructuring <ul style="list-style-type: none"> ■ League Table Primary and secondary equity offerings: 1st place IPOs: 2nd place Straight bonds: 2nd place M&A (number of deals): 9th place 	
Net operating revenues	¥505.3 billion	Supporting fund raising that contributes to resolving social issues <ul style="list-style-type: none"> ■ Impact Investment Bond sales: ¥685.8 billion (cumulative)* * March 2008 to the end of March 2018 	
Ordinary income	¥155.6 billion	Development of ESG-focused ETFs and investment trusts <ul style="list-style-type: none"> ■ Balance of SRI investment trust funds under management (total of Group companies): ¥146.5 billion 	
Profit attributable to owners of parent	¥110.5 billion	Expanding health care facilities in an aging society <ul style="list-style-type: none"> ■ Rooms provided for nursing homes and elderly care facilities by Nippon Healthcare Investment: 1,598 (as of the end of April 2018) 	
Dividend payout ratio	41.9%	Investment in new industries <ul style="list-style-type: none"> ■ Total investment funds at Daiwa Corporate Investment (cumulative): ¥417.3 billion 	
Annual dividends per share	¥28	Investment and development in renewable energy <ul style="list-style-type: none"> ■ Solar power plants Output capacity: 50.3MW ■ Biomass power plants Output capacity: 6.2MW 	
Total payout ratio	75.2%	Improving trust and stability in the capital markets <ul style="list-style-type: none"> ■ Consolidated Total Capital Ratio: 22.3% ■ Credit Ratings <ul style="list-style-type: none"> 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 	
ROE	8.8%	Job satisfaction reforms <ul style="list-style-type: none"> ■ Efforts aimed at improving productivity ■ Introduction of a variety of new systems 	
Assets under custody	¥68.1 trillion		

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

Corporate History

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

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)

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



First edition of *Kinyu-Shunpo*, October 1910

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

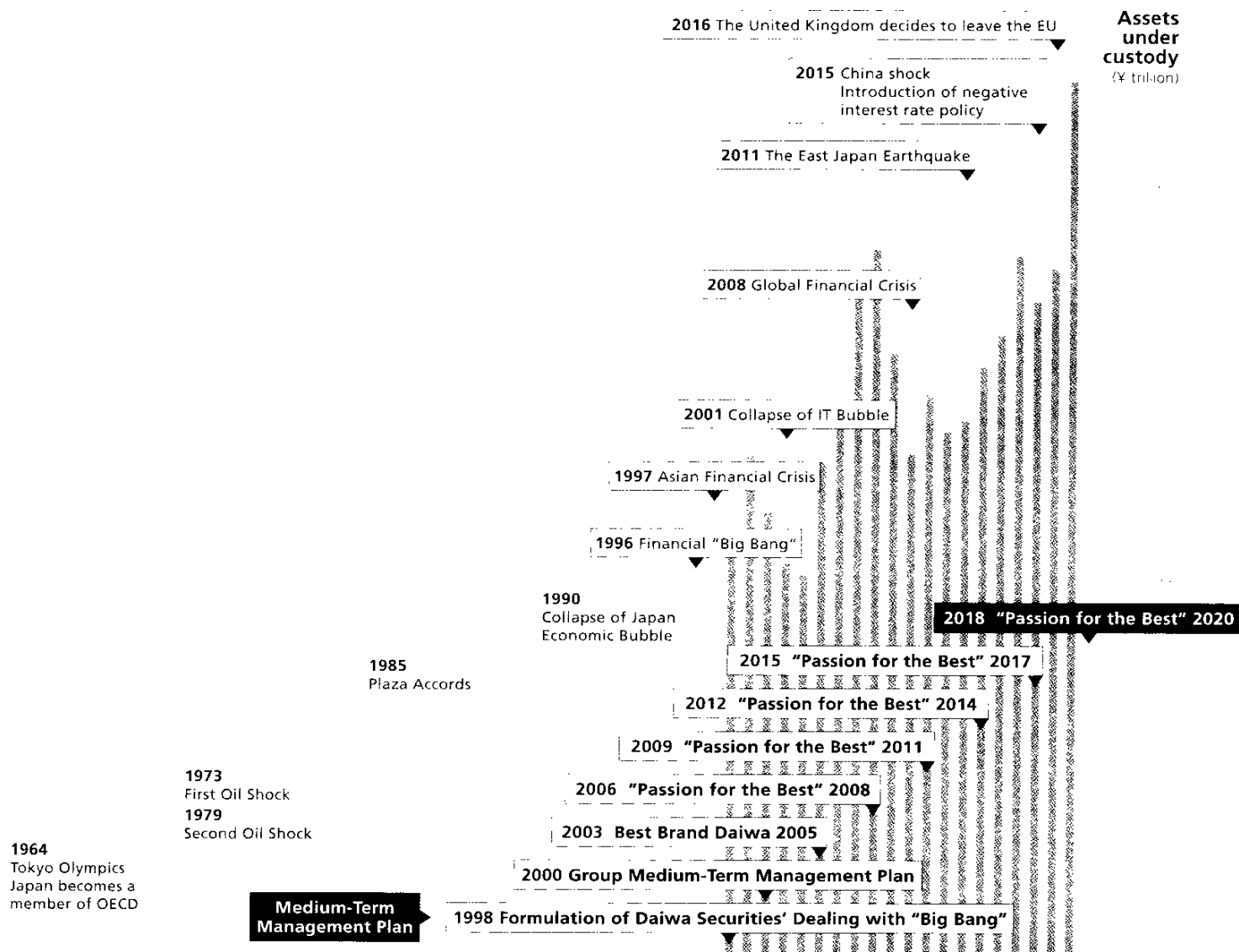
Daiwa Investment Weekly, April 2018

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.



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

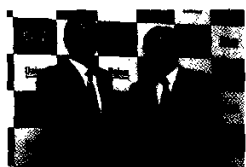
2017
Acquisition of Sagent Advisors and Signal Hill (integrated into DCS Advisory in March 2018)

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.

DCS
advisory

2017

April

May

June

July

August

September

Product-Related Topics

June

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

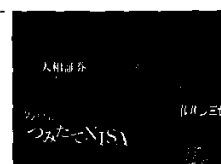
In support of the intent of the "Principles for Customer-Oriented Business Conduct," announced by the Financial Services Agency in March, declared our acceptance of the Principles, and formulated and announced the Basic Policy on Customer-Oriented Operations.



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



SAMTY
RESIDENTIAL

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.



SMART +

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.



- 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



Seiji Nakata
President and CEO
Daiwa Securities Group Inc.

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

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.

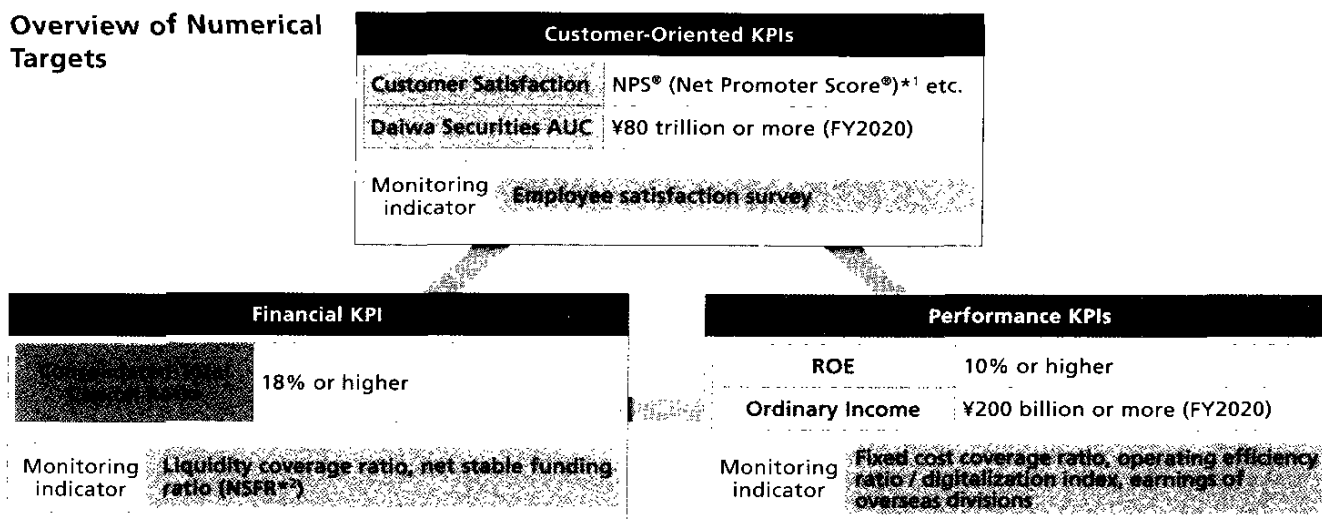
With regard to shareholder returns, the dividend payment policy of Daiwa Securities Group Inc. has been to target a payout ratio of around 40% since FY2015. For FY2017, the Company paid a dividend of ¥28 per share for a payout ratio of 41.9%. As a share repurchase was also implemented, the total payout 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



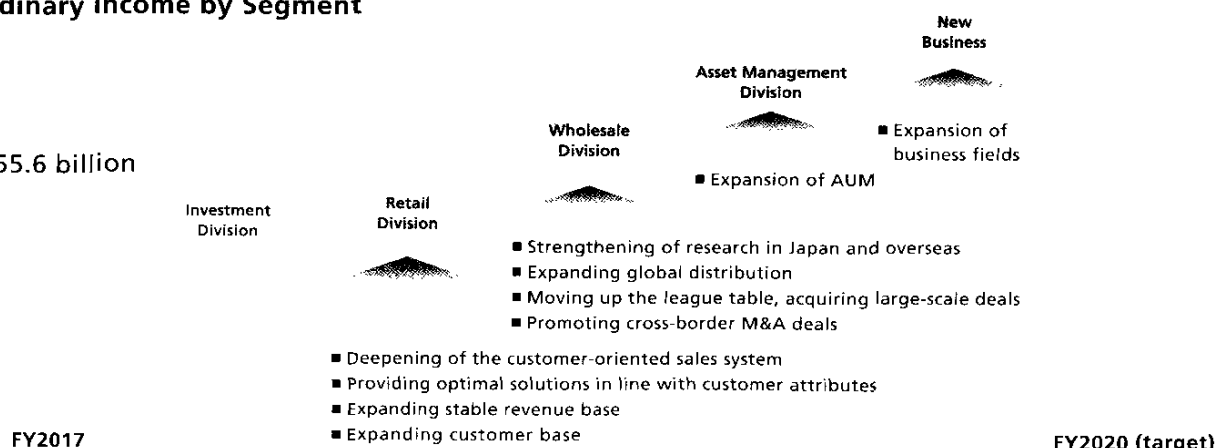
*1 NPS® is a registered trademark of Bain & Company, Fred Reichheld and SatmetrixSystems.

*2 Net Stable Funding Ratio

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

¥200.0 billion

¥155.6 billion



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.

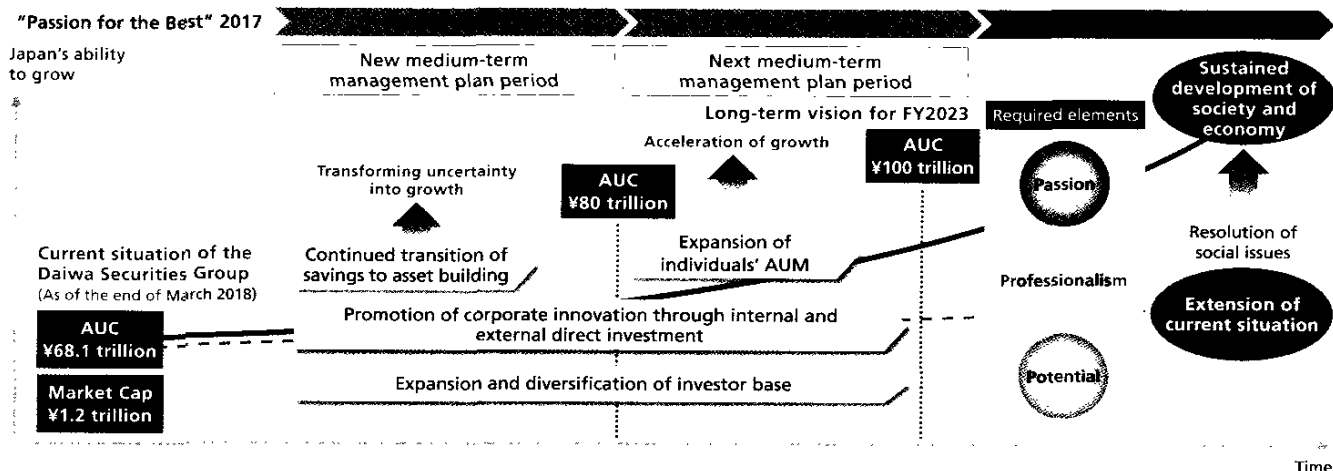
It has been proven that improvement in NPS® scores has a correlation to growth in corporate earnings. After rolling out the NPS® system to all branches in the Retail Division, we will endeavor to continuously improve our NPS® score.

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.

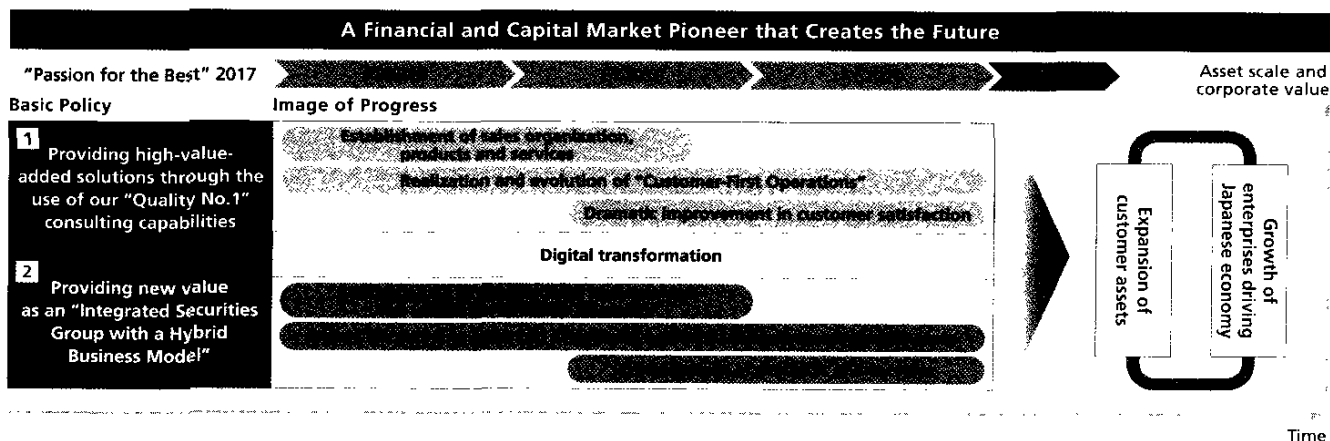
After contemplating what customer satisfaction truly means in the businesses of each division, The Group has identified KPIs for each division that will drive improvements in quality and customer satisfaction.

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

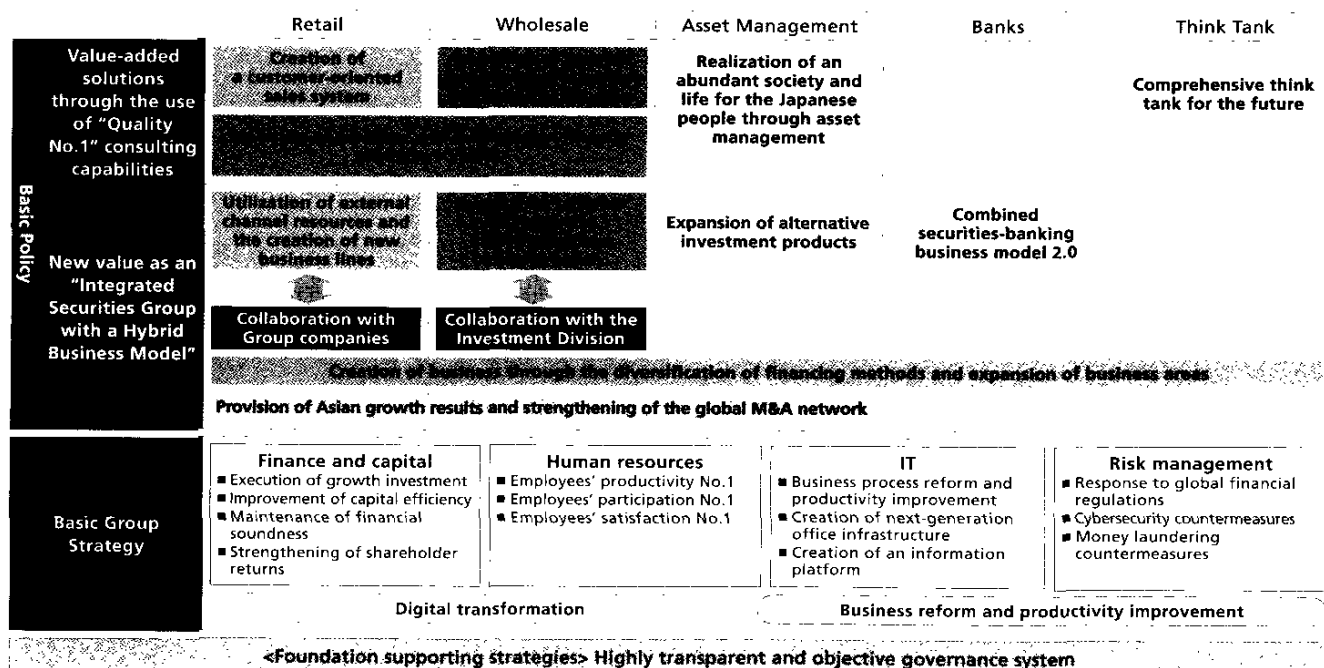
Direction for the Future



Framework of the New Medium-Term Management Plan



Basic Policy and Key Themes for Each Business Line



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.

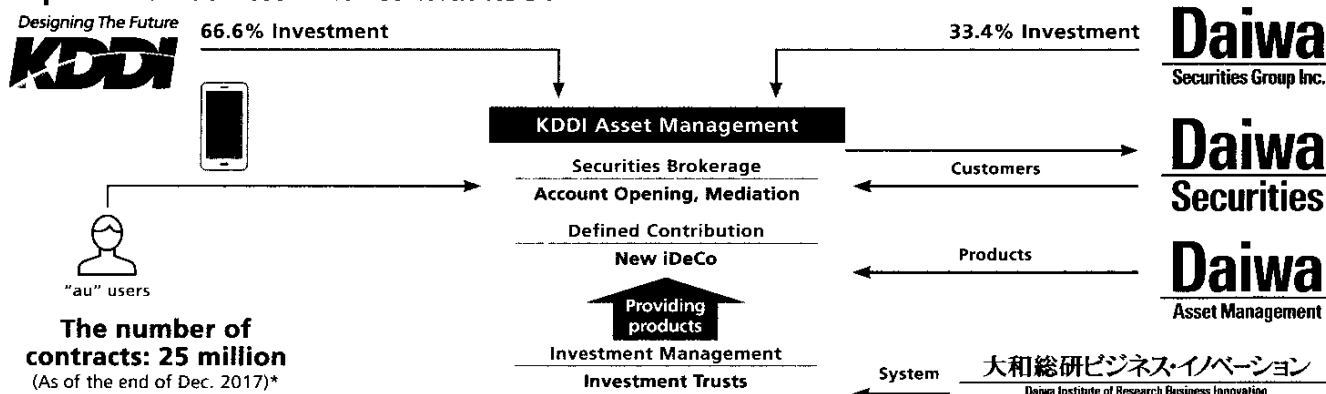
In November 2017, Daiwa Securities Group Inc. signed an agreement to collaborate with Finatext Ltd. and its subsidiary Smartplus Ltd. on the establishment of a next-generation securities platform. STREAM is the name of the social network app created by Smartplus that allows users to exchange information 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.

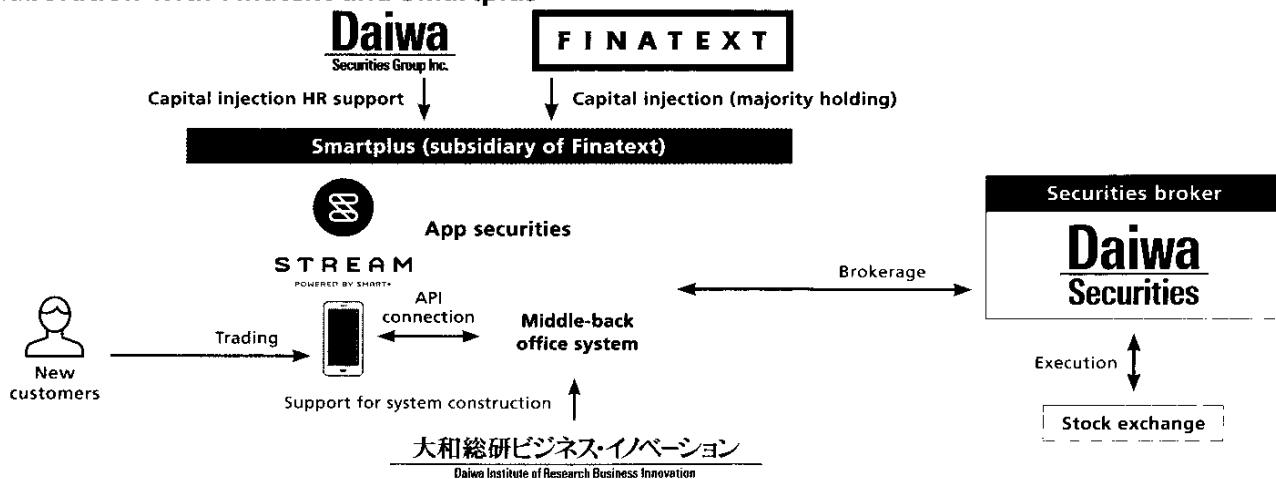
* As of the end of December 2017

Capital and Business Alliance with KDDI



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

Collaboration with Finatext and Smartplus

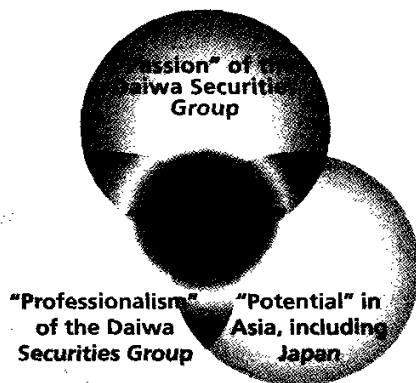


Innovation leads the Group's potential to progress

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

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

Business reform and the improvement of productivity

Facing the challenge of operations with high added value

Improvement of work-life balance

Realization of significant results through business reform



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

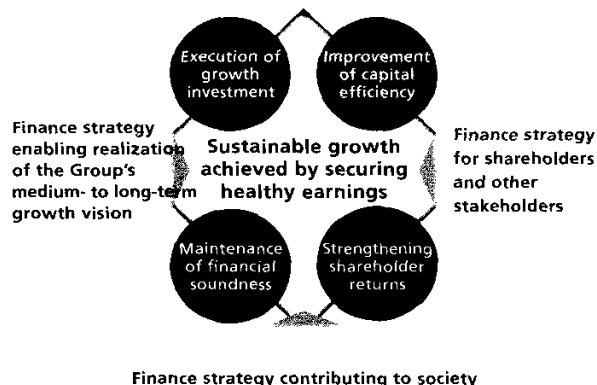
In aiming for sustainable growth, Daiwa Securities Group understands the importance of maintaining appropriate levels of capital while responding to changes in the regulatory environment and securing the resources necessary for investing in future business growth.

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

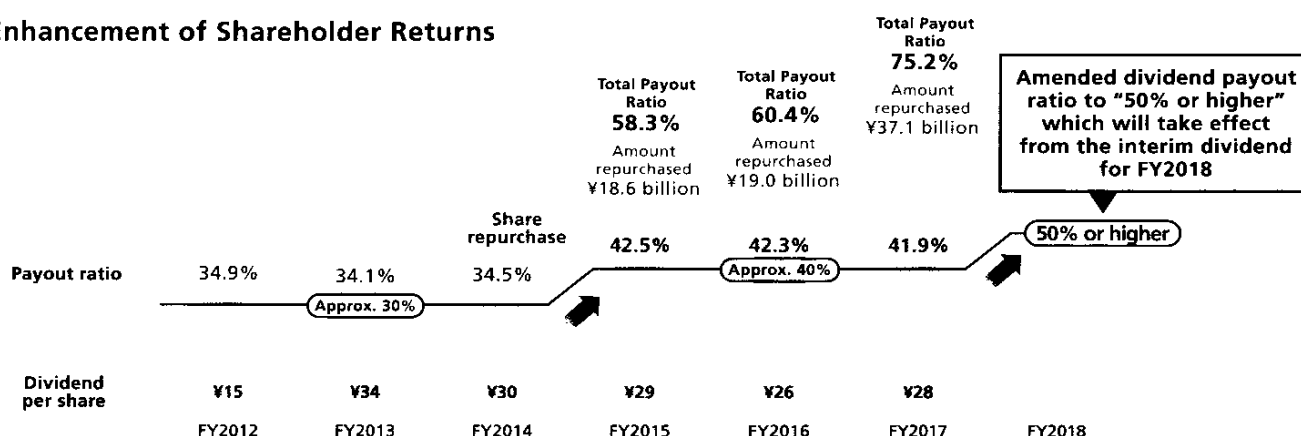
consolidated total capital ratio as a financial KPI to indicate the ability of the Group to maintain the sound financial base required for this purpose. Coinciding with the full-scale implementation of Basel III going forward, there is a chance that this ratio will drop a maximum of four percentage points 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

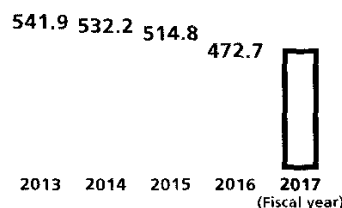
Senior Executive Managing Director and CFO
Daiwa Securities Group Inc.

Daiwa Securities Group Snapshot

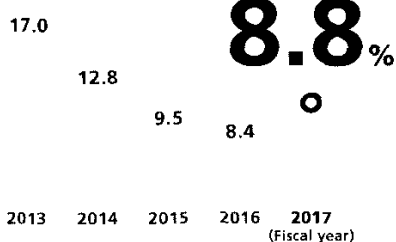
(Data for FY2017 or as of March 31, 2018)

Net Operating Revenues

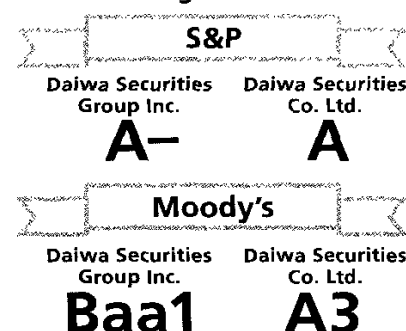
¥505.3 billion



ROE



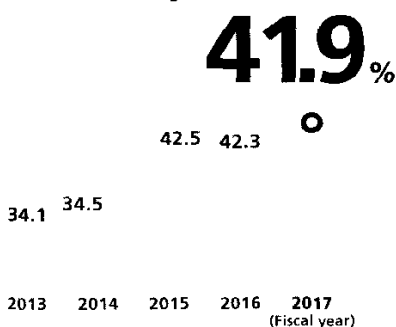
Credit Ratings



Consolidated Total Capital Ratio

22.28%

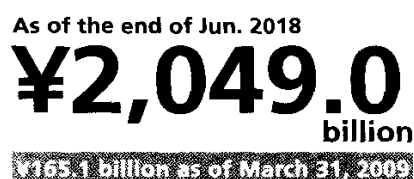
Dividend Payout Ratio



Assets under Custody



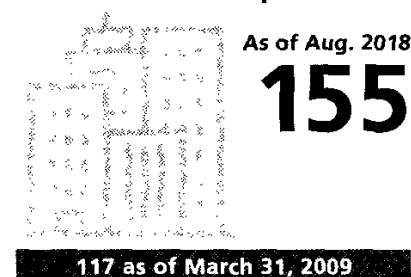
Contract AUM for Wrap Account



Cumulative Sales of Impact Investment Bonds



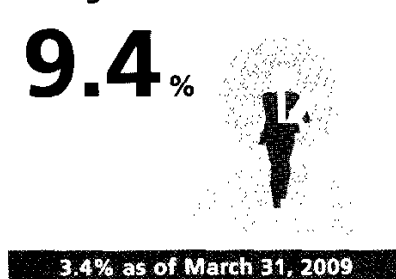
Number of Branches and Sales Offices in Japan



Number of Employees



Ratio of Women in Management Positions



Nadeshiko Brand/ Health and Productivity Stock Selection



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



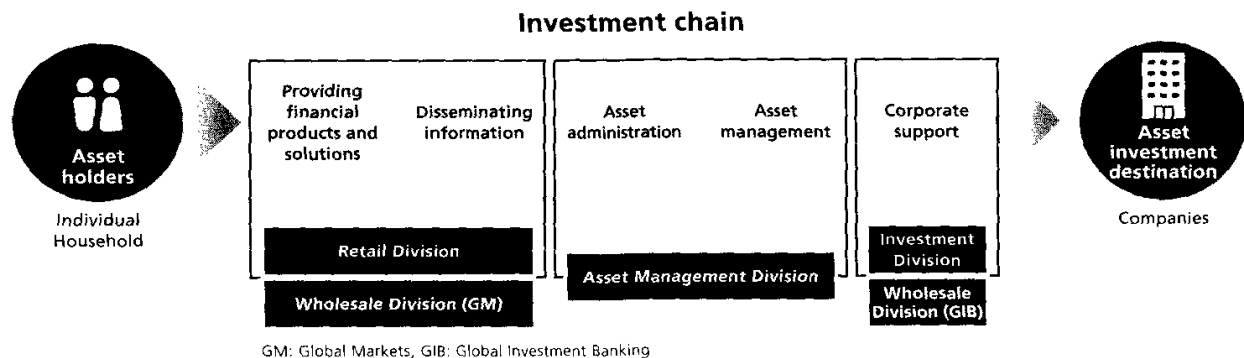
P.41

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

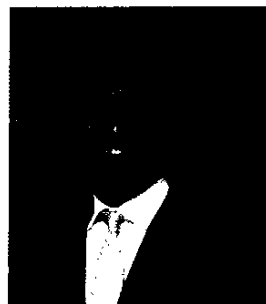
* Websites written only in Japanese

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

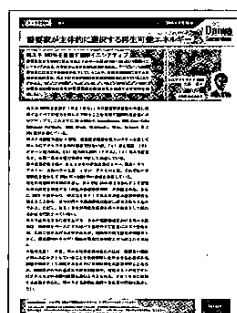
Fund Wrap Online, which allows asset accumulation from ¥10,000 per month in order to meet the growing need for asset formation among our customers.

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.

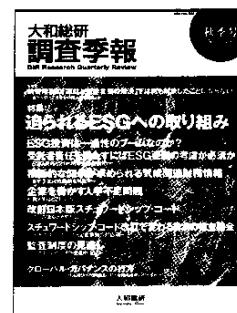
Example 2 Disseminating Information

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.

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

* Website written only in Japanese

Japan's First ESG-related ETFs

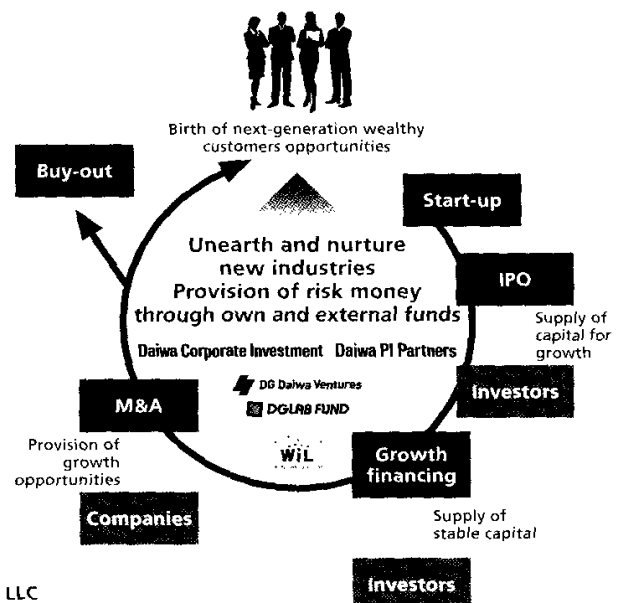
- Daiwa ETF
FTSE Blossom Japan Index
- Daiwa ETF
MSCI Japan ESG Select Leaders Index
- Daiwa ETF
MSCI Japan Empowering Women Select Index (WIN)

**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

- Rakusai 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

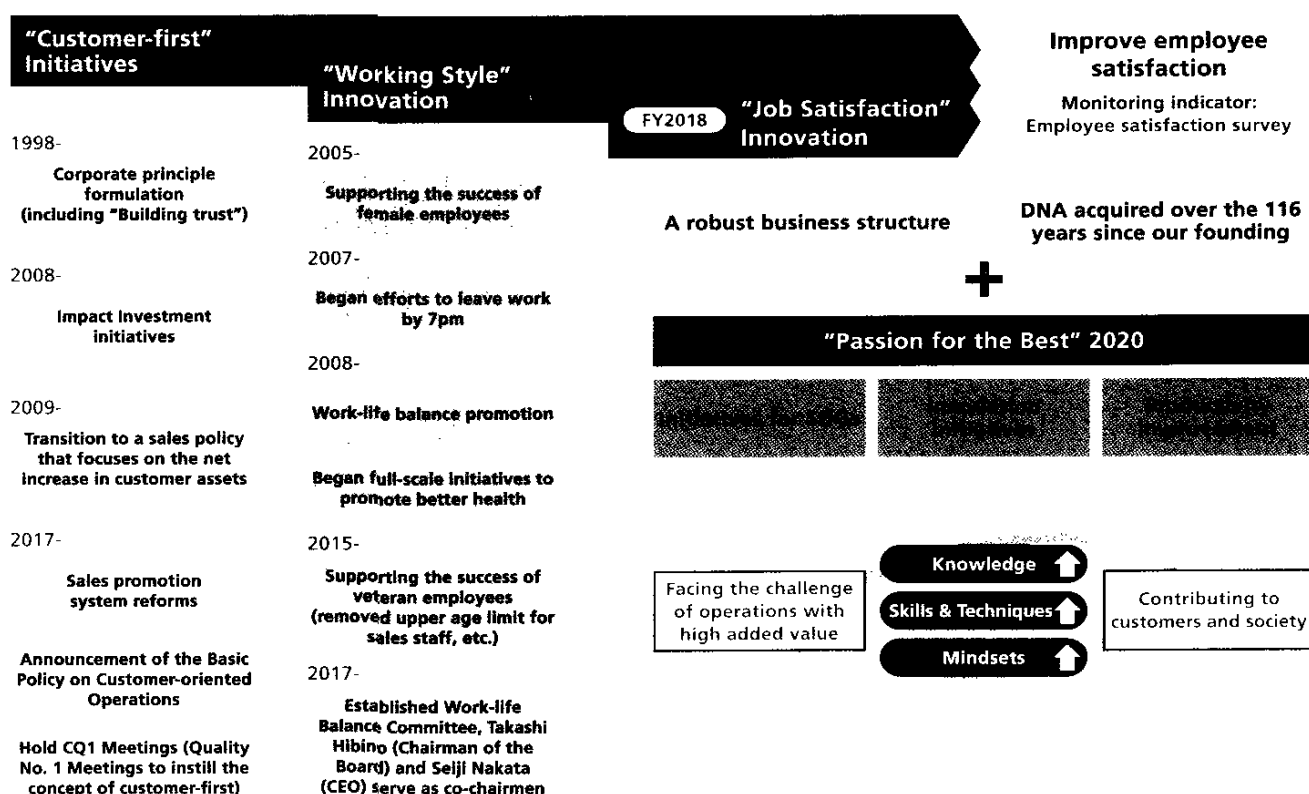
Customer-oriented Operations are the foundation for achieving the industry's highest quality. We believe that elevating customer satisfaction, however, is only possible when employees are highly motivated.

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.

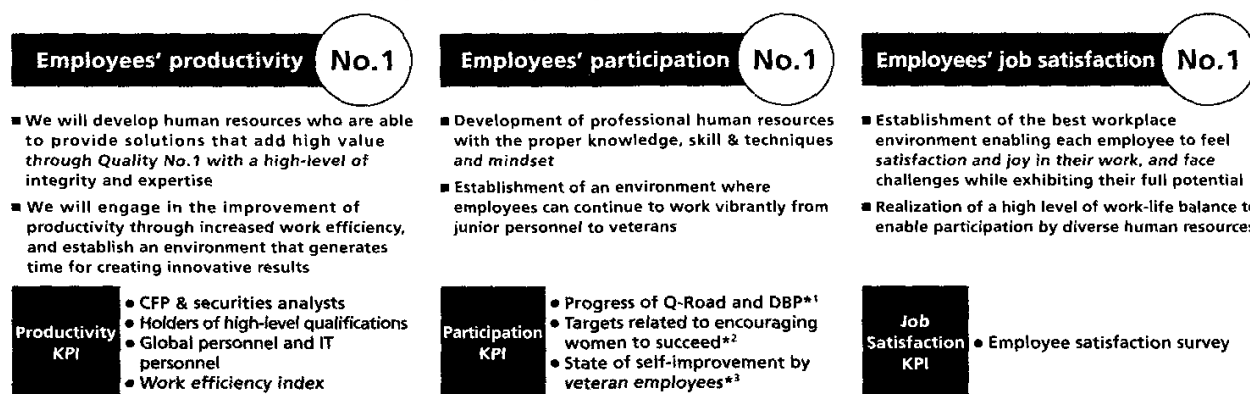
* Clients first, Quality No.1

Initiatives Aimed at Enhancing Employee Satisfaction



From "Working Style" Innovation to "Job Satisfaction" Innovation

Quality No. 1



*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

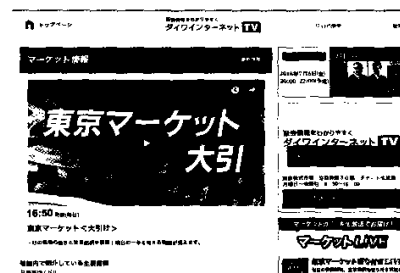
Daiwa Internet TV

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 PerfectTV!" 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.

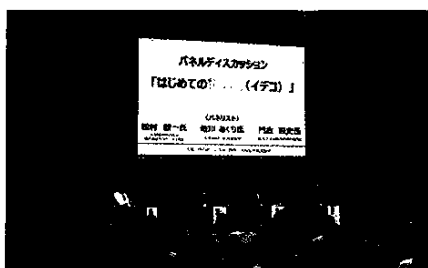


<http://www.daiwatv.jp/>

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.



Seminar panel discussion

FinTech Revolution

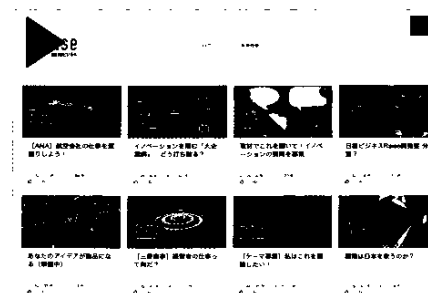
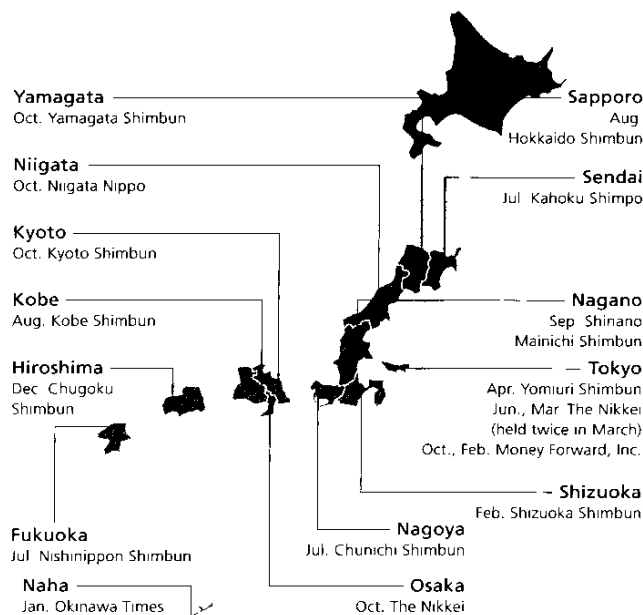
On April 3, 2018, Daiwa Institute of Research published FinTech Revolution. As a group-wide Daiwa Institute of Research project, the book was authored by members with knowledge on the forefront of finance and systems from six departments within Daiwa Institute of Research and Daiwa Institute of Research 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.

iDeCo Partnership Seminars Held in FY2017



<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

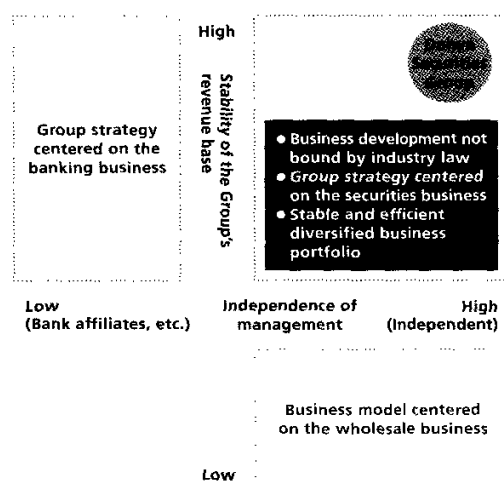


Image of Hybrid Securities Group



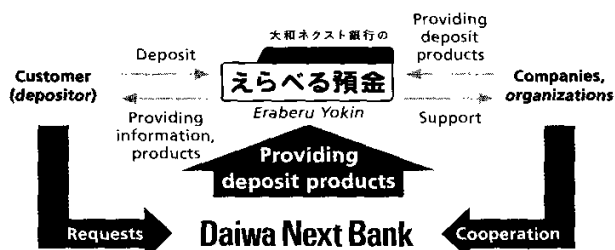
1. Banking Business

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.

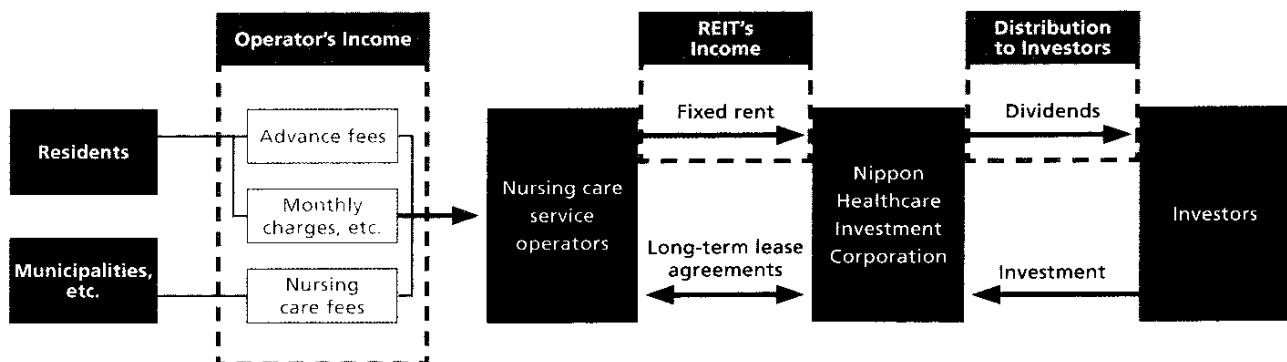
Daiwa Securities Group is committed to improving its sustainability performance as it remains faithful to its environmental and social responsibilities.

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

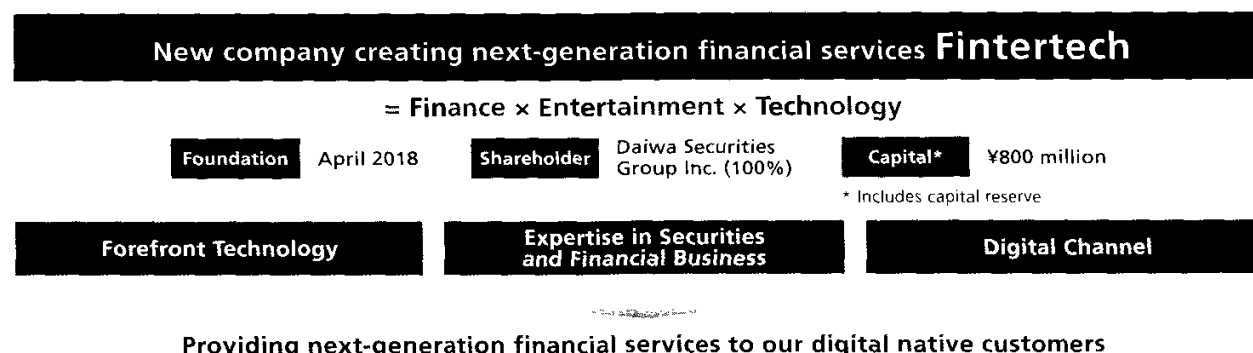
With the goal of fostering new businesses and the next generation of securities platforms, we are focusing our attention on a variety of promising areas while partnering with the leading companies in each of these fields.

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.

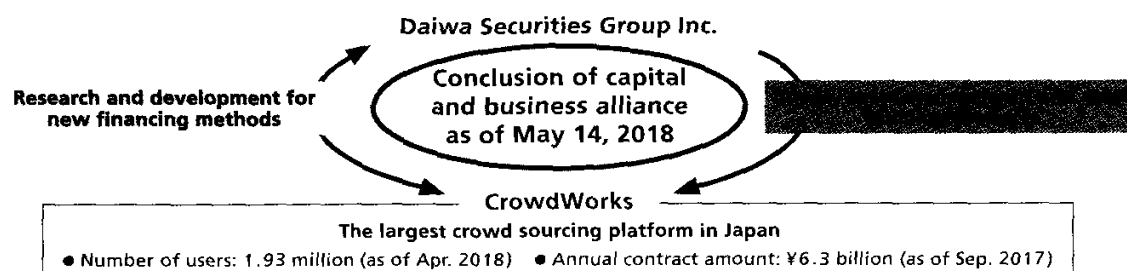
Fintertech

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

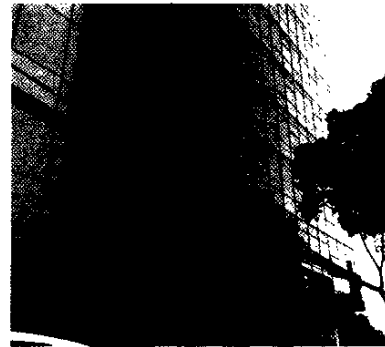
The Asia Alliance Strategy

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.

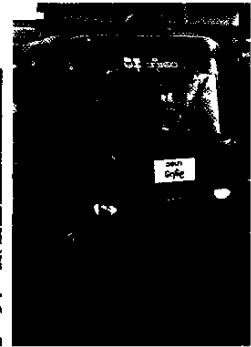
In Vietnam, where real GDP expanded 6.8% in 2017 and growth moving forward appears likely to remain firm, we have more than 20% equity in SSI (formerly Saigon Securities), the largest securities firm in the country, in line with our efforts to promote cooperation in the equity brokerage and investment 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.

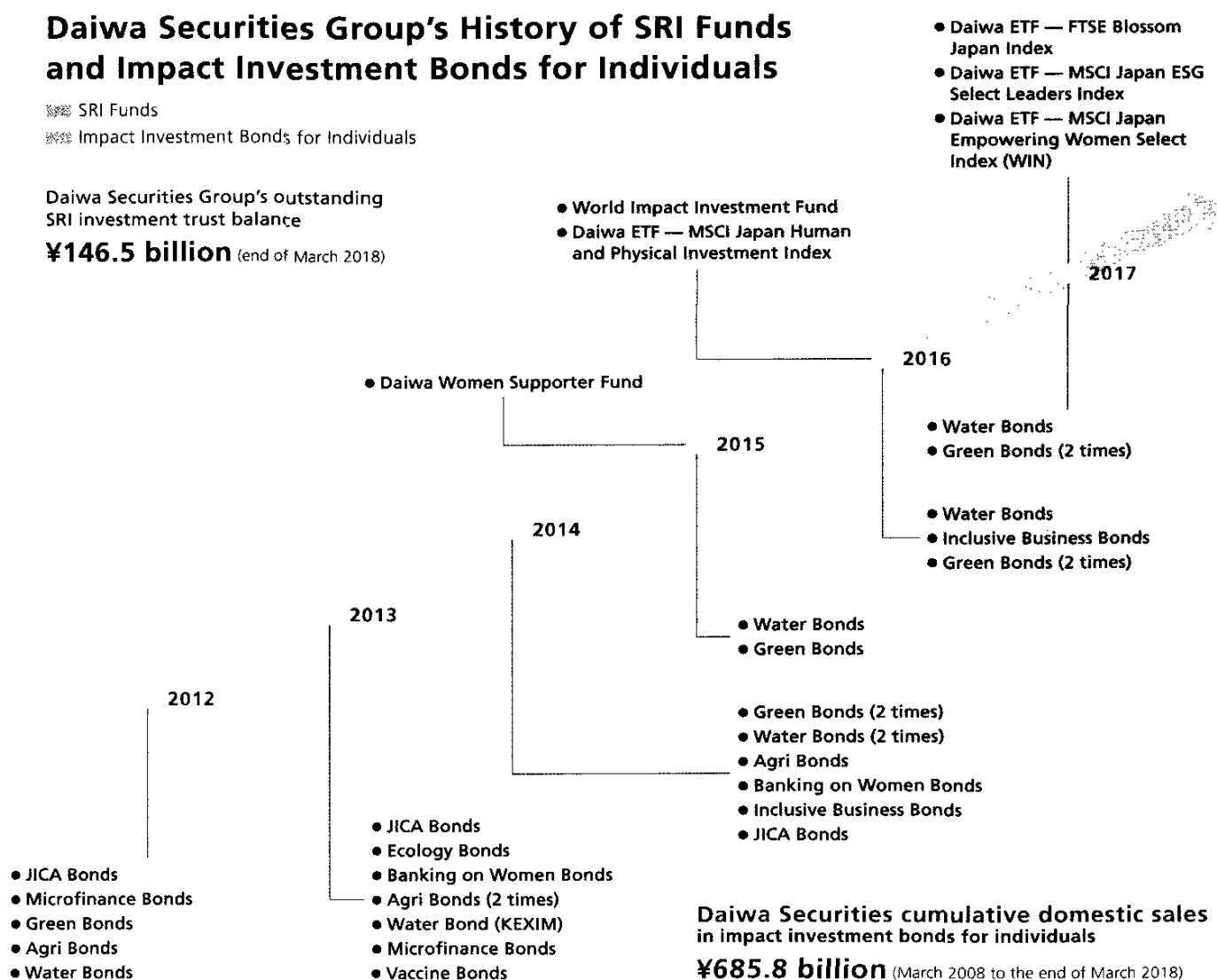
Daiwa Securities Group's History of SRI Funds and Impact Investment Bonds for Individuals

■ SRI Funds

■ Impact Investment Bonds for Individuals

Daiwa Securities Group's outstanding SRI investment trust balance

¥146.5 billion (end of March 2018)



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.

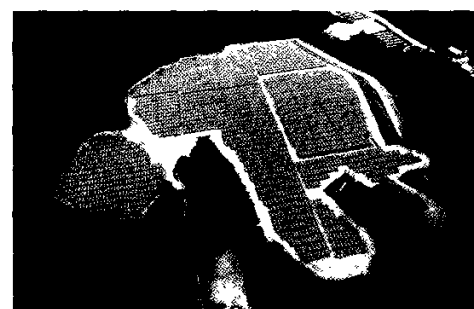
Daiwa PI Partners, which handles Daiwa Securities Group's investment function, has been working to resolve social issues, including in regard to the conversion of the energy supply structure, through investment in renewable energies.

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
Total output capacity			105.8MW
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

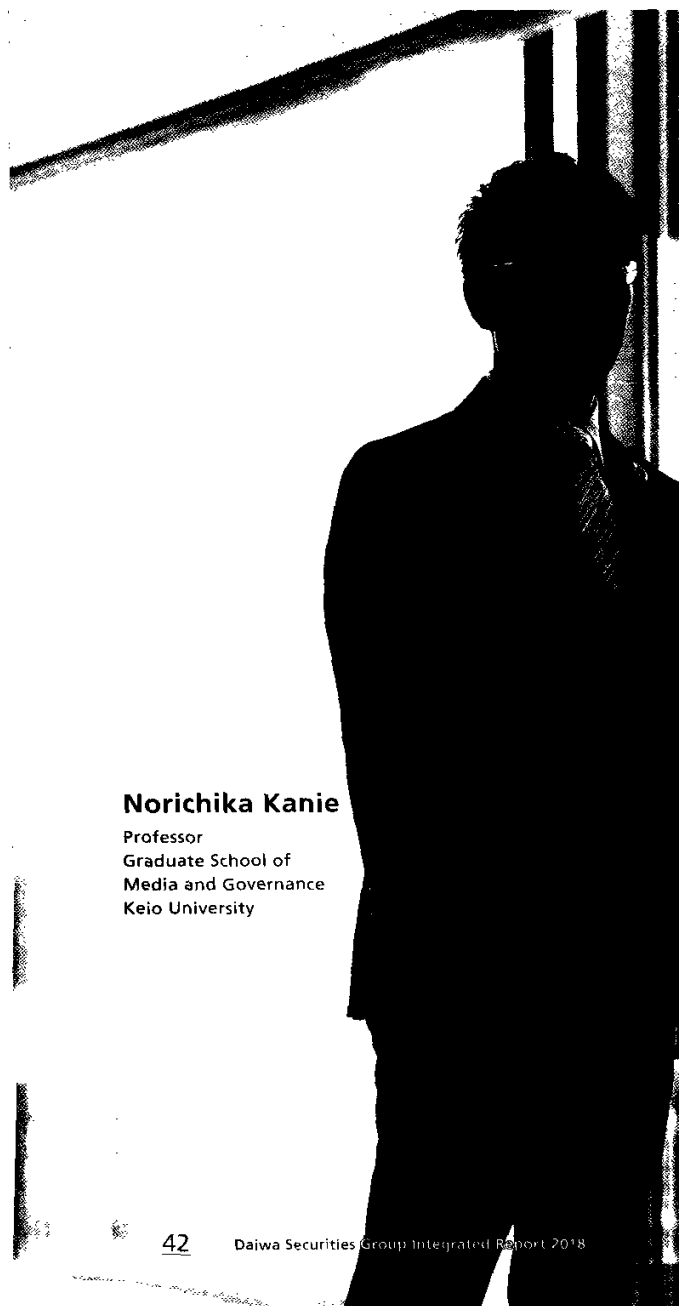
With measures like the promotion of better work-life balance and the success of female and veteran employees while creating a working environment in which our employees, regardless of their gender and age, would feel satisfying to work in and would demonstrate their potential fully, we will endeavor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

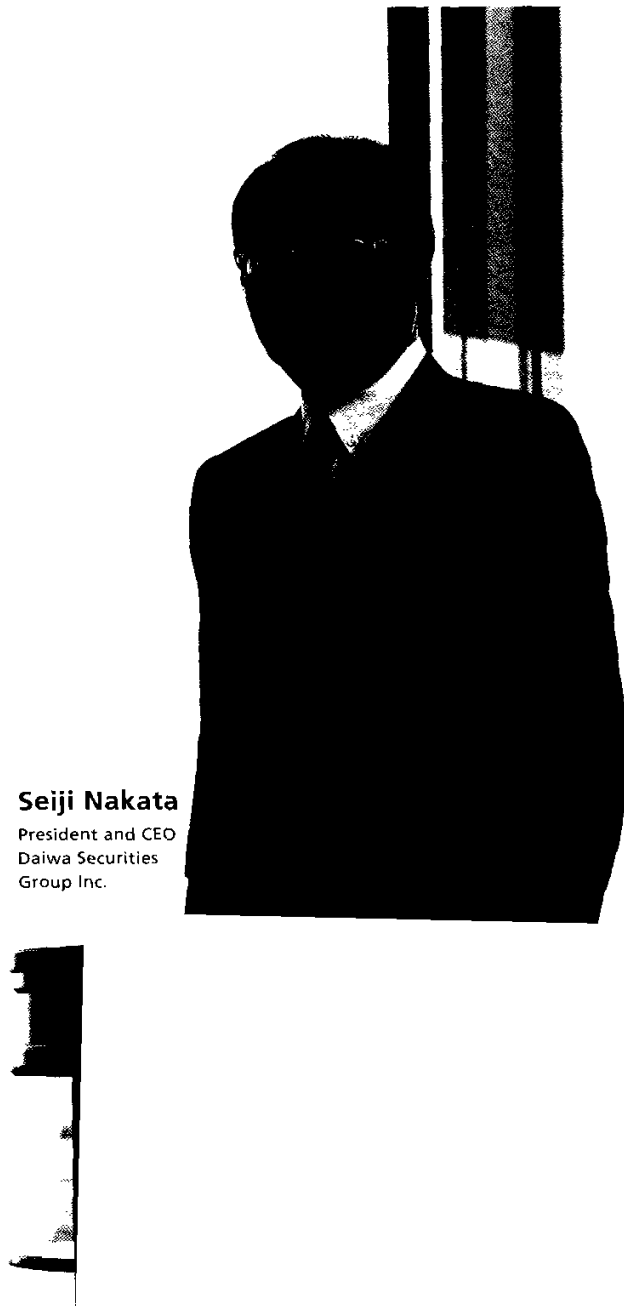
Creating the Future through SDGs

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.

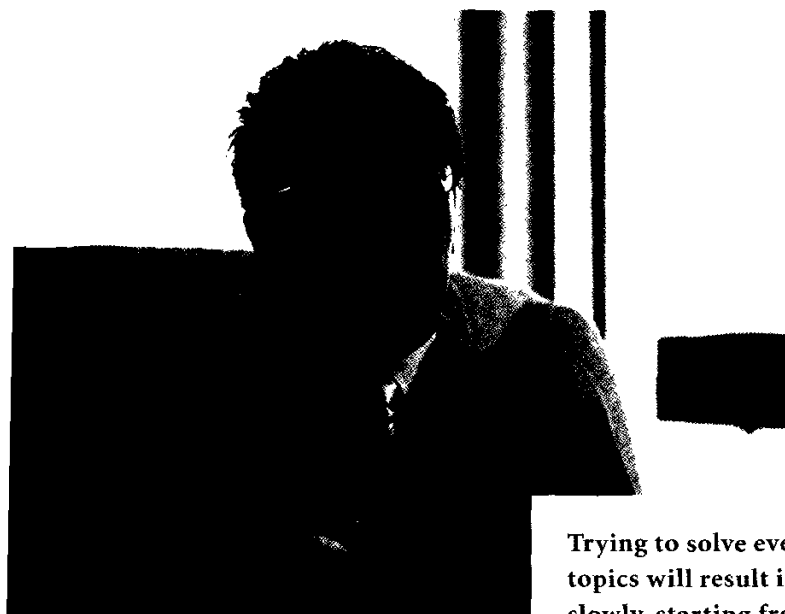
For Creating Good Practices

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.

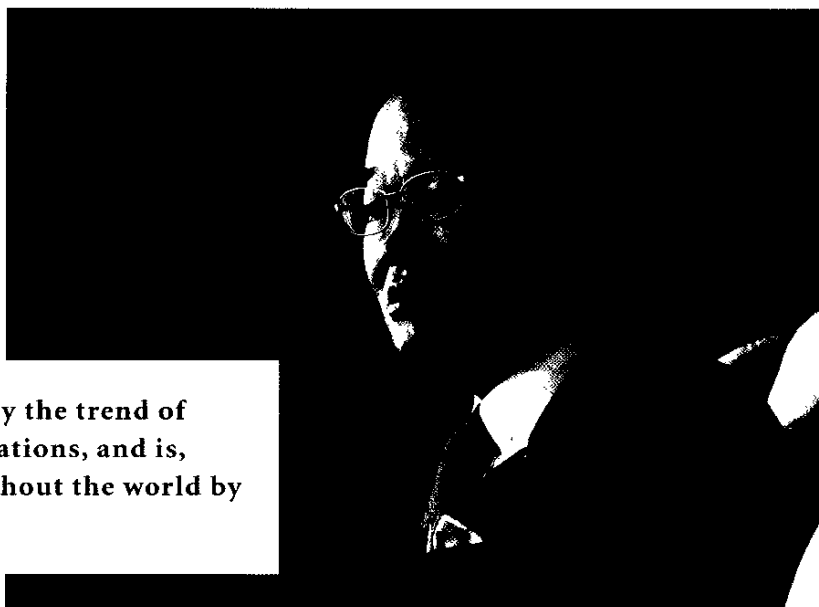
Conversely, regional cities with smaller populations are likely to offer an environment within which it is easier to undertake experimental initiatives for SDGs. By involving regional financial institutions, for example, some local governments are working to create systems by which companies that tackle 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.

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: 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

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

48 Re

53

ion

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*1: **¥417.3 billion from 82 funds**
 - Outstanding principal investment balance*2: **¥120.0 billion**
- *1 Investment fund data is presented on a cumulative basis from the commencement of DCI business operations
*2 Principal investment balance is total of PIP and DPI

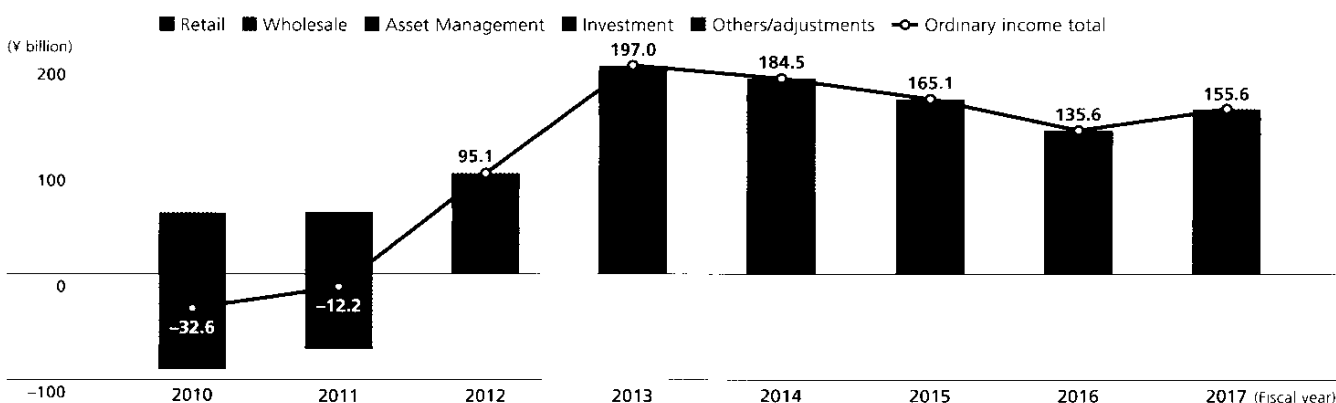
Other

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.

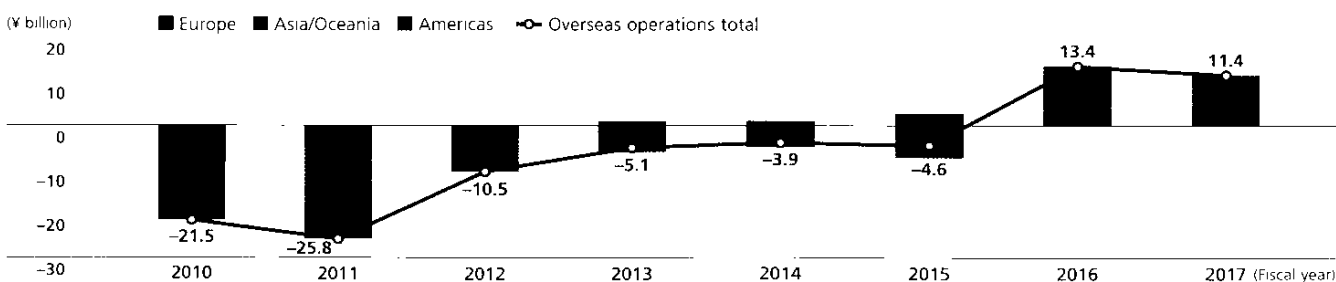
- Balance of deposits*: **¥3.5 trillion**
 - Number of accounts*: **1,289 thousand**
- * Figure for Daiwa Next Bank Ltd.

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

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.

Seiji Nakata

President and CEO
Head of Retail
Daiwa Securities Group Inc.





Main Sources of Earnings

- Commissions on products and services related to financial asset management

Key Factors Affecting Earnings

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

Engagement with Stakeholders

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

Awareness of Environment

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

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**

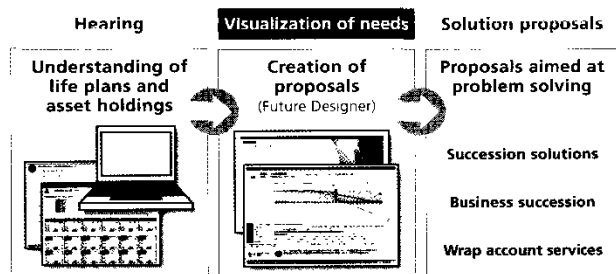
Strategy 1

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

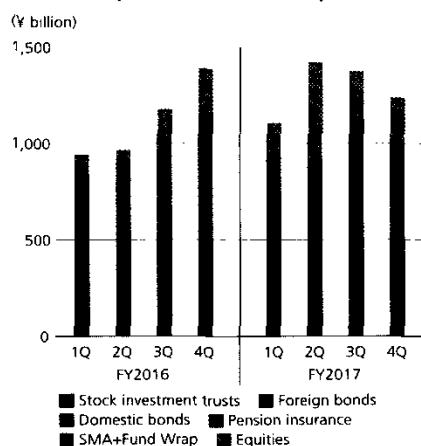
Expanding Customer Contact and Optimizing Channels

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.

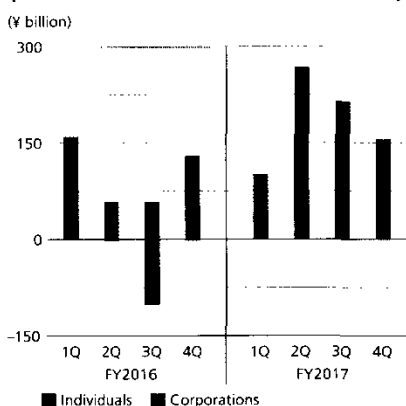
In May 2018, two major branches in Nagoya were merged together, with the aim of increasing efficiency by integrating branches in major cities while expanding agile sales office area coverage.

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

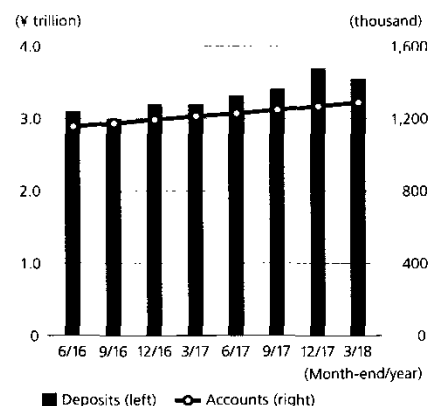
Sales and Distribution Amount by Product (Daiwa Securities)



Net Inflow of Assets (Daiwa Securities' Retail Division)



Balance of Deposits and Number of Accounts at Daiwa Next Bank

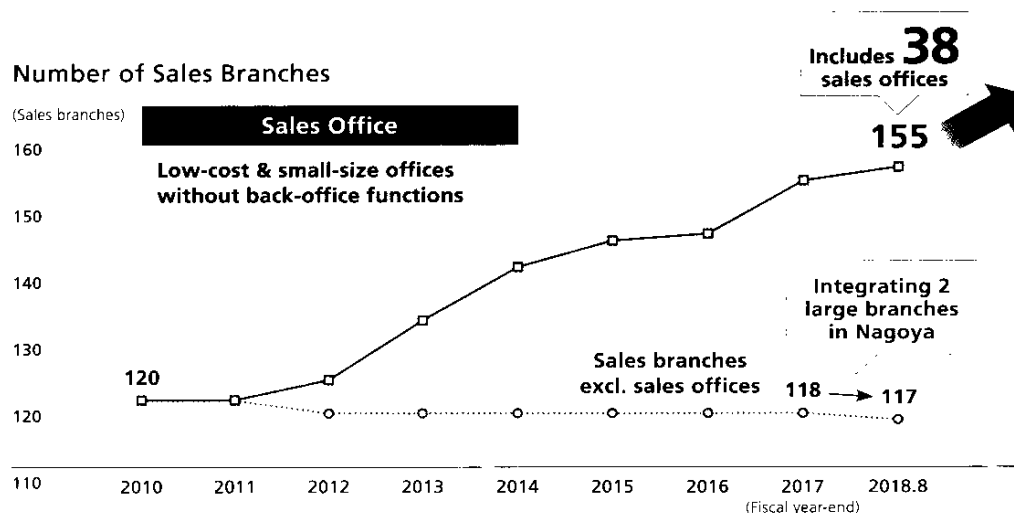


interactions with in the past.

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)

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

Operational Data

	Billions of yen (Except as otherwise specified)			
	FY2014	FY2015	FY2016	FY2017
Daiwa Securities				
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

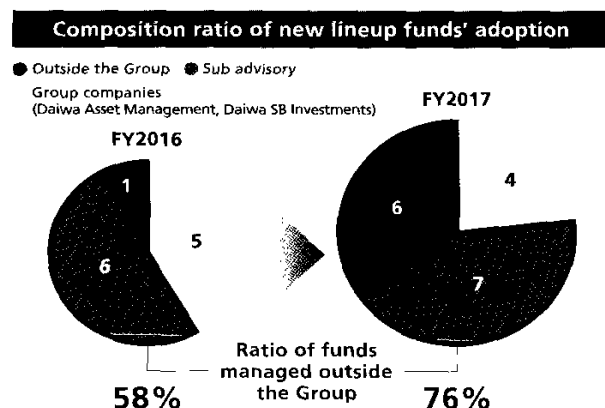
investment trusts under an open architecture.

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.

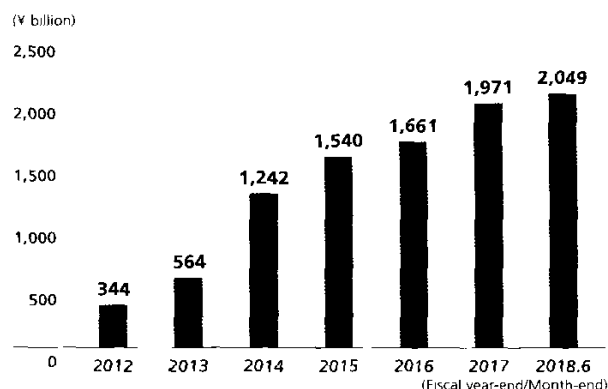
As of March 31, 2018, the balance of contract assets under management for wrap account services increased to ¥1,971.3 billion, a record high, and as of the end of June, the balance exceeded ¥2 trillion.

* 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.

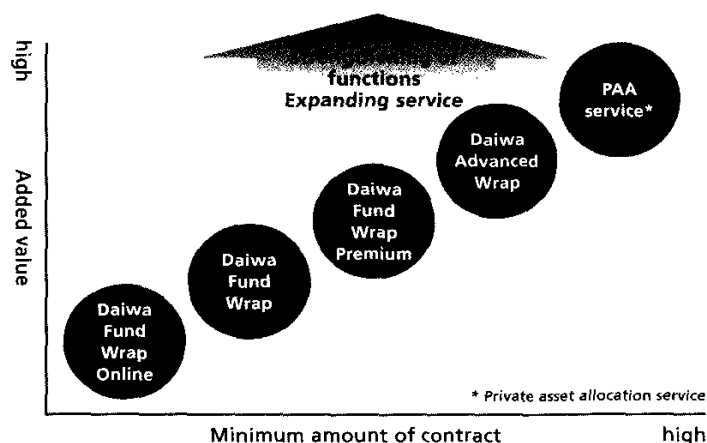
Selection of Investment Trusts by Open Architecture



Contract AUM for Wrap Account Services



Further Evolution of Wrap Account Services



¥100 million - Daiwa Advance Wrap

- Core investment, flexibly switching portfolios and Satellite Investment, based on each customer's original needs

¥30 million - Daiwa Fund Wrap Premium

- Investment portfolio: up to 5
- Investment style: about 500
- Inheritance beneficiary designation service
- Periodic redemption service

¥3 million - Daiwa Fund Wrap

- Investment style: more than 100

¥10,000 - Daiwa Fund Wrap Online

- Utilization of robo-advisor technology
- Periodic funded service (from ¥10,000)

Wholesale Division



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

GM: Global Markets GIB: Global Investment Banking

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.

Main Sources of Earnings

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

Key Factors Affecting Earnings

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

Engagement with Stakeholders

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

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.

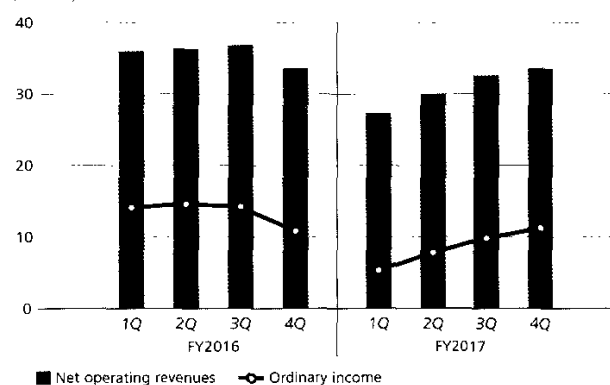
In order to strengthen M&A advisory services

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"> ■ Sale of CPA Global (UK) to Leonard Green & Partners, L.P. (US) ■ MBO of Kuroda Electric Co., Ltd. by MBK Partners JC IV, L.P. ■ Sale of Northgate Public Services (UK) by Cinven to NEC ■ Acquisition of shares of H.C. Starck Tantalum and Niobium (Germany) by JX Nippon Mining & Metals Corporation 		

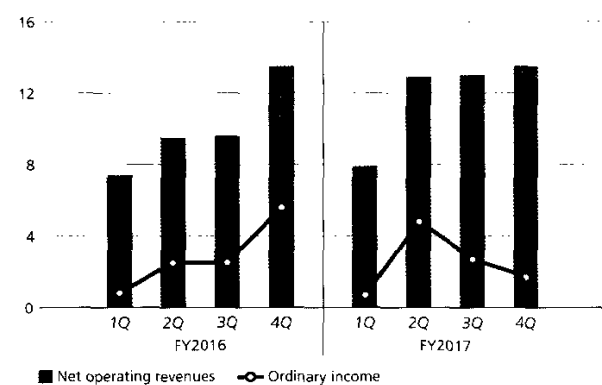
Quarterly Earnings Trends Global Markets

(¥ billion)



Global Investment Banking

(¥ billion)



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

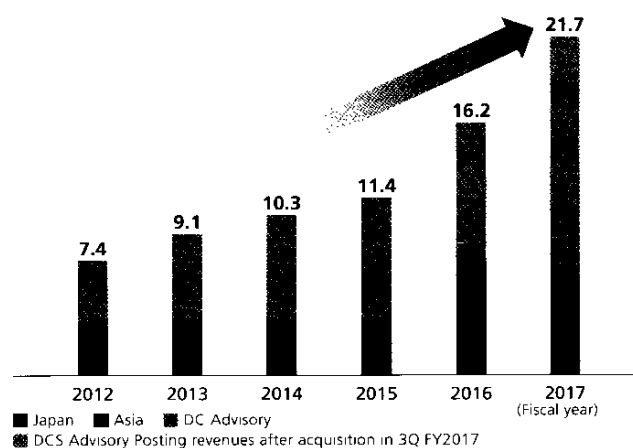
Global Investment Banking provides sophisticated solutions that help solve management problems at corporations. In particular, Daiwa Securities Group aims to strengthen the M&A business by leveraging its expanded global network in Japan, Europe, the U.S. and now China as well.

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)



Strategies by Division



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

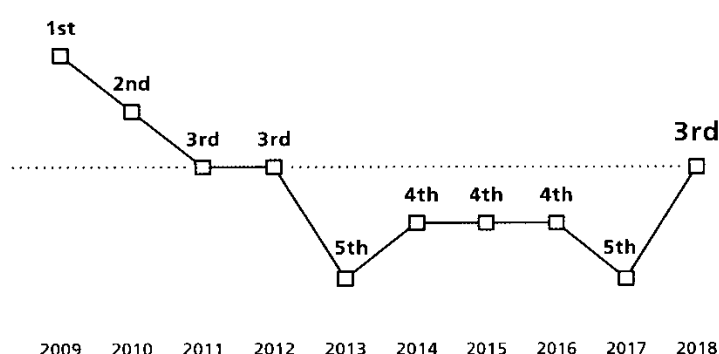
Strategy 2

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

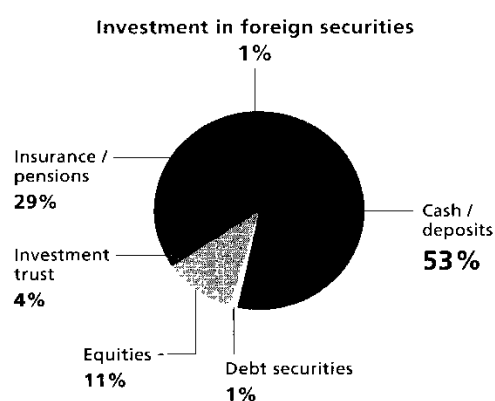
rankings. In Japan, our focus is on providing easy-to-understand information about foreign equities and bonds to individuals in an attempt to promote diversification in their financial asset portfolios, while providing foreign currency-denominated and other various products to help customers accumulate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

Nikkei Veritas Analyst Ranking



Source: Overall ranking by company, equity research ranking

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

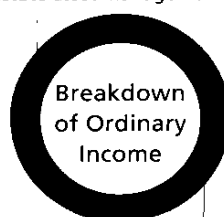
*2 Percentage of amount taken in league tables

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

ment Division

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

Nobuyuki Iwamoto

Deputy President
Head of Asset Management
Daiwa Securities Group Inc.

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 divestiture 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*¹ 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*² 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**

Strategy

1

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

Strategy

2

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

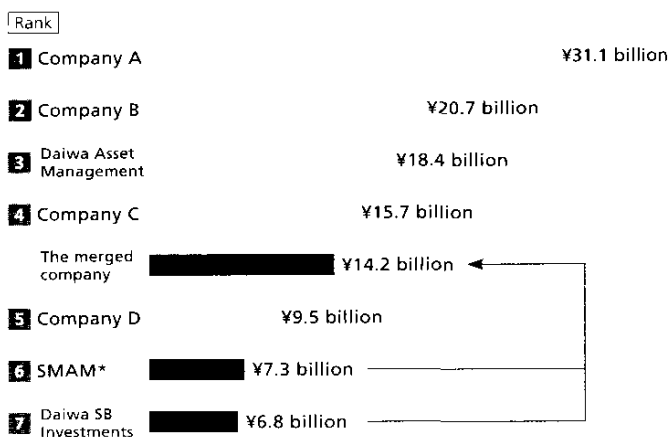
will contribute to expansion in assets under management for customers by providing products and services in line with their stage of asset building and investment needs.

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

Pursue
customer
benefits

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* ¹
Healthcare	2014	Nippon Healthcare Investment Corporation	¥19.3 billion
	2016	IDI infrastructures	¥69.0 billion* ²
Infrastructure and energy	2016	Privately offered real estate funds	¥11.0 billion
	2016	Privately offered real estate funds	¥11.0 billion
Hotels	Jun. 2018	Daiwa Hotel Private Investment Corporation	¥9.2 billion* ³

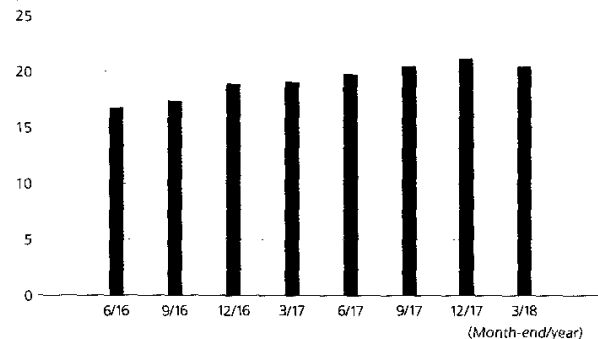
*¹ Sub sponsor

*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

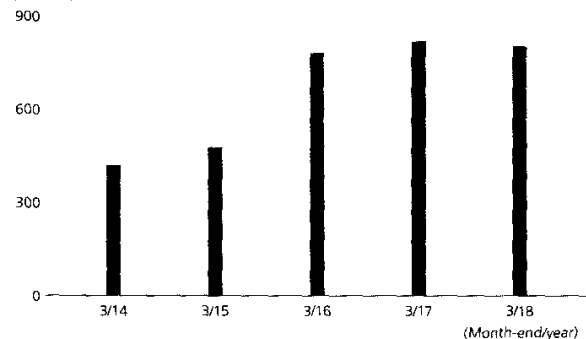
(¥ trillion)



- 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

(¥ billion)



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

Investment Division



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.

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.

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

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*¹. 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*² 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.

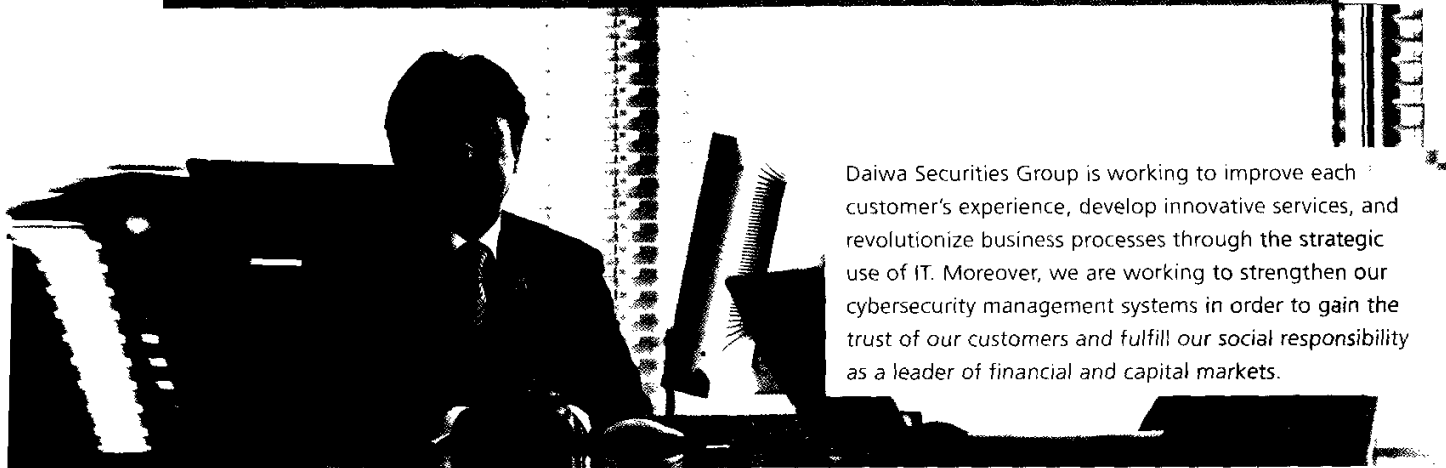
Isayama: Stanford University, which is sacred ground for engineers, is located in Silicon Valley. The area has also seen an accumulation of radar and semiconductor technologies since the old days. This history has become a magnetic force for attracting innovative talent. It was not artificially created 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



Masahisa Nakagawa

Senior Executive Managing Director and CIO
Daiwa Securities Group Inc.

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.

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

70	Message from the Chairman
72	Medium-Term Management Strategy Formulation
74	Special Divisions
78	Directors
80	Executive Officers
81	Corporate Governance
	Corporate Governance Framework
	Management
	Strategy and the Business
	Compliance
	Disclosure
	CSR and Environmental Management
	Financial Services
	Investment Services
	Insurance Services
	Securities and Finance
	Proposals on the Economy, Society and the Environment
	Information

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.

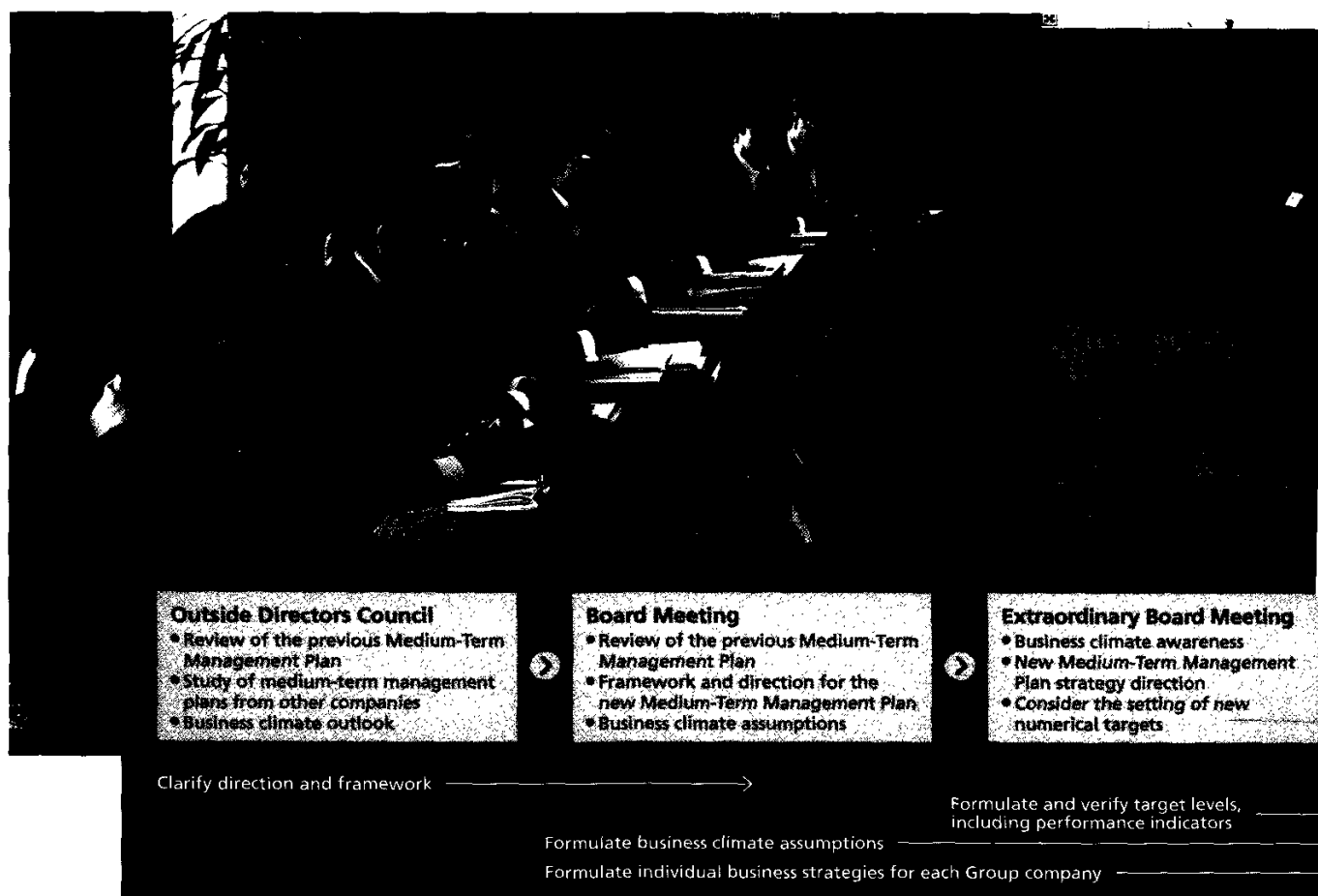
In terms of compensation, in FY2018 we introduced restricted stocks as part of our director compensation plans, whereby increasing the ratio of director compensation accounted for by stock-price-linked compensation has strengthened the incentive to further enhance corporate value over the medium to long 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

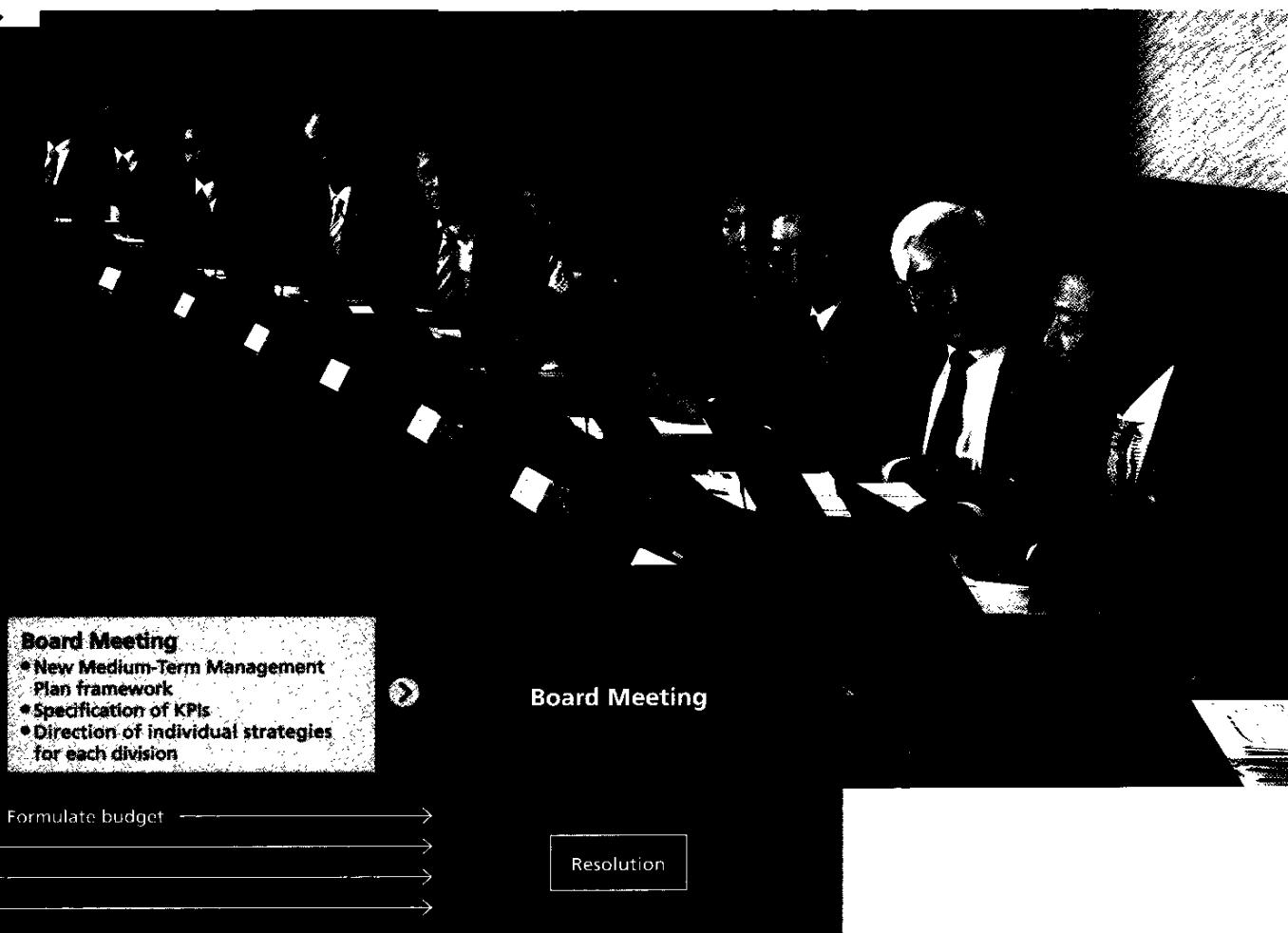
The interests of those in longer living generations are not only in building assets for purposes of inheritance, but also in securing a stable life for themselves in old age. As such, we should include the issue of what approaches to asset building are necessary for this purpose within the next Medium-Term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



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.

A black and white photograph of three men in business suits standing in front of a large window. The window looks out onto a city skyline with several buildings. The man on the left is Keiichi Tadaki, the man in the middle is Tadashi Onodera, and the man on the right is Hirotaka Takeuchi. They are all looking towards the camera.

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, overseas, corporate planning and personnel and thereby has 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 Shimonoeki 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
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.

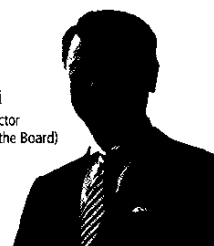
Michiaki Ogasawara
Outside Director
(Member of the Board)



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
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.

Hiroataka 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
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.

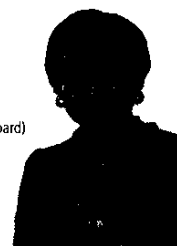
Ikuo Nishikawa
Outside Director
(Member of the Board)



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



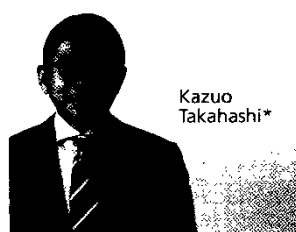
Seiji Nakata*

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.



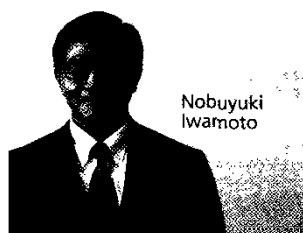
Kazuo
Takahashi*

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:

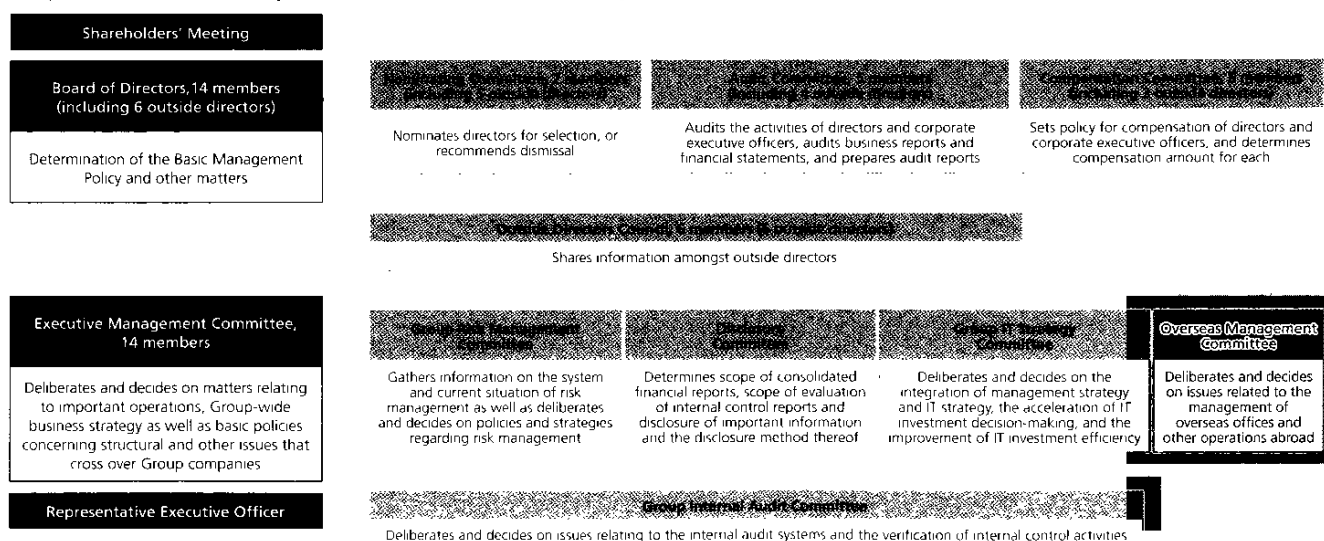
- a** Better decision-making agility by having the Board of Directors assign significant authority to corporate executive officers while clarifying the division of duties among corporate executive officers;
- b** More effective supervisory functions at the Board of Directors from the appointment of outside 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
	Became the first listed Japanese company to adopt a holding company structure
April 1999	Established the Advisory Board
	Established the Group Management Committee
June 2000	Established the Compensation Committee
	Elected outside directors
June 2002	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)
	Complied with the Corporate Governance Code
October 2015	Established the Outside Directors Council
April 2017	Appointed outside directors as chairpersons of all three committees

Meetings of Three Committees and Board of Directors in 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	Hirofumi Takeuchi (Chairman)	Outside Director
Takashi Hibino		Morimasa Matsuda		Takashi Hibino	
Seiji Nakata		Michiaki Ogasawara	Outside Director	Seiji Nakata	
Keiichi Tadaki	Outside Director	Ikuro Nishikawa	Outside Director	Tadashi Onodera	Outside Director
Michiaki Ogasawara	Outside Director	Eriko Kawai	Outside Director	Ikuro Nishikawa	Outside Director
Hirofumi 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 FY2107, 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 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.

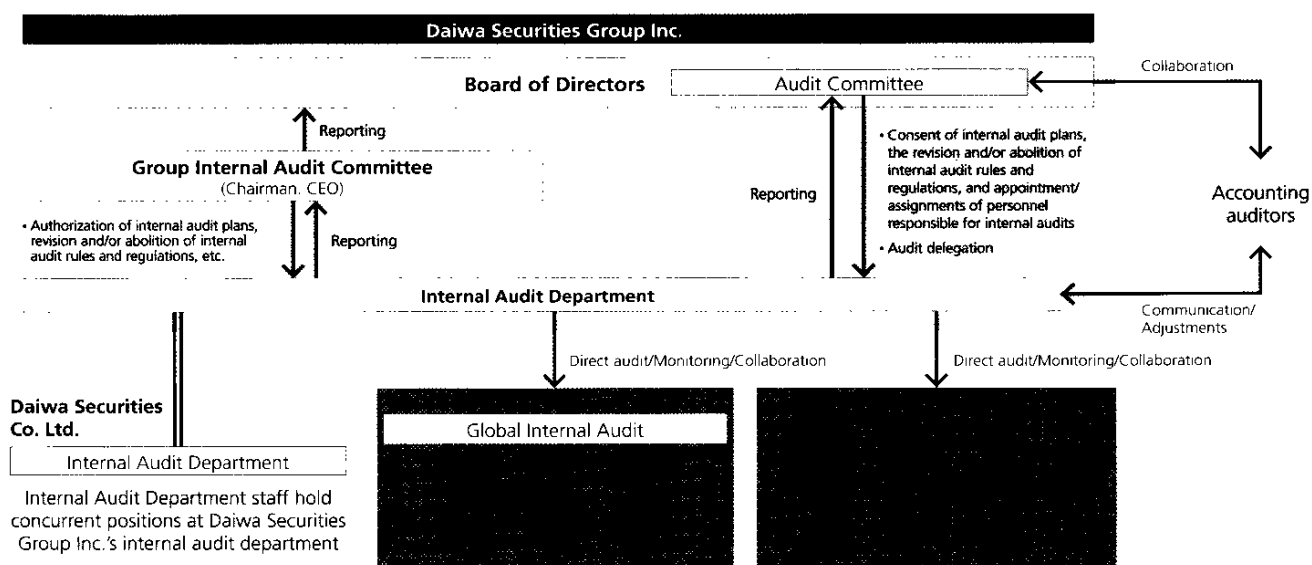
Reports to the Group Internal Audit Committee are not limited to the audit results conducted at Daiwa Securities Group Inc. and Daiwa Securities Co. Ltd., but also include highly important findings made during audits conducted on companies in Japan and overseas.

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.

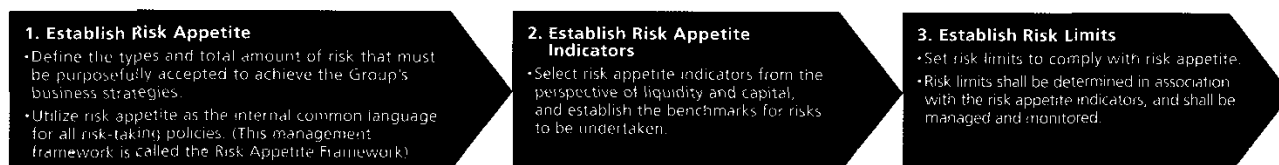
In addition, the Group must appropriately evaluate risks outside the ordinary, and ensure it has sufficient liquidity and equity capital commensurate with these risks in order to be

adequately prepared during times of stress.

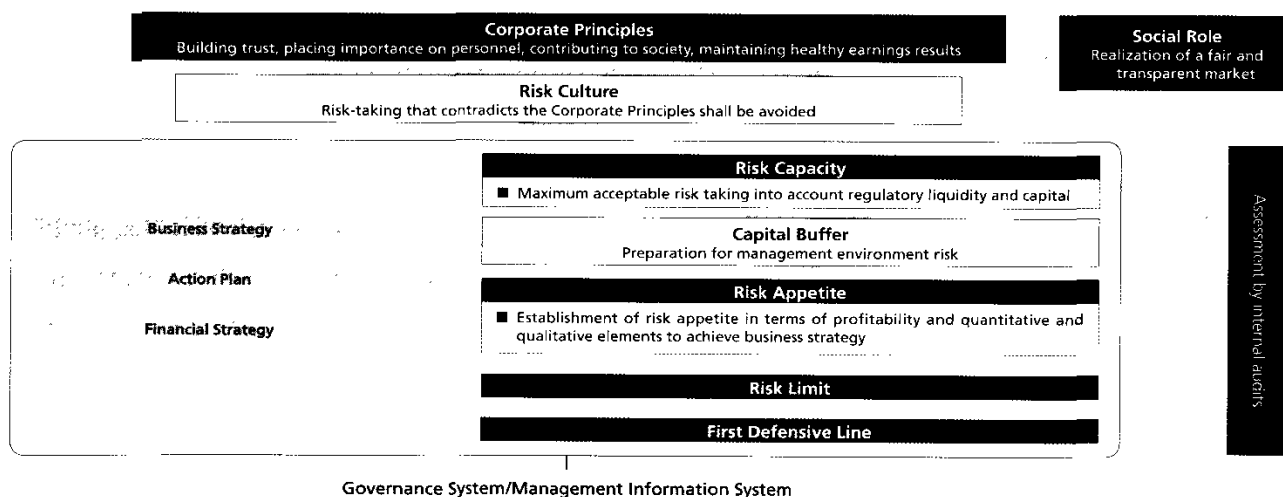
Under this environment, the Group has introduced a risk appetite framework for the purpose of strengthening risk governance at the management level.

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.

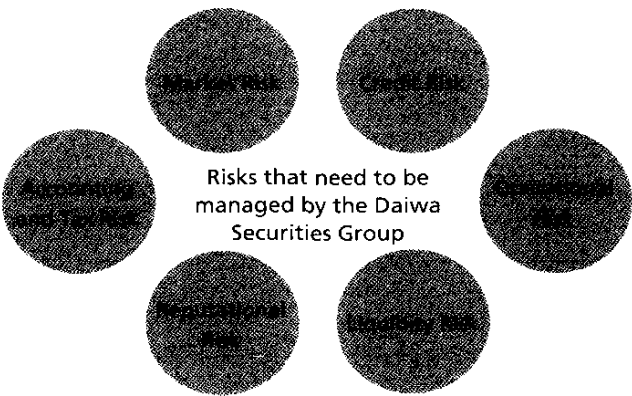
Basic policies as defined by the Rules for Risk Management at the Daiwa Securities Group

- 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.

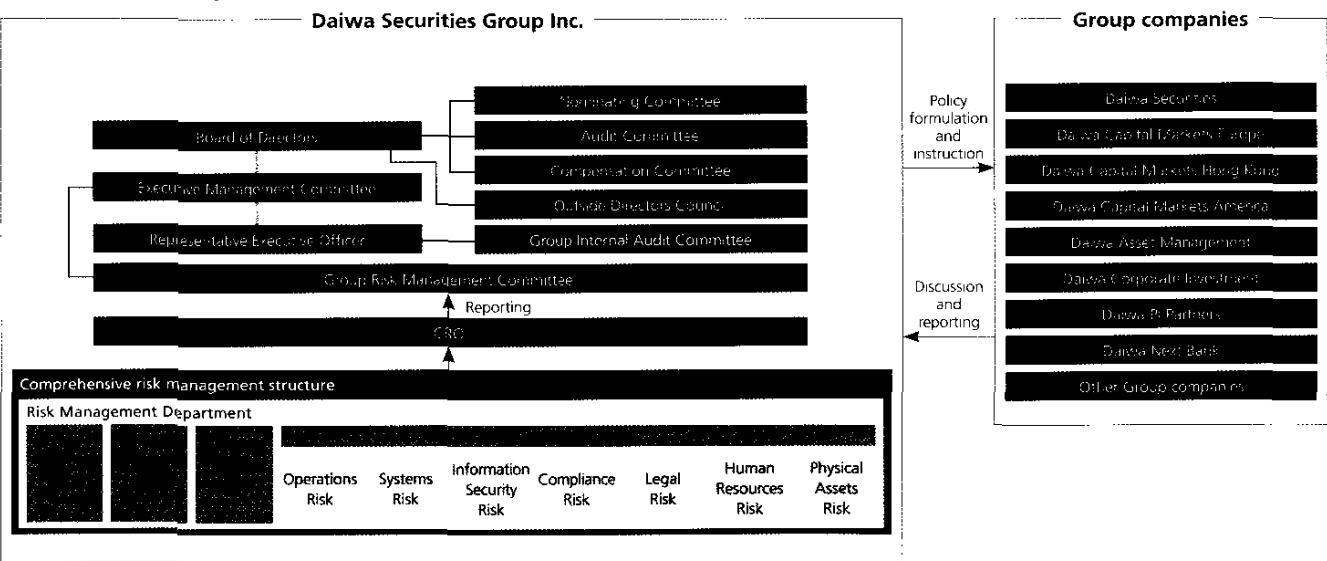
Limits are set for each type of risk so as to appropriately manage Group risk.

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.



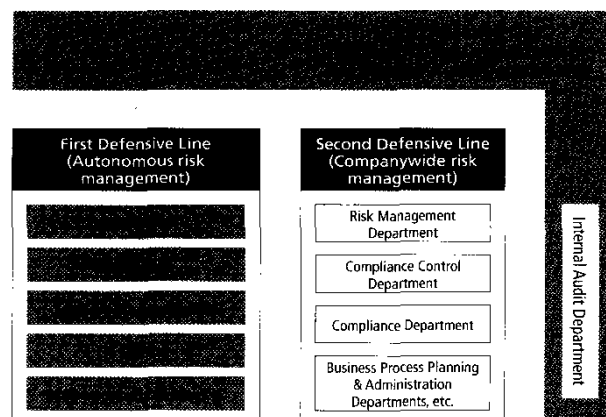
Risk Management System



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)*¹ and loss estimates under various types of stress test*² to ensure that they are within the scope of equity capital after taking into consideration financial conditions and such factors as the business plans and budgets of subject departments. The Group also sets limits on such facets as position and sensitivity. Risk management departments of Daiwa Securities Group Inc. monitor market risk across the Group, and report the status of market risk to management on a daily basis.

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

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

Credit risk management

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

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
VaR (Month-end)	1.01	1.00	1.25	1.96	1.29	1.16	1.93	1.13
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 held Group Compliance Liaison Meetings as a venue for periodically sharing information among compliance departments of Group companies. We aim to further improve internal management as a Group by strengthening collaboration among Group companies.

Compliance Training

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

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

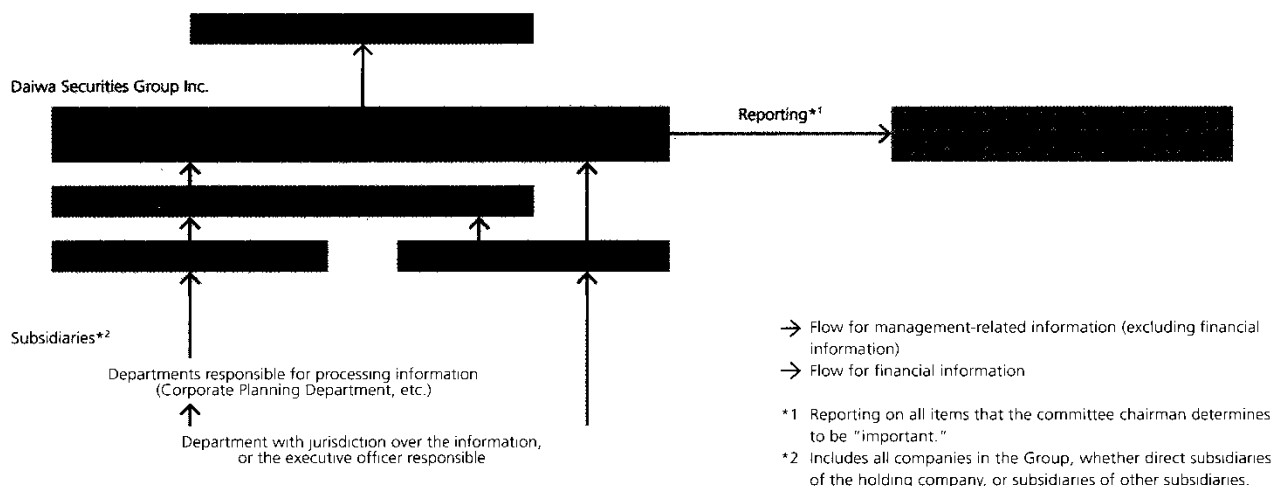
The Group has formulated a Disclosure Policy, which outlines the Group's basic approach to information disclosure, and strives to provide information that is fair, prompt, and appropriate.

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.

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.

Daiwa Securities Group Stakeholders



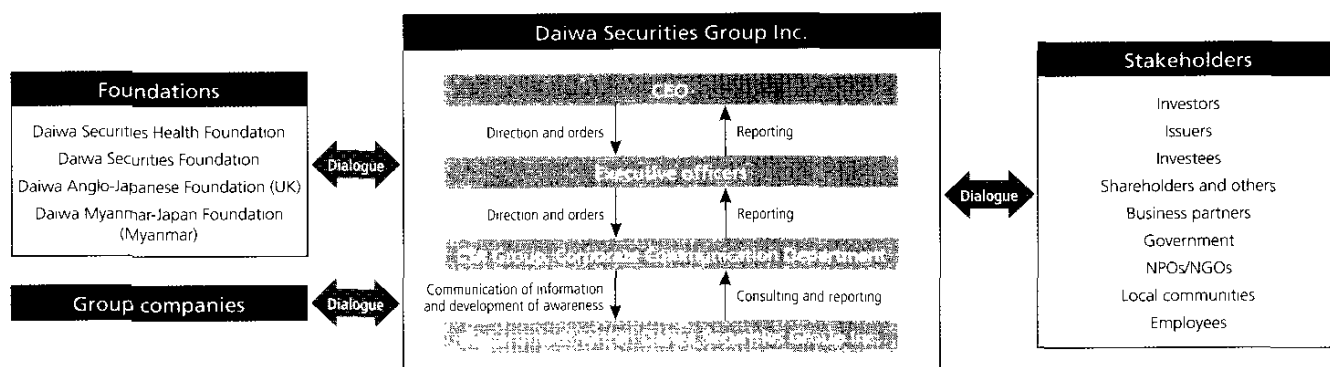
CSR Promotion System

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.



Network Japan
WE SUPPORT

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

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"> 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. 	<ul style="list-style-type: none"> Collect information on investee companies required for exercising voting rights In dialogue with investee companies, explain their policy on exercising voting rights and what they expect from companies with respect to corporate governance Conducted engagement with approximately 130 companies in fiscal 2017 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 	<ul style="list-style-type: none"> 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.

* 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*¹, mostly comprising employees engaged in in-house customer service, at all branches. We also completed placing employees with service assistant*² 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
Total of 120,905 people (August 2017)	4.86 (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.

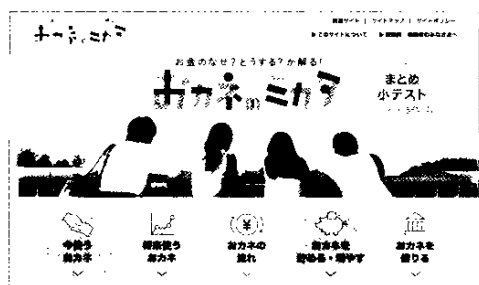
The Center promptly gives feedback and complaints from customers to relevant sales branches and departments and sections of the head office. It also sorts and analyzes such feedback and complaints, shares them with officers, sales branches, and head office departments, and capitalizes on them as precious 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 *jiyu-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

102 11-Year Financial

104 Non-Financial
(Personnel)

106 Twelve

108 Main

118 Financial

Other Info

218 Data

218 5

219

22

11-Year Financial Summary*1

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

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

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

Millions of yen (Except as otherwise specified)

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

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

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

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

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

Selected Range of Numerical Data

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

D : Daiwa Securities (non-consolidated)

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

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

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

Personnel Related

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

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

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

Education Related

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

* This data covers Daiwa Securities.

Diversity Related

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

* This data covers two Group companies.

Work-Life Balance Related

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

Social Contribution Related

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

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

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

Twelve-Quarter Financial Summary

Daiwa Securities Group Inc. and Consolidated Subsidiaries

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

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

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

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

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

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

Management's Discussion and Analysis

Macroeconomic Conditions in FY2017

Overseas Markets

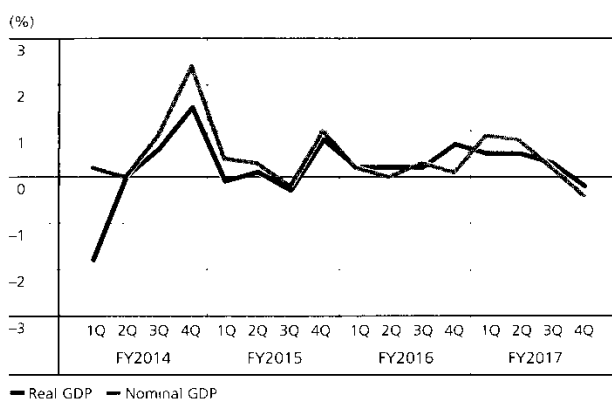
In FY2017, the global economy experienced moderate growth. According to the International Monetary Fund (IMF), the global economy in 2017 surpassed the level recorded in the previous year and exhibited a high rate of growth for the first time in five years. While unable to dispel concerns attributable 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

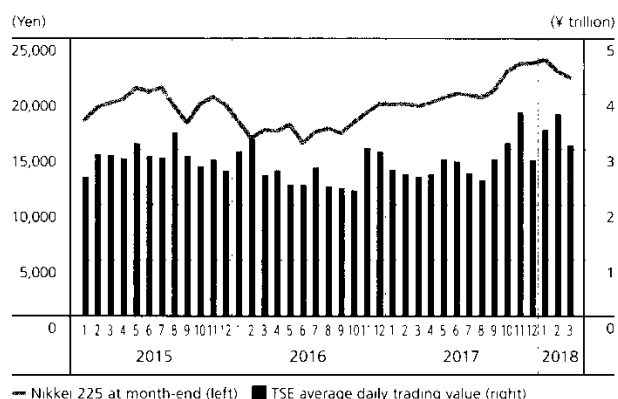


— Real GDP — Nominal GDP

Note The above data comprises seasonally adjusted annual rates. Growth rates may not correspond to rates calculated based on total production.

Source: Cabinet Office, Government of Japan

Nikkei 225 and Trading Value of TSE



— Nikkei 225 at month-end (left) ■ TSE average daily trading value (right)

Source: Tokyo Stock Exchange, Daiwa Institute of Research

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.

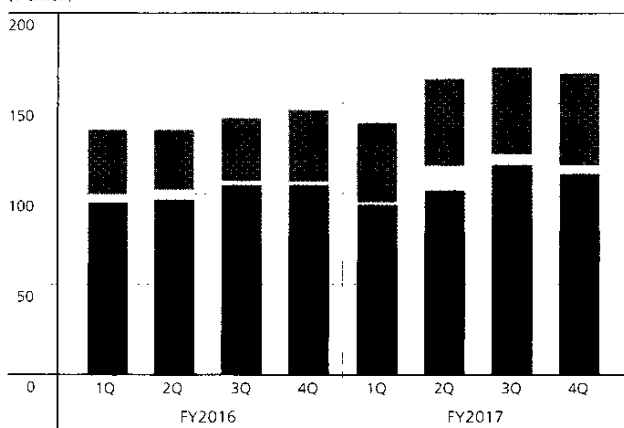
Commissions received were up 14.7% compared with the previous fiscal year, to ¥313.6 billion. Brokerage commission also improved by 21.1%, to ¥73.7 billion owing mainly to the upswing in stock trading. Meanwhile, underwriting activity benefitted from a variety of factors including large-scale PO and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

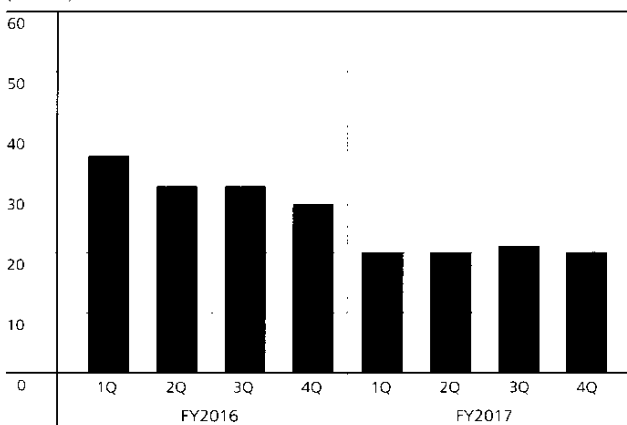
Revenues (Trading Gain/Loss) from Equity and FICC (Net Gain (Loss) on Trading + Net Financial Income, on Managerial Accounting Basis)

	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.

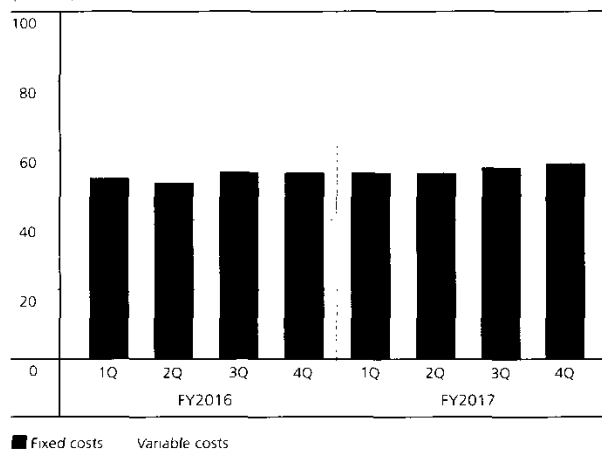
After posting such items as gains in sales of investment securities, extraordinary gains came to ¥10.2 billion, down from ¥17.3 billion in the previous fiscal year. Extraordinary losses totaled ¥12.0 billion, down from ¥13.9 billion in FY2016. These losses included a provision for loss on litigation. 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)



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

	Net Operating Revenues				Ordinary Income			
				Composition ratio				Composition ratio
	FY2016	FY2017	YoY		FY2016	FY2017	YoY	
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
Cash and cash deposits:			
Cash and cash equivalents (Note 5)	¥ 3,653,464	¥ 3,766,145	\$ 34,466,642
Cash segregated as deposits for regulatory purposes (Note 5)	348,912	336,338	3,291,623
Time deposits (Notes 5 and 9)	43,819	62,530	413,387
	<u>4,046,195</u>	<u>4,165,013</u>	<u>38,171,652</u>
Receivables:			
Loans receivable from customers (Note 5)	1,442,939	655,710	13,612,632
Loans receivable from other than customers	5,321	5,546	50,198
Receivables related to margin transactions (Notes 3 and 5)	262,963	202,531	2,480,783
Other (Note 22)	410,506	433,518	3,872,697
Less: Allowance for doubtful accounts (Note 5)	(245)	(502)	(2,311)
	<u>2,121,484</u>	<u>1,296,803</u>	<u>20,013,999</u>
Collateralized short-term financing agreements (Notes 4, 5 and 22)	6,496,753	5,305,518	61,290,123
Trading assets (Notes 5, 6 and 9)	6,667,033	6,546,229	62,896,538
Securities (Notes 5, 7 and 9)	984,211	1,742,128	9,285,009
Private equity investments			
Private equity and other investments (Notes 5 and 7)	115,333	125,040	1,088,047
Less: Allowance for possible investment losses (Note 5)	(505)	(11,052)	(4,764)
	<u>114,828</u>	<u>113,988</u>	<u>1,083,283</u>
Other assets:			
Property and equipment, at cost	238,549	236,308	2,250,462
Less: Accumulated depreciation	(114,359)	(111,328)	(1,078,840)
	<u>124,190</u>	<u>124,980</u>	<u>1,171,622</u>
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)
	<u>711,240</u>	<u>657,617</u>	<u>6,709,811</u>
	<u>¥21,141,744</u>	<u>¥19,827,296</u>	<u>\$199,450,415</u>

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Debt:			
Short-term borrowings (Notes 5, 9 and 12)	¥ 983,471	¥ 811,451	\$ 9,278,028
Commercial paper (Note 5)	105,000	—	990,566
Long-term debt (Notes 5, 9 and 12)	3,015,808	2,787,968	28,451,019
	4,104,279	3,599,419	38,719,613
Payables:			
Payables to customers and counterparties (Notes 5 and 11)	660,251	677,254	6,228,783
Payables related to margin transactions (Notes 3, 5 and 9)	71,345	62,377	673,066
Deposits for banking business (Note 5)	3,388,444	2,985,734	31,966,453
Other (Note 5)	49,297	51,325	465,065
	4,169,337	3,776,690	39,333,367
Collateralized short-term financing agreements (Notes 4, 5 and 22)	5,775,898	6,018,813	54,489,604
Trading liabilities (Notes 5 and 6)	5,030,818	4,658,595	47,460,547
Trade account payables, net (Note 5)	407,184	216,837	3,841,358
Accrued and other liabilities:			
Income taxes payable	9,212	15,084	86,906
Deferred tax liabilities (Note 14)	15,905	12,025	150,047
Accrued bonuses	34,862	30,873	328,887
Retirement benefits (Note 13)	42,425	40,434	400,236
Other (Note 22)	177,357	111,164	1,673,178
	279,761	209,580	2,639,254
Statutory reserves (Note 15)	3,946	3,930	37,226
Total liabilities	19,771,223	18,483,864	186,520,969
Contingent liabilities (Note 16)			
Net assets:			
Owners' equity (Note 17)			
Common stock, no par value;			
Authorized—4,000,000 thousand shares			
Issued—1,699,379 thousand shares	247,397	247,397	2,333,934
Capital surplus	230,714	230,712	2,176,547
Retained earnings	785,731	718,239	7,412,557
Treasury stock at cost	(54,310)	(12,719)	(512,358)
Deposit for subscriptions to treasury stock	4	7	38
	1,209,536	1,183,636	11,410,718
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	61,177	59,923	577,142
Deferred gains or losses on hedges	(130)	435	(1,226)
Translation adjustment	2,550	6,896	24,057
	63,597	67,254	599,973
Stock subscription rights (Note 18)	8,791	8,729	82,934
Non-controlling interests	88,597	83,813	835,821
Total net assets	1,370,521	1,343,432	12,929,446
	¥21,141,744	¥19,827,296	\$199,450,415

See accompanying notes.

Consolidated Statements of Income

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

	2018	Millions of yen 2017	Thousands of U.S. dollars (Note 1) 2018
Operating revenues:			
Commissions	¥313,626	¥273,335	\$2,958,736
Net gain on trading (Note 24)	109,006	128,121	1,028,358
Net gain on private equity and other investments	26,912	14,846	253,887
Interest and dividend income (Note 22)	190,444	143,242	1,796,642
Service fees and other revenues	72,613	56,953	685,028
	712,601	616,497	6,722,651
Interest expense (Note 22)	148,348	98,725	1,399,509
Cost of service fees and other revenues	58,902	45,022	555,679
Net operating revenues (Note 21)	505,351	472,750	4,767,463
Selling, general and administrative expenses (Notes 13 and 25)	370,293	353,688	3,493,330
Operating income	135,058	119,062	1,274,133
Other income (expenses):			
Provision for statutory reserves, net (Note 15)	(16)	29	(151)
Other, net (Note 26)	18,822	19,913	177,566
	18,806	19,942	177,415
Income before income taxes	153,864	139,004	1,451,548
Income taxes (Note 14):			
Current	34,694	39,977	327,302
Deferred	3,848	(5,251)	36,302
	38,542	34,726	363,604
Profit	115,322	104,278	1,087,944
Profit attributable to non-controlling interests	4,742	211	44,736
Profit attributable to owners of parent	¥110,580	¥104,067	\$1,043,208
		Yen	U.S. dollars (Note 1)
Per share amounts:			
Net income	¥66.88	¥61.53	\$0.63
Diluted net income	66.45	61.14	0.63
Cash dividends applicable to the year	28.00	26.00	0.26

See accompanying notes.

Consolidated Statements of Comprehensive Income

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

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

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

See accompanying notes.

Consolidated Statements of Changes in Net Assets

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

		Owners' equity					Accumulated other comprehensive income					Millions of yen
	Number of shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Deposit for subscriptions to treasury stock	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Translation adjustment	Stock subscription rights	Non-controlling interests	
Balance at April 1, 2016	1,749,379	¥247,397	¥231,889	¥683,940	¥(29,971)	¥ 2	¥ 98,484	¥(32,993)	¥ 21,083	¥8,959	¥84,215	
Cash dividends paid				(42,326)								
Profit attributable to owners of parent				104,067								
Purchase of treasury shares					(13,086)							
Disposal of treasury shares			(186)		1,610							
Retirement of treasury shares	(50,000)		(990)	(27,738)	28,728							
Change of scope of consolidation				296								
Other			(1)			5						
Net changes of items other than owners' equity							(38,561)	33,428	(14,187)	(230)	(402)	
Balance at March 31, 2017	1,699,379	247,397	230,712	718,239	(12,719)	7	59,923	435	6,896	8,729	83,813	
Cash dividends paid				(43,500)								
Profit attributable to owners of parent				110,580								
Purchase of treasury shares					(43,129)							
Disposal of treasury shares				(134)	1,538							
Retirement of treasury shares												
Change of scope of consolidation				546								
Other			2			(3)						
Net changes of items other than owners' equity							1,254	(565)	(4,346)	62	4,784	
Balance at March 31, 2018	1,699,379	¥247,397	¥230,714	¥785,731	¥(54,310)	¥ 4	¥ 61,177	¥ (130)	¥ 2,550	¥8,791	¥88,597	

		Owners' equity					Accumulated other comprehensive income					Thousands of U.S. dollars (Note 1)
		Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Deposit for subscriptions to treasury stock	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Translation adjustment	Stock subscription rights	Non-controlling interests	
Balance at April 1, 2017		\$2,333,934	\$2,176,528	\$6,775,840	\$(119,991)	\$ 66	\$565,311	\$ 4,104	\$ 65,057	\$82,349	\$790,689	
Cash dividends paid				(410,377)								
Profit attributable to owners of parent				1,043,208								
Purchase of treasury shares					(406,877)							
Disposal of treasury shares				(1,264)	14,510							
Retirement of treasury shares												
Change of scope of consolidation				5,150								
Other			19			(28)						
Net changes of items other than owners' equity							11,831	(5,330)	(41,000)	585	45,132	
Balance at March 31, 2018		\$2,333,934	\$2,176,547	\$7,412,557	\$(512,358)	\$ 38	\$577,142	\$(1,226)	\$ 24,057	\$82,934	\$835,821	

See accompanying notes.

Consolidated Statements of Cash Flows

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

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

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

See accompanying notes.

Notes to Consolidated Financial Statements

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

1. Basis of financial statements

The consolidated financial statements include the accounts of Daiwa Securities Group Inc. ("the Company"), established in Japan, and its subsidiaries (collectively "Daiwa"). Daiwa's principal subsidiaries include:

- Daiwa Securities Co. Ltd. ("Daiwa Securities")
- Daiwa Asset Management Co. Ltd. ("DAM")
- Daiwa Institute of Research Holdings Ltd.
- Daiwa Corporate Investment Co., Ltd.
- Daiwa Next Bank, Ltd.

Daiwa Securities operates a retail and a wholesale businesses in Japan. The retail business operates through a network of 154 branches and sales offices as well as non-face-to-face channels, including the Internet and a full-fledged call center to provide online and telephone-based securities-related services. The wholesale business is operated as an encompassing global capital markets business and global investment banking business in good alliance with fellow overseas subsidiaries. DAM is an asset management company of Daiwa, and offers an extensive range of asset trust products.

Daiwa is primarily engaged in the business of a securities broker-dealer, pursuant to which Daiwa provides services including brokerage, trading, underwriting, strategic advice, product development, and structured finance. In addition, Daiwa provides asset management, investment business and other business through a network in major capital markets worldwide.

The Company and its domestic consolidated subsidiaries maintain their official accounting records in yen and in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in accordance with generally accepted accounting principles in Japan ("Japanese GAAP"), which are different in certain respects as to application and

disclosure requirements of International Financial Reporting Standards ("IFRS"). The financial statements prepared by foreign subsidiaries in accordance with IFRS or the generally accepted accounting principles in the United States (U.S. GAAP) tentatively can be used for the consolidation process with adjustment to certain items such as amortization of goodwill. The accounts of other overseas consolidated subsidiaries are maintained in accordance with generally accepted accounting principles and practices prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been prepared by adjusting the difference in accounting policies from Japanese GAAP, if any.

The accompanying consolidated financial statements have been restructured and translated into English (with some additional explanations described solely for the convenience of the non-Japanese readers) from the statutory consolidated financial statements prepared by the Company in accordance with Japanese GAAP and filed to the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. Some supplementary information included in the original statutory consolidated financial statements prepared in Japanese language, but not considered as necessary for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the yen amounts into U.S. dollars are presented solely for the convenience of the readers, using the exchange rate as of March 31, 2018, which was ¥106 to U.S.\$1. The convenience translations should not be construed as representations that the yen amounts have been, could have been, or could be, converted into U.S. dollars at this or any other rate of exchange.

2. Significant accounting policies

Consolidation—The consolidated financial statements include the accounts of the Company and entities which are controlled by the Company, directly or indirectly. Control exists generally when Daiwa holds more than 50% of the voting rights of the entity. Also, control is regarded to exist when Daiwa holds 40% or more of the voting rights of the entity and there are certain facts and circumstances which indicate that Daiwa controls the decision-making body of the entity. Investee entities which meet the conditions of "Guidance on Determining a Subsidiary and an Affiliate" (Accounting Standards Board of Japan ("ASBJ") Guidance No. 22) are excluded from the consolidation. When more than 50% of the voting rights of the investee entity is held for the purpose of

principal investment or venture capital investment businesses where the objective of Daiwa in having control of the investee entity is merely to seek capital gain opportunities, and therefore Daiwa does not intend to operate its business with the investee as a part of the group.

Daiwa accounts for its investments by the equity method of accounting if Daiwa does not have control of an entity but can exercise significant influence over the entity's operating and financial policies. The ability to exercise such significant influence is generally regarded to exist when Daiwa holds 20% or more but 50% or less of the voting rights of the entity, or 15% or more of the voting rights coupled with certain facts and circumstances which indicate that Daiwa

can exercise significant influence over the entity's operating and financial policies. As with the policy and considerations for consolidation, investee entities are excluded from the scope of the equity method even though Daiwa holds significant influence when the investee entity is held as part of the principal investment or for venture capital investment business purposes.

Goodwill is amortized under the straight-line method within 20 years. If the amount is not material, it will be fully amortized at the date of recognition.

Material inter-company balances, transactions and profits have been eliminated in consolidation.

Statements of cash flows—The Company defines cash equivalents as high liquid investments with original maturities of up to three months.

Trading assets and trading liabilities—Trading assets and liabilities including securities and financial derivatives for trading purposes held by securities companies are stated on a trade date basis at fair value in the consolidated balance sheets. Gains and losses, including unrealized gains and losses, related to transactions for trading purposes are reported as "Net gain on trading" in the accompanying consolidated statements of income. Fair value is determined based on market prices, quoted prices, internal pricing models (utilizing indicators of general market conditions or other economic measurements), or management's estimates of amounts to be realized on settlement, assuming current market conditions and an orderly disposition over a reasonable period of time. Securities owned for non-trading purposes, shown in the accompanying consolidated balance sheets as "Cash and cash equivalents," "Securities," "Private equity and other investments" and "Investment securities" are discussed below.

Securities other than trading assets and trading liabilities—Daiwa examines the intent of holding investments and classifies those investments as (a) securities intended to be held for trading purposes by non-securities companies which are carried at fair value with recognized unrealized gain or loss included in the consolidated statements of income, (b) debt securities intended to be held to maturity ("Held-to-maturity debt securities") which are carried at amortized cost, and (c) all other securities not classified in any of the above categories ("Available-for-sale securities"). Marketable available-for-sale securities are stated at their fair values based on quoted market closing prices with unrealized gain or loss reported in a separate component within the net assets on a net-of-tax basis, or other non-marketable investments (non-marketable "Available-for-sale securities") are carried at cost.

Investment business partnerships which are regarded as equivalent to securities by Article 2 (2) of the Financial Instruments and Exchange Act are reported as "Private equity and other investments" and "Investment securities" in the accompanying consolidated balance sheets. The share of net income of investment business partnerships has been reflected in the consolidated statements of income and the share of net unrealized gains and losses held by investment business partnerships is directly reported in a separate component within the net assets on a net-of-tax basis in proportion to the Company and its subsidiaries' share of the investment business partnership. The cost of those investments is determined by the moving average method.

Daiwa holds, as a common practice in Japan, non-marketable equity securities generally for the purpose of maintaining good relationships with the investee companies and promoting Daiwa's securities businesses.

Impairment is assessed for investments including private equity holdings. For marketable securities, if the year-end market value declines 30% or more but less than 50% from the carrying value for individual securities, an impairment loss is recognized if there is no objective evidence of recoverability in value. Recoverability is assessed based on whether the decline is temporary by considering the movements of the market price over the last 12 months and the financial conditions of the issuer. If the year-end market value declines 50% or more from the carrying value, then an impairment loss is recognized immediately. For non-marketable equity investments, Daiwa generally compares the carrying amount and the net asset value of the issuing company attributable to Daiwa's holding share, and recognizes an impairment loss if the net asset value attributable to Daiwa's holding share is significantly lower than the carrying value and such decline is considered other than temporary. For non-marketable investments in "Private equity and other investments" in the accompanying consolidated financial statements, Daiwa reviews the financial conditions of the issuers and provides for allowance for possible investment losses, if necessary.

Derivatives used for non-trading purposes—Daiwa records derivative financial instruments at fair value except for certain cases as described below, and recognizes changes in the fair value as gains or losses unless the derivative financial instruments are used for hedging purposes. Valuation gains or losses on hedging instruments are deferred in a separate component within the net assets until the gains or losses on the underlying hedged instruments are realized. Plain vanilla hedging interest swap agreements satisfying the required conditions under Japanese GAAP are not required to be marked-to-market. Interest received or paid on such exempt

interest rate swap agreements for hedging purposes are accrued without being marked-to-market under special treatment. Also, certain forward foreign exchange contracts are exempted from marked-to-market valuation. The premium or discount on such exempt forward foreign exchange contracts used for hedging purposes is allocated to each fiscal term without being marked-to-market under special treatment.

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

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

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

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

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

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

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

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

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

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

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

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

Translation of foreign currencies—The Company and its domestic consolidated subsidiaries translate assets and liabilities in foreign currencies into yen at the year-end exchange rate, and translate income and expenses in foreign

currencies into yen using generally the applicable exchange rate on the day when the related transaction occurred. Any gains and losses resulting from such translation are included in current income or expense. The balance sheets of overseas consolidated subsidiaries and affiliates are translated into yen using the fiscal year-end exchange rates. Income and expenses are translated at the average exchange rates of the applicable fiscal year. Differences in yen amounts arising from the use of different rates are included in adjustments on foreign currency translation in "Net assets" in the accompanying consolidated balance sheets.

Net income per share—Net income per share of common stock is based on the average number of common shares outstanding. Diluted net income per share is computed based on the average number of common shares outstanding for the year with an adjustment for dilutive stock subscription rights based on the number of shares of common stock that would have been issued provided that the outstanding dilutive stock subscription rights were converted at the beginning of the year.

Unapplied accounting standard

- Accounting Standard for Revenue Recognition (ASBJ

Statement No. 29 issued on March 30, 2018)

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

(a) Overview

It is a comprehensive accounting standard for revenue recognition. Revenue should be recognized by applying following five steps.

Step 1: Identify the contract with a customer.

Step 2: Identify the performance obligations under the contract.

Step 3: Determine the transaction price.

Step 4: Allocate transaction price to the performance obligations under the contract.

Step 5: Recognize revenue when performance obligations are satisfied or as fulfilled.

(b) Application date

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

(c) Impact of application

The impact is under evaluation as of the filing date of securities report.

3. Margin transactions

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

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

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

4. Collateralized short-term financing agreements

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

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

5. Financial instruments

1. Concerning the situation of financial instruments

(1) Policy for dealing with financial instruments

Daiwa, the primary businesses of which are investment and financial services businesses with a core focus on securities-related business, is involved in trading and brokerage of securities and derivative products, underwriting and secondary offering of securities, treating of public offerings for subscription and secondary offering of securities, treating of private offerings for subscription of securities, and banking and other businesses related to the securities and financial fields.

Daiwa holds financial assets and liabilities as follows to execute its businesses such as trading securities and others, derivatives, operational investment securities, loans and investment securities, etc., and raises its capital utilizing a variety of financial instruments such as corporate bonds, medium-term notes, borrowing from financial institutions, deposits, etc. Under the basic policy for financing that enough liquidity for continuing business should be effectively secured, Daiwa strives to maintain an appropriate balance between assets and liabilities by diversifying financial measures and maturity dates, and realizing effective and stable financing when it decides to raise capital. Also, Daiwa uses interest rate swaps and foreign currency swaps, etc., for the purpose of hedging against fluctuation in interest rates and foreign currencies in terms of financial assets and liabilities.

Daiwa appropriately manages the variety of risks incurred by holding financial assets and liabilities with an intent to maintain sound finances.

(2) Contents and risk of financial instruments

Daiwa holds financial instruments in the trading business as follows: (a) trading securities and others (stocks and warrants, bonds and investment trusts), loans secured by securities and loans payable secured by securities, margin transaction assets and liabilities, (b) derivatives, traded on exchanges, such as

stock index futures, bond futures, interest rate futures and options for those, (c) derivatives (OTC derivatives), not traded on exchanges, such as interest rate and foreign exchange swaps, forward foreign exchange contracts, currency options, bond options, FRA and OTC securities derivatives, etc. And Daiwa holds operational investment securities, etc. in the investments business, loans and securities, etc. in the banking business, and investment securities for the business relationship, etc.

The major risks implied in these financial instruments are market risk and credit risk. Market risk means the risk of suffering losses from fluctuations in the value of holding financial instruments and transactions in accordance with changes of market prices of stock prices, interest rates, currency exchange rates, and commodity prices, etc., and from the market environment in which no transaction can be executed because of an excessive decrease of liquidity or one in which market participants are forced to trade in extremely unfavorable conditions. Credit risk means the risk of suffering losses from defaults or credit change of counterparties or issuers of financial instruments.

In the trading business, Daiwa conducts derivative transactions solely and as a part of structured notes to meet customers' needs. These include transactions which are highly volatile in contrast to the fluctuation of stock indices, foreign exchange rates and interest rates of reference assets and the correlation between them, or transactions which tend to move in a complicated manner. Therefore, these carry higher risk than the reference assets. These derivative transactions are categorized as trading assets and liabilities in the consolidated balance sheets and the realized and unrealized profit/loss by fluctuation of fair values are recorded as the net gain on trading.

Daiwa is raising its capital utilizing corporate bonds, medium-term notes, borrowing from financial institutions, deposits, etc., as well as holding its financial instruments, and

is exposed to liquidity risk. Liquidity risk indicates the risk of suffering losses such that cash management may be impossible and remarkably higher financing costs than usual may be requested as a result of an abrupt change of market environment or unexpected credit crunch of Daiwa, etc.

Subsidiaries engaged in the trading business utilize derivative transactions as brokers and end-users. Derivative products have been necessary to deal with a variety of customers' financial needs and subsidiaries engaged in the trading business provide customers with financial instruments to meet their customers' requests in many ways as brokers. For instance, they provide customers with forward foreign exchange contracts to hedge the exchange rate risk of foreign currency of foreign bonds held by customers and interest rate swaps to hedge interest rate when customers issue corporate bonds, etc. As end-users, they use interest rate swaps to hedge interest rate risk regarding financial assets and liabilities of Daiwa and utilize many kinds of futures and options to hedge trading positions.

(3) Risk management system concerning financial instruments

At the meeting of the Board of Directors, Daiwa has resolved the "Risk Management Rule," which states the basic policy of risk management, types of risks that should be managed and responsible executive officers and department for each major risk and conducted risk management of the entire Group based on risk appetite framework. In addition, the Company set the guidelines related to "three lines of defense" to build the risk governance.

Each subsidiary conducts risk management suitable for each business profile and size in accordance with the basic policy of risk management. And the Company monitors the structure and process of subsidiaries' risk management. Also, the Group Risk Management Committee as a sub-committee of the Executive Committee of the Company receives reports on matters such as risk exposure obtained by monitoring of subsidiaries and issues concerning the risk management system of each subsidiary and discusses them. Major subsidiaries regularly hold risk management committee meetings, etc., and strengthen each risk management system.

(i) Management of risk of financial instruments held for trading purpose

(a) Management of market risk

Daiwa manages its trading business by establishing the limit for VaR which indicates the estimate of the maximum loss amount under a certain probability, position and sensibility etc., considering the financial situation, the business plan and budget of each division. The risk management department of the Company monitors the

market risk of Daiwa and informs the management of the Company on a daily basis. In order to cover the capacity limit of VaR calculated by the statistical hypothesis based on the data obtained for a certain period, the Company applies the stress test with a scenario assuming the impact of an abrupt change in the market and the hypothetical stress events.

(Quantitative information concerning market risk)

Major subsidiaries engaged in securities business utilize the historical simulation method (holding period: 1 day, confidence interval: 99%, observation period: 520 business days) to calculate VaR of trading financial investments. Total VaR as of March 31, 2018 (fiscal year-end) was ¥1.1 billion (\$10.4 million). In the meantime, Daiwa executes backtesting which compares calculated VaR and the actual profit/loss to verify its effectiveness. However the VaR statistically figures the risk based on historical market fluctuation and may be sometimes unable to completely capture the risk in the environment that the market unexpectedly changes beyond the estimation.

(b) Management of credit risk

The credit risk generated in the trading business of Daiwa consists of counterparty risk and issuer risk. To manage the counterparty risk, Daiwa has established the credit limit for each counterparty based on internal credit ratings of counterparties in advance and monitors the observance of such credit limit. To manage the issuer risk of financial instruments held as the market maker, Daiwa mainly monitors the fluctuation risk of the credit spread. In addition, Daiwa is periodically monitoring the influence from the large-lot credit.

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

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

Daiwa holds financial instruments for other than trading business such as operational investment securities, etc., as a result of the investment business and investment securities for the business relationship, and loans and securities, etc., in the banking business. These financial instruments carry market risk and credit risk as well. Because those financial instruments have a characteristic risk profile for each product, Daiwa has conducted risk management that suits each risk profile.

The subsidiaries which engage in the investment business investigate each investment through the investment committee etc., and make decisions. The subsidiaries regularly monitor the state of invested companies and inform the results to the risk management committee, etc.

The subsidiary that engages in the banking business, established the management policy and management system for each risk which needs management. Furthermore, an ALM committee, a body under the Board of Directors, was established to discuss and decide the way to manage the risks. The committee manages the credit risk, market risk and liquidity risk, and discusses the important matters relating to the management of assets, liabilities and capital. The subsidiary controls the risks by doing business within the limited amount decided by the Board of Directors and the committees.

In connection with investment securities as long-term holding for the business relationship, etc., Daiwa decides to acquire or sell the securities in accordance with the policy defined by the relevant company's rules. Also, Daiwa regularly monitors the situation of risk and informs the management of the Company of the results.

(Quantitative information concerning market risk)

(a) Financial assets and liabilities (excluding the financial assets and liabilities held by the subsidiaries which engage in the banking business)

The main financial assets that are influenced by market risk are "operational investment securities" in the investment business and investment securities for the business relationship. As of March 31, 2018, fair value of the listed equities in "operational investment securities" and "investment securities" would fluctuate by ¥15.1 billion (\$142.5 million) if the indices, such as TOPIX, were to change by 10%.

Also, the main financial liabilities in Daiwa that are influenced by market risk are "bonds and notes" and "long-term debt." As of March 31, 2018, if all other risk variables were assumed to be unchanged and the interest rate supposed to be changed by 10 basis points (0.1%), the fair value of "bonds and notes" and "long-term debt" would fluctuate by ¥2.3 billion (\$21.7 million) and ¥0.3 billion (\$2.8 million), respectively.

(b) Financial assets and liabilities held by the subsidiary that engages in the banking business

The subsidiary that engages in the banking business utilizes VaR in managing market risk (i.e. the risk of loss caused by changes in fluctuation of value of assets and liabilities (including off-balance liabilities) due to fluctuation of interest, exchange stocks and other risk factors in the

market and the risk of loss which caused by changes in income from assets and liabilities).

When measuring VaR, the subsidiary adopts the historical simulation method (confidence interval: 99%, observation period: 750 business days). In the case of financial instruments held for trading purpose, we convert the number calculated by 1 day holding period to 10 days holding period, and in the case of financial instruments held for other than trading purpose, we convert the number calculated by 20 days holding period to 125 days holding period. The numbers as of March 31, 2018, are ¥0.2 billion (\$1.9 million) and ¥6.5 billion (\$61.3 million), respectively.

The subsidiary periodically does the backtesting of the VaR calculated by risk measuring model and the virtual profits and losses in order to verify the effectiveness of the model. By the backtesting in fiscal year 2017, we estimate that our risk measurement model appropriately captures the market risk. However, the VaR statistically estimates the risk based on historical market fluctuation and may be sometimes unable to completely capture the risk in an environment in which the market unexpectedly changes beyond the estimation.

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

(iii) Management of liquidity

Daiwa conducts its business with a core focus on the securities-related business utilizing a lot of assets and liabilities and establishes the basic policy which clarifies to efficiently secure enough liquidity for continuing its business.

The methods of raising capital of Daiwa include unsecured fundraising such as corporate bonds, medium-term notes, borrowing from financial institutions, commercial paper, call money, and deposits, and secured fundraising such as Gensaki transactions and repurchase agreements, etc. By those methods, Daiwa realizes effective and stable capital raise.

In terms of financial stability, preparing for a case that the environment vastly changes, Daiwa endeavors in ordinary times to secure a stable reserve to prevent the business from being disturbed. Especially in recent years, Daiwa has increased liquidity through raising capital from the market and borrowing from financial institutions, preparing for a worldwide financial crisis and credit crunch. Also, Daiwa tries to diversify the maturity of raised capital and sources of funding preparing for an event in which it becomes difficult to raise new capital and to reschedule the existing capital raising due to a financial crisis occurring.

In addition to the regulation of Daiwa's consolidated

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

The Company collectively manages and monitors the liquidity of Daiwa under the basic policy to secure the appropriate liquidity of Daiwa as a whole. The Company always monitors whether the liquidity portfolio is sufficiently secured against short-term raised capital without collateral preparing for the case that it becomes difficult to raise new capital and to reschedule the existing raising of capital due to the occurrence of some stress which is specific to the Company or influences the entire market. Also, Daiwa has established a system that enables the Company to flexibly supply capital to the group companies if necessary, and achieves efficient and unified raising of capital and capital management. This enables Daiwa to raise and manage capital integrally.

Daiwa has also established a contingency funding plan

as one of the measures of dealing with liquidity risk. This plan states basic policy concerning the report lines depending upon the urgency of stress internally originated including credit crunch, and externally originated including an abrupt change of market environment, and the method of raising capital. This enables Daiwa to prepare a system for securing liquidity through a swift response.

The contingency funding plan of Daiwa was established considering the stress that the entire group may face and is periodically revised to quickly respond to changing financial environments.

Moreover, Daiwa Securities, Daiwa Next Bank, Ltd. and foreign securities subsidiaries, which are sensitive to influence by financial markets and for which the importance of securing the liquidity of capital is significant, each decide their own contingency funding plans and are periodically revising their plans as well.

The Company periodically monitors the maintenance of its subsidiaries' contingency funding plans. The Company revises, if necessary, the capital raising plan or contingency funding plan itself with crisis scenarios assumed and tries to preliminarily execute countermeasures, both increasing the liquidity and reducing assets at the same time.

(4) Supplementary explanation for the fair value of financial instruments

The fair value of financial instruments includes the values based on market prices and the values theoretically calculated if no market price is available. Such theoretical prices may be changed with different conditions because a certain condition is applied to calculate theoretical prices.

2. Fair values of financial instruments

The figures stated on the consolidated balance sheets as of March 31, 2018 and 2017, fair value and the difference of those are as below. Any item for which it is extremely difficult to obtain its fair value is not included in the table below (see Note 2).

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

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

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

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

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

(1) Cash and cash equivalents and (3) Time deposits
Cash and cash equivalents and time deposits are stated as their book value because fair values are similar to book value and they are settled in the short term.

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

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

(4) Loans receivable from customers
Loans receivable from customers mainly consist of lending under banking business and loans secured by customers' safekeeping securities. Loans with a floating rate for banking business are recorded at their book value, because fair value is similar to book value reflecting money market rates in the short term as long as the credit condition of borrowers does not greatly change. The fair value of loans with a fixed rate for banking business is calculated by discounting the total amount of principal and interest at the rate assumed when the similar

new loan is performed based on the loan type and duration, etc. Loans secured by securities are recorded at their book value, because the fair value is close to the book value by considering prospective repayment period and interest rate conditions, etc.

(5) Receivables related to margin transactions and (14) Payables related to margin transactions

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

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

(6), (16) Collateralized short-term financing agreements

These are stated as their book value because fair values are similar to book value and most of them are settled in the short term.

(7) Trading assets and (17) Trading liabilities

(a) Trading securities and others

Equities and others	closing price or closing quotations at the main stock exchange
Bonds	reasonably calculated price based on immediately previous traded price including similar bonds (OTC and broker screen, etc.) or market value information (trading price statistics, etc.) by utilizing spread with index interest rate
Units of investment trust	closing price or closing quotations at the exchange, or net asset value

(b) Derivative transactions

Derivatives traded at exchange	mainly liquidation price at the exchange or basic price for calculation margin
Interest rate swaps	prices calculated by price valuation models generally acknowledged at the market or the model expanding those, based on expected cash flow calculated from yield curve, price and coupon rate of underlying bond, interest rates, discount rates, volatility, correlation, etc.

OTC equity derivatives	prices calculated by price valuation models generally acknowledged at the market or the model extending those, based on price of equities or equities indices, interest rates, dividends, volatility, discount rates, correlation, etc.
Credit derivatives	prices calculated by price valuation models that are generally acknowledged at the market or the model extending those, based on all the cash flows defined with discount rates that is calculated from interest rates and credit spread of the reference

Concerning OTC derivatives, both credit risk to the counterparty and liquidity risk equivalent to the amount of the counterparty are added to the fair value if necessary.

(8) Securities, private equity and other investments and investment securities

Equities and others	closing price or closing quotations at the main stock exchange
Bonds	reasonably calculated price based on immediately previous traded price including similar bonds (OTC and broker screen, etc.) or market value information (trading price statistics, etc.) by utilizing spread with index interest rate, or reasonably calculated price based on the value of collateralized assets
Units of investment trusts	closing price or closing quotations at the exchange, or net asset value
Investment in partnership	for investment in partnership, for which allowance for possible investment losses is calculated based on the estimated recoverable values from related real estate, the amount which is calculated by deducting the allowance from the balance sheet amount as of the fiscal year-end and approximates its fair value. Therefore, the amount is deemed to be its fair value

(9) Short-term borrowings and (10) Commercial paper

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

(11) Long-term debt

The fair values of bonds and notes due within one year are stated as their book value since the terms of the settlement period are short and the fair values approximate the book values.

On the other hand, concerning fair values of bonds and notes whose maturities are longer than one year, if market prices (trading price statistics, etc.) are available in the market, fair values are calculated based on the market prices. If the market prices are not available, fair values are calculated from book values which are adjusted with consideration of interest

rate fluctuations from the issuances and changes of credit spread of the Company. The credit spread of the Company is referred to the interest rate of the latest issuance or market prices of similar bonds issued by the Company, etc.

Concerning fair values of long-term debts, these are calculated from book values which are adjusted with consideration of interest rate fluctuations from the issuances and changes of credit spread of the Company. The credit spread of the Company is referred to the interest rates of the latest issuance or market prices of similar bonds issued by the Company, etc.

(12) Deposits for banking business

For demand deposits, the payment amounts required at the end of the fiscal year are considered as fair value.

In addition, fair values of fixed deposits are calculated by classifying them based on their terms and by discounting the future cash flows.

The discount rate is calculated by yield curve which includes credit spread of Daiwa.

(13) Payables to customers and counterparties and (15)

Payables—other

These are mainly composed of deposits received and cash deposits received as guarantee.

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

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

(18) Trade account payables, net

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

(Note 2) Any financial product for which it is extremely difficult to obtain a fair value at March 31, 2018 and 2017 is as below and is not included in the "Assets (8)(c) Subsidiaries companies' stocks and related companies' stocks and (d) Available-for-sale securities" of fair value information of financial instruments.

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

The above are deemed to be extremely difficult to determine fair values because there are no market prices and it is extremely difficult to estimate future cash flows from the investments. Therefore, their fair values are not disclosed.

(Note 3) Scheduled redemption amount of financial receivables and securities with a maturity date after March 31, 2018

	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	—	—	—
Total	¥11,701,401	¥287,453	¥771,922	¥206,558

* Cash segregated as deposits for regulatory purposes is included in "Within 1 year" because it is comprised of trusts for holding customer assets.

* Receivables related to margin transactions are included in "Within 1 year" because they are expected to be settled in short term.

	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	—	—	—
Total	\$110,390,576	\$2,711,821	\$7,282,283	\$1,948,661

* Cash segregated as deposits for regulatory purposes is included in "Within 1 year" because it is comprised of trusts for holding customer assets.

* Receivables related to margin transactions are included in "Within 1 year" because they are expected to be settled in short term.

(Note 4) Scheduled redemption amount of payable to securities finance companies, deposits for banking business, commercial paper and long-term debts after March 31, 2018

	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
Total	¥3,836,004	¥1,509,444	¥790,364	¥376,448

* Payable to securities finance companies is considered to be settled in the short term and included in "Within 1 year."

* Payable to securities finance companies is part of the "Payables related to margin transactions" in the accompanying consolidated balance sheets

* Demand deposits in deposits for banking business is included in "Within 1 year."

	Thousands of U.S. dollars			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Payable to securities finance companies	\$ 28,377	\$ —	\$ —	\$ —
Deposits for banking business	31,673,113	293,340	—	—
Commercial paper	990,566	—	—	—
Long-term debts	3,496,661	13,946,698	7,456,264	3,551,396
Total	\$36,188,717	\$14,240,038	\$7,456,264	\$3,551,396

* Payable to securities finance companies is considered to be settled in the short term and included in "Within 1 year."

* Payable to securities finance companies is part of the "Payables related to margin transactions" in the accompanying consolidated balance sheets.

* Demand deposits in deposits for banking business is included in "Within 1 year."

6. Trading assets and trading liabilities

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

	Thousands of U.S. dollars	
	2018	2017
Trading assets:		
Trading securities:		
Equities	¥ 289,729	¥ 275,938
Government, corporate and other bonds	3,258,291	2,649,544
Investment trusts	254,654	177,549
Commercial paper, certificates of deposits and others	367,883	750,229
Derivatives:		
Option transactions	424,829	455,876
Futures and forward transactions	61,495	82,997
Swap agreements	1,990,964	2,131,830
Other derivatives	23,957	27,983
Risk reserves	(4,769)	(5,717)
Total	¥6,667,033	¥6,546,229
Trading liabilities:		
Trading securities:		
Equities	¥ 285,408	¥ 247,223
Government, corporate and other bonds	2,414,088	2,002,770
Investment trusts	16	800
Commercial paper, certificates of deposits and others	130,960	10,928
Derivatives:		
Option transactions	375,240	370,000
Futures and forward transactions	62,804	71,047
Swap agreements	1,738,922	1,925,183
Other derivatives	23,380	30,644
Total	¥5,030,818	¥4,658,595

* 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:

	Thousands of U.S. dollars	
	2018	2017
	¥(249)	¥(121)
Total	\$ (2,349)	

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

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

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

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

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

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

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

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

8. Derivatives used for non-trading purposes

A. Derivatives to which hedge accounting is not applied

Contract amount, fair value and net unrealized gains (losses) of these derivatives at March 31, 2018 and 2017 are as follows:

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

	Contract amount	Fair value	Millions of yen 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

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

B. Derivatives to which hedge accounting is applied

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

Hedging instrument	Hedge accounting treatment	Main hedged item	Contract amount	Millions of yen 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

Hedging instrument	Hedge accounting treatment	Main hedged item	Contract amount	Millions of yen Fair value
Interest swap	Fundamental method	Debt and government bond	¥1,276,179	¥17,062
	Special treatment	Debt and government bond	—	—
Currency swap	Allocation method	Debt	31,413	(1,894)
	Fundamental method	Foreign currency loans and securities	197,692	915
Interest and currency swap	Integration of special treatment and allocation method	Corporate bond	13,463	2,877

March 31, 2018

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

9. Pledged assets

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

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

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

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

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

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

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

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

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

10. Lease transactions

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

Lessee:	2018	Millions of yen 2017	Thousands of U.S. dollars 2018
Operating leases:			
Future lease payments in respect of operating leases	¥89,873	¥94,344	\$847,858
Due within one year	12,228	11,757	115,358
Lessor:			
	2018	Millions of yen 2017	Thousands of U.S. dollars 2018
Operating leases:			
Future lease receipts in respect of operating leases	¥1,312	¥1,118	\$12,377
Due within one year	457	918	4,311

11. Payables to customers and counterparties

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

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

12. Long-term debt

As is customary in Japan, in the case of unsecured bank borrowings, security must be given under certain conditions if requested by a lending bank. The bank has the right to offset cash deposited by the borrower against any debt or obligation that becomes due, and in the case of default and certain other specified events, against all debts payable to the bank.

Such request has never been made and such right has never been exercised.

The weighted average interest rate on total outstanding short-term borrowings principally from banks at March 31, 2018 and 2017 was 0.17% and 0.11%, respectively.

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

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

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

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

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

borrowings principally from banks at March 31, 2018 and 2017 was 0.39% and 0.32%, respectively. The weighted average interest rate on total outstanding lease obligations at March 31, 2018 was 1.05%.

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

13. Retirement benefits

Retirement benefits for employees

(1) Defined benefit plans

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

Movement in retirement benefit obligations consisted of the following:

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

(2) Defined Contribution plan

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

Retirement benefits for directors

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

14. Income taxes

The Company and its domestic consolidated subsidiaries are subject to a number of taxes levied on income. The effective statutory tax rate in Japan was approximately 30.9% for the years ended March 31, 2018 and 2017, respectively. Overseas consolidated subsidiaries are subject to income taxes of the countries in which they operate.

A reconciliation of the difference between the Japanese statutory income tax rate and the effective income tax rate reflected in the consolidated statements of income for the years ended March 31, 2018 and 2017 are as follows:

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

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

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

The Company and certain consolidated subsidiaries provided valuation allowance to reflect the estimated unrealized amount of gross deferred tax assets. The valuation allowance was provided mainly against deferred tax assets for tax loss carry-forwards. In assessing the realizability of deferred tax assets, management considers, as part of its scheduling

exercise, factors such as expected taxable income, reversal of temporary differences and utilization of tax loss carry-forwards, and determines whether it is more likely than not that the assets are not realizable in which case the valuation allowance is provided.

15. Statutory reserves

The Financial Instruments and Exchange Act of Japan requires a securities company to set aside a reserve in proportion to its securities transactions and other related trading to cover future eventual operational losses caused by the securities company for customer transactions.

16. Contingent liabilities

Daiwa had contingent liabilities amounting to ¥90 million (\$849 thousand) and ¥136 million at March 31, 2018 and 2017, respectively, mainly arising as guarantors of employees' borrowings.

17. Owners' equity

In principle, the Companies Act of Japan ("the Act") requires a company to credit the entire amount of issued shares to common stock (and preferred stock, if any); however, a company may classify an amount not exceeding one-half of the entire issued amount of shares as additional paid-in capital, which is included in "Capital surplus" in the accompanying consolidated balance sheets, with a resolution of the Board of Directors.

According to the Act, a company should set aside 10% of cash dividends and other cash appropriations as additional paid-in capital or earned surplus until the total becomes one quarter of the common stock (and preferred stock, if any). Additional paid-in capital and earned surplus are allowed to be utilized to eliminate or reduce a deficit with a resolution of the shareholders' meeting or may be transferred to common stock with a resolution of the Board of Directors, and also may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

Additional paid-in capital and earned surplus are included in "Capital surplus" and "Retained earnings" in the accompanying consolidated balance sheets.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Act. The total amount of retained earnings available for dividends in the Company's statutory book of accounts as of March 31, 2018 amounted to ¥347,449 million (\$3,277,821 thousand).

Under Article 459-1 of the Act, the articles of incorporation of the Company stipulate that the Board of Directors is to determine dividends. Cash dividends of ¥15 (\$0.13) per share amounting to ¥24,279 million (\$216,777 thousand) and ¥13 (\$0.12) per share amounting to ¥21,696 million (\$193,714 thousand) were approved by the Board of Directors on May 17, 2018 and October 25, 2017, respectively.

18. Share-based payment

Daiwa has various stock option plans.

The shareholders of the Company on June 24, 2005, June 24, 2006, June 23, 2007, June 21, 2008, June 20, 2009, June 26, 2010, June 25, 2011, June 27, 2012, June 26, 2013, June 26, 2014, June 25, 2015, June 28, 2016 and June 28, 2017 approved granting stock options. These options are categorized into two types depending on the scope of the individual persons covered by the plans and exercise conditions. The first is the stock subscription rights that were issued free to directors and executive officers of the Company, its subsidiaries and its

affiliated companies, and the amount paid in upon exercise of such subscription rights is ¥1 (\$0.01) per share. The second is the stock subscription rights that shall be issued to directors, executive officers and certain employees of the Company, its subsidiaries and its affiliated companies, excluding the persons to whom the first stock subscription rights were issued. The amount paid in upon exercise of such subscription rights shall be determined based on the market price of the Company's common stock at the time of the issuance of such subscription rights.

The date of approval at the shareholders' meeting, the balance of the exercisable options, exercise price and exercise period for the stock options of the Company at March 31, 2018 are as follows:

Date of approval at the shareholders' meeting	Balance of the exercisable options (The number of shares)	Exercise price (Yen/share (U.S. dollars/share))		Exercise period
June 24, 2005	205,000	¥ 1	(\$ 0.01)	from July 1, 2005 to June 30, 2025
June 24, 2006	134,000	¥ 1	(\$ 0.01)	from July 1, 2006 to June 30, 2026
June 23, 2007	174,000	¥ 1	(\$ 0.01)	from July 1, 2007 to June 30, 2027
June 21, 2008	220,000	¥ 1	(\$ 0.01)	from July 1, 2008 to June 30, 2028
	2,581,000	¥ 881	(\$ 8.31)	from July 1, 2013 to June 20, 2018
June 20, 2009	488,000	¥ 1	(\$ 0.01)	from July 1, 2009 to June 30, 2029
	1,642,000	¥ 496	(\$ 4.68)	from July 1, 2014 to June 19, 2019
June 26, 2010	884,000	¥ 1	(\$ 0.01)	from July 1, 2010 to June 30, 2030
	2,929,000	¥ 380	(\$ 3.58)	from July 1, 2015 to June 25, 2020
June 25, 2011	1,092,000	¥ 1	(\$ 0.01)	from July 1, 2011 to June 30, 2031
	2,757,000	¥ 326	(\$ 3.08)	from July 1, 2016 to June 24, 2021
June 27, 2012	784,000	¥ 1	(\$ 0.01)	from February 12, 2013 to June 30, 2032
	5,170,000	¥ 598	(\$ 5.64)	from July 1, 2017 to June 26, 2022
June 26, 2013	385,000	¥ 1	(\$ 0.01)	from February 10, 2014 to June 30, 2033
	—	¥1,062	(\$10.02)	from July 1, 2018 to June 25, 2023
June 26, 2014	452,000	¥ 1	(\$ 0.01)	from February 9, 2015 to June 30, 2034
	—	¥ 931	(\$ 8.78)	from July 1, 2019 to June 25, 2024
June 25, 2015	578,000	¥ 1	(\$ 0.01)	from February 16, 2016 to June 30, 2035
	—	¥ 733	(\$ 6.92)	from July 1, 2020 to June 24, 2025
June 28, 2016	571,000	¥ 1	(\$ 0.01)	from February 8, 2017 to June 30, 2036
	—	¥ 767	(\$ 7.24)	from July 1, 2021 to June 27, 2026
June 28, 2017	599,000	¥ 1	(\$ 0.01)	from February 8, 2018 to June 30, 2037
	—	¥ 815	(\$ 7.69)	from July 1, 2022 to June 27, 2027

19. Investment and rental properties

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

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

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

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

20. Capital adequacy requirements

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

Daiwa also announced that it has calculated the consolidated capital adequacy ratio as of March 31, 2018 in accordance with the principal stipulated in Notification 130 Pursuant to Article 57-17-1 of the Financial Instruments and Exchange Act issued by the Japanese Financial Service Agency (i.e., in Basel III method). The consolidated capital adequacy ratio as of March 31, 2018 was 22.28% (unaudited).

21. Segment information

Daiwa defines reportable segments as a group of operating segments whose discrete financial information is available and reviewed by the management regularly in order to make decisions about resources to be allocated and assess their performance. Focusing on securities-related business, Daiwa offers overall investment and financial service in coordination with the group's support business, and decides the comprehensive strategies by each organization in management

corresponding to business market and business category domestically and internationally and conducts business activities. Therefore, Daiwa decides reportable segments by business market and business category based on the organization structure, and aggregates to four reportable segments: "Retail," "Wholesale," "Asset management" and "Investment" by similarity of economic character.

(Net operating revenues by reportable segment)

	Millions of yen						
	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Total
Year ended March 31, 2018:							
Net operating revenues:							
Sales to customers	¥187,942	¥170,863	¥ 72,355	¥27,924	¥459,084	¥25,750	¥484,834
Intersegment sales and transfers	26,306	330	(22,964)	(523)	3,149	15,367	18,516
Total	¥214,248	¥171,193	¥ 49,391	¥27,401	¥462,233	¥41,117	¥503,350

	Millions of yen						
	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Total
Year ended March 31, 2017:							
Net operating revenues:							
Sales to customers	¥162,227	¥182,187	¥ 69,771	¥16,341	¥430,526	¥20,258	¥450,784
Intersegment sales and transfers	25,825	689	(23,333)	(604)	2,577	16,829	19,406
Total	¥188,052	¥182,876	¥ 46,438	¥15,737	¥433,103	¥37,087	¥470,190

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

* "Others" are the business segments which are not included in the reportable segments, and include the business of integration and management of subsidiaries, banking business, information service, back-office service and real-estate rental, etc

* "Net operating revenues" consist of "Operating revenue," "Interest expense," "Cost of service fees and other revenues" and "Commissions and brokerage" (Selling, general and administrative expenses).

* The Company does not disclose the segment information on assets because the management does not allocate it to each segment for managerial decision-making.

(Difference between the segment information and the consolidated financial statements)

(Adjustment of difference)

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

(Impairment losses on fixed assets by reportable segment)

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

	Millions of yen							
	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Corporate/ Elimination	Total
Year ended March 31, 2017:								
Loss on impairment	¥—	¥430	¥—	¥—	¥430	¥—	¥—	¥430

	Thousands of U.S. dollars							
	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Corporate/ Elimination	Total
Year ended March 31, 2018:								
Loss on impairment	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—

22. Transactions with related parties

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

Transaction details, amounts and balances					Millions of yen
Name of related company	Paid-in Capital Millions of yen				2018
Tokyo Tanshi Co., Ltd.	¥10,300	Continual transactions of collateralized short-term financing agreements	Collateralized short-term financing agreements (liabilities)		¥229,063
		Interest and dividend expense	¥ 327	Collateralized short-term financing agreements (assets)	726,303
		Interest income	800	Receivables—Other	17
		Interest and dividend income	399	Accrued and other liabilities—Other	71
		Interest expense	1,162		
					Millions of yen
Name of related company	Paid-in Capital Millions of yen				2017
Tokyo Tanshi Co., Ltd.	¥ 10,300	Continual transactions of collateralized short-term financing agreements	Collateralized short-term financing agreements (liabilities)		¥590,439
		Interest and dividend expense	¥ 571	Collateralized short-term financing agreements (assets)	163,881
		Interest income	1,428	Receivables—Other	51
		Interest and dividend income	312	Accrued and other liabilities—Other	21
		Interest expense	1,006		

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

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

23. Special purpose entities subject to disclosure

A consolidated subsidiary utilized seven special purpose entities for the year ended March 31, 2018 (six for the year ended March 31, 2017) principally for the securitization of structured notes in order to support securitization of monetary assets of customers. The consolidated subsidiary acquires and transfers bonds to those special purpose entities (incorporated in the Cayman Islands) and issues structured notes collateralized by

those bonds. The Company and the consolidated company do not own any shares with voting rights in any of these special purpose entities and have not dispatched any director or employee to them. Notes issued by those special purpose entities subject to disclosure as of the fiscal year ended March 31, 2018 and 2017 are ¥589,153 million (\$5,558,047 thousand) and ¥648,695 million, respectively.

24. Net gain on trading

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

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

25. Selling, general and administrative expenses

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

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

26. Other income (expenses)

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

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

Impairment loss

(Fiscal year ended March 31, 2017)

Daiwa recognized the impairment losses for the following asset group.

	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.

Table of Contents

Key Metrics (at consolidated group level)	121
Composition of Capital Disclosure	122
Qualitative Disclosure (Consolidated)	125
1. Scope of consolidation	125
2. Overview of capital adequacy assessment methods	126
3. Overview of the risk characteristics, and the policies, procedures and organizations of the Group-wide risk management	126
4. Credit risk	126
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)	127
6. Overview of the risk characteristics and the policies, procedures and organization for the counterparty credit risk management of derivative and repo-style transactions (include CRM-related transactions)	127
7. Securitization exposures	127
8. Market risk	128
9. Operational risk	129
10. Overview of the risk characteristics and the policies, procedures and organization for the exposure of the investments or equities subject to credit risk	129
11. Interest rate risk	129
12. The amount of each account in the balance sheets as in published statements and the reference number in composition of capital disclosure	130
13. Main sources of differences between regulatory exposure amounts and carrying values in financial statements	131
Quantitative Disclosure (Consolidated)	132
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	132
2. Credit risk (excluding counterparty credit risk and securitization)	132
3. Amount of exposure of which the risk weight cannot be directly determined due to multiple assets and transactions backed	133
4. Other quantitative disclosures	133
Consolidated Leverage Ratio	147
1. Composition of consolidated leverage ratio	147
2. Reasons for significant differences in the consolidated leverage ratio over previous year	147
Overview of Main Features of Regulatory Capital Instruments	148

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
	<i>Common Equity Tier 1 capital: Instruments and reserves</i>	(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	
	<i>Common Equity Tier 1 capital: regulatory adjustments</i>	(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	
	<i>Common Equity Tier 1 capital</i>			
29	Common Equity Tier 1 capital (CET1) ((a) - (b))	(c)	¥1,142,340	

Basel III template number	Items		Group Consolidated Quarter-End	Millions of yen, % Exclusion under transitional arrangements
Additional Tier 1 capital: instruments		(3)		
30	31a Shareholders' equity		¥ —	
	31b Stock subscription rights		—	
	32 Liabilities		—	
	Instruments issued by Special Purpose Companies		—	
34-35	Minority interest after adjustments		—	
33+35	Tier 1 capital under Basel II included in Additional Tier 1 capital under transitional Basel III rules		—	
33	Capital instruments issued by Daiwa Securities Group Inc. and its Special Purpose Companies		—	
35	Capital instruments issued by consolidated subsidiaries and affiliates (excluding Special Purpose Companies of Daiwa Securities Group Inc.)		—	
	Additional Tier 1 capital under transitional Basel III rules		—	
	Foreign currency translation adjustment		—	
36	Additional Tier 1 capital before regulatory adjustments	(d)	—	
Additional Tier 1 capital: regulatory adjustments				
37	Investments in own Additional Tier 1 instruments		—	¥—
38	Reciprocal cross-holdings in Additional Tier 1 instruments		—	—
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)		769	—
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		—	—
	Regulatory adjustments of additional Tier 1 capital under transitional Basel III rules		—	
	Goodwill (net of related tax liability)		—	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions		3,246	
43	Total regulatory adjustments to Additional Tier 1 capital	(e)	4,016	
Additional Tier 1 capital				
44	Additional Tier 1 capital ((d) - (e))	(f)	—	
Tier 1 capital				
45	Tier 1 capital ((c) + (f))	(g)	1,142,340	
Tier 2 capital: instruments and allowance		(4)		
46	Shareholders' equity		—	
	Stock subscription rights		—	
	Liabilities		—	
	Capital instruments issued by Special Purpose Companies		—	
48-49	Minority interest after adjustments		—	
47+49	Tier 2 capital under Basel II included in Tier 2 capital under transitional Basel III rules		—	—
47	Capital instruments issued by Daiwa Securities Group Inc. and its Special Purpose Companies		—	—
49	Capital instruments issued by consolidated subsidiaries and affiliates (excluding Special Purpose Companies of Daiwa Securities Group Inc.)		—	—
50	General allowance included and eligible allowance in Tier 2 capital		—	
50a	General allowance		—	
50b	Eligible allowance		—	
	Tier 2 capital under transitional Basel III rules		—	
	Capital instruments		—	
	Unrealized holding gain or loss on securities and cash flow hedge reserve		—	
51	Tier 2 capital before regulatory adjustments	(h)	¥ —	

Basel III template number	Items		Group Consolidated Quarter-End	Millions of yen, % 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	(5)	—	
	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	(6)	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)	(7)	—	
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	(8)	—	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		—	
84	Current cap on T2 instruments subject to Phase out arrangements		—	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		—	

Qualitative Disclosure (Consolidated)

1. Scope of consolidation

A) Discrepancy and the reason in the scope of consolidation defined under consolidated financial statements reported and that for consolidated capital adequacy ratio calculation under the provision of Article 3 of the Consolidated Capital Adequacy Ratio Notification published by Japan FSA (hereunder the Notification).

Not applicable.

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

Number of consolidated subsidiaries: 59 companies

Major Consolidated Subsidiaries	Businesses
Daiwa Securities Co. Ltd.	Securities-related businesses, Investment advisory and agency businesses
Daiwa Asset Management Co. Ltd.	Investment management businesses, Investment advisory and agency businesses
Daiwa Institute of Research Holdings Ltd.	Integration and management of subsidiaries
Daiwa Securities Business Center Co. Ltd.	Back office operations
Daiwa Property Co., Ltd.	Lending and borrowing of real estate
Daiwa Next Bank, Ltd.	Banking businesses
Daiwa Institute of Research Ltd.	Information services
Daiwa Institute of Research Business Innovation Ltd.	Information services
Daiwa Capital Holdings	Integration and management of subsidiaries
Daiwa Corporate Investment Co., Ltd.	Investment businesses
Daiwa PI Partners Co. Ltd.	Investment businesses
Daiwa Securities SMBC Principal Investments Co. Ltd.	Investment businesses
Daiwa Real Estate Asset Management Co., Ltd.	Investment management businesses, Investment advisory and agency businesses
Daiwa Capital Markets Europe Limited	Securities-related businesses
Daiwa Capital Markets Hong Kong Limited	Securities-related businesses
Daiwa Capital Markets Singapore Limited	Securities-related businesses
Daiwa Capital Markets America Holdings Inc.	Integration and management of subsidiaries
Daiwa Capital Markets America Inc.	Securities-related businesses

C) Number of affiliated companies engaged in financial activities, company names, total assets as well as net assets on balance sheets, and businesses of major affiliated companies that engaged in financial activities under the provision of Article 9 of the Notification

No company is subject to proportionate consolidation methods.

D) Company names, total assets as well as net assets on balance sheets, and business of companies which belong to Daiwa Group (hereunder the Group) but are not included under the scope of consolidation in the financial statements; and companies which are included under the scope of consolidation in the financial statements but do not belong to the Group

Not applicable.

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

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

2. Overview of capital adequacy assessment methods

The Group sets forth “The Rules of Economic Capital Management” and “The Rules of Regulatory Capital Management”, and assesses capital adequacy from economic capital as well as regulatory capital points of view.

<Economic Capital>

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

The Group computes group companies’ risk associated with businesses, and assesses its capital adequacy by confirming if such result falls within the range of allocated economic capital.

<Regulatory Capital>

The Group monitors regulatory capital against the alert level which is set well above the minimum regulatory capital ratio, and sets the alert level for internal management to evaluate the capital adequacy periodically.

<Stress Testing>

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

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

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

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

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

Based on the RAF, the Group’s board has established “Risk Management Rules” to define the basic policies of

risk management, which target risk types, as well as the officer or department in charge of each major risk. The basic policies are clarified as the following items:

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

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

4. Credit risk

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

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

For counterparty credit risk, the Group assigns a credit limit to each counterparty group, and monitors regularly. Additionally, the Group measures the aggregated counterparty risk. The Group also monitors issuer risk related to the market instruments position held as a result of market making activities.

The Group conducts various activities including product offering, and asset management/investment, and

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

B) Overview of accounting allowance and write-off standards

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

individually assessed amounts for doubtful and default loans.

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

amount is deducted from the amount of claims by deducting the expected disposal amount of collateral and the estimated recoverable amount due to guarantees. Based on the self-assessment criteria of assets, the sales department and credit examination department conducts assessments for all claims and assets.

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

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

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

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

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

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

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

For derivative and repo-style transactions, bilateral netting agreements are generally set. For transaction where a legally enforceable bilateral netting arrangement exists, the CRM techniques are applied. The Group uses the Comprehensive Approach for the CRM techniques.

Upon the time when its own credit rating is downgraded, additional collateral will be required. The Group carefully monitors the additional collateral amount and, accordingly, such amount falls into the allowable level.

In addition, for uncollateralized exposures, an allowance amount is calculated based upon the allowance percentage that is set in accordance with the Group's internal credit rating and maturity of the transaction.

7. Securitization exposures

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

The Group is involved in securitization transactions generally as an investor, and, accordingly, holds securitization products under investment and trading

accounts. These securitization products include market risk, credit risk, as well as risks related to the assets, stratified/tranched structure and other. Outstanding exposures and credit soundness of securitization products are periodically monitored by independent risk control departments.

B) Overview of monitoring framework of the regulation set forth under the provision of Article 227 Paragraph 4 (iii) - (vi) of the Notification

Periodical monitoring of securitization exposures are being conducted in order to adequately grasp comprehensive risk characteristics of securitization exposures including risk characteristics of underlying assets, performance-related information of underlying assets, and the scheme of the securitization transaction.

C) List of special purpose entities (hereunder SPEs) where the Group acts as sponsor, indicating whether the Group consolidates the SPEs into its scope of regulatory consolidation, and affiliated entities that the Group manages or advises and that invest either in the securitization exposures that the Group has securitized or in SPEs that the Group sponsors

Not applicable.

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

Not applicable.

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
	Total liabilities	19,771,223	19,771,223
	Net assets		
	Shareholders' equity		
1a	Common stock	247,397	247,397
1a	Capital surplus	230,713	230,713
2	Retained earnings	785,730	785,730
1c	Treasury stock	(54,310)	(54,310)
1c	Advances on subscription of treasury stock	3	3
	Total shareholders' equity	1,209,535	1,209,535
	Accumulated other comprehensive income		
	Valuation difference on available-for-sale securities	61,176	61,176
11	Deferred gains or losses on hedges	(129)	(129)
	Foreign currency translation adjustment	2,550	2,550
3	Total accumulated other comprehensive income	63,597	63,597
1b	Subscription rights to shares	8,790	8,790
34-35, 48-49	Minority interests	88,596	88,596
	Total net assets	¥ 1,370,520	¥ 1,370,520

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

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

Quantitative Disclosure (Consolidated)

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

Not applicable.

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

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

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

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

Millions of yen			
Type of allowances	Geographic area	March 2018	Changes
General allowance		¥ —	¥ —
Specific allowance	Japan	493	(12,885)
	Overseas	205	37
Allowance to specific foreign obligations		—	—
Type of allowance	Industry	March 2018	Changes
General allowance		¥ —	¥ —
Specific allowance	Sovereign	—	—
	Financial Institutions	—	—
	Corporate	579	18
	Individuals	—	—
	Others	119	(12,866)
Allowance to specific foreign obligations		—	—

C) Aging analysis of accounting past-due exposures

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

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

Not applicable.

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

		Millions of yen
		Exposures
Total		¥717,507

4. Other quantitative disclosures

OV1: Overview of RWA

		Millions of yen			
		RWA		Minimum capital requirements	
Basel III template number		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	

L11: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

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

			Millions of yen				
			Carrying values of items:				
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to credit risk framework ¹	Subject to counterparty credit risk framework	Subject to the securitization framework ²	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
21. Intangible assets		105,776	—	—	—	10,113	95,663
22. Goodwill		11,170	—	—	—	7,079	4,091
23. Others		94,605	—	—	—	3,034	91,571
24. Investments and other assets		424,278	424,355	—	—	53,601	—
25. Investment securities		367,196	367,196	—	—	25,414	—
26. Deferred tax assets		3,843	3,926	—	—	3,054	—
27. Others		53,239	53,232	—	—	25,133	—
28. Total noncurrent assets		654,245	424,355	—	—	67,122	216,445
29. Total deferred assets		—	—	—	—	—	—
30. Total assets		¥21,141,743	¥6,572,972	¥10,056,782	¥680,147	¥10,970,620	¥225,093

Liabilities

31. Notes and accounts payable-trade	¥ 7,065	¥ —	¥ —	¥ —	¥ —	¥ 7,065
32. Trading products	5,030,817	—	2,117,532	—	5,007,437	—
33. Trading date accrual	407,184	803	18,808	—	13,909	387,572
34. Margin transaction liabilities	71,344	—	71,344	—	—	—
35. Loans payable secured by securities	5,775,897	—	6,514,876	—	4,187,775	—
36. Deposits from banking business	3,388,444	—	—	—	300,540	3,087,904
37. Deposits received	256,858	—	—	—	43,673	213,185
38. Guarantee deposits received	420,039	—	—	—	3,293	416,746
39. Short-term loans payable	1,091,771	—	—	—	58,275	1,033,496
40. Commercial paper	105,000	—	—	—	—	105,000
41. Current portion of bonds	261,494	—	—	—	—	261,494
42. Income taxes payable	9,211	—	—	—	—	9,211
43. Deferred tax liabilities	1,099	—	—	—	—	1,099
44. Provision for bonuses	34,862	—	—	—	11,515	23,347
45. Other current liabilities	175,115	805	16,180	—	98,125	158,002
46. Bonds payable	1,315,349	—	—	—	42,187	1,273,162
47. Long-term loans payable	1,327,780	—	—	—	—	1,327,780
48. Deferred tax liabilities	14,805	—	—	—	—	14,805
49. Net defined benefit liabilities	41,758	—	—	—	—	41,758
50. Provision for loss on litigation	24,485	—	—	—	22,517	1,968
51. Negative goodwill	—	—	—	—	—	—
52. Other noncurrent liabilities	6,889	—	—	—	991	5,898
53. Reserves under the special laws	3,945	—	—	—	—	3,945
54. Total liabilities	¥19,771,223	¥1,608	¥8,738,742	¥—	¥9,790,238	¥8,373,447

¹ Amount of "Subject to credit risk framework" excludes amounts of "Subject to counterparty credit risk framework" and "Subject to the securitization framework".

² Amount of "Subject to the securitization framework" excludes amount of "Subject to the market risk framework".

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

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

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

² Amount of "Subject to securitization framework" excludes amount of "Subject to market risk framework".

(Note) Differences are mainly due to the following:

- Exposure of derivatives in the trading book is included in both counterparty credit risk and market risk after netting under certain conditions.
- Exposure of SFT assets is computed after netting with SFT liabilities under certain conditions.
- Some off-balance sheet items are included in credit risk.

CR1: Credit quality of assets

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

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

CR3: Credit risk mitigation techniques—overview

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

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

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

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

Asset classes	Risk weight	Credit risk exposures (post-CCF and post-CRM)					
		0%	10%	20%	35%	50%	75%
1. Cash	¥	—	¥	—	¥	—	¥
2. Japanese government and central bank		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	Credit risk exposures (post-CCF and post-CRM)					Millions of yen
		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

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

CCR2: Credit valuation adjustment (CVA) capital charge

	EAD post-CRM		RWA	Millions of yen
	¥	¥	¥	
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	

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

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

CCR5: Composition of collateral for CCR exposure

	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

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

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

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

SEC2: Securitization exposures in the trading book

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

Type of underlying assets	Group acts as investor			Millions of yen
	Traditional	Synthetic	Sub-total	
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%	—	—	—	—

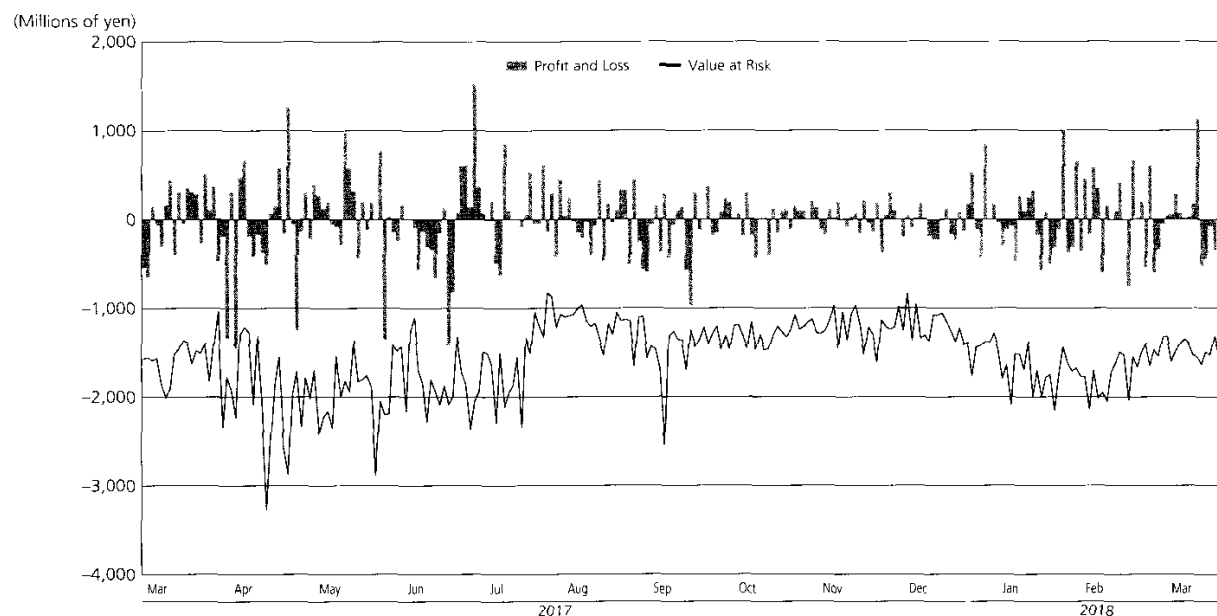
MR1: Market risk under standardized approach

	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 Flatteners	520	
5 Short rate up	1,563	
6 Short rate down	28,576	
7 Maximum	30,982	
8 Tier 1 capital	1,142,340	

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

Consolidated Leverage Ratio

1. Composition of consolidated leverage ratio

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

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
LIABILITIES AND NET ASSETS	2018	2017	2018
Debt:			
Short-term borrowings (Notes 5, 8 and 18)	¥ 1,207,496	¥ 1,094,876	\$ 11,391,472
Commercial paper (Note 5)	105,000	—	990,566
Long-term debt (Notes 5, 11 and 18)	1,641,975	1,374,011	15,490,330
	2,954,471	2,468,887	27,872,368
Payables:			
Payables to customers and counterparties (Notes 5 and 10)	603,973	581,978	5,697,859
Payables related to margin transactions (Notes 3 and 5)	70,599	61,467	666,028
	674,572	643,445	6,363,887
Collateralized short-term financing agreements (Notes 4, 5 and 18)	2,920,274	2,673,925	27,549,755
Trading liabilities (Notes 5, 6 and 18)	3,850,446	3,529,438	36,324,962
Trading account payables, net (Note 5)	329,873	—	3,112,009
Accrued and other liabilities:			
Income taxes payable	5,026	11,251	47,415
Deferred tax liabilities (Note 13)	655	2,329	6,179
Accrued bonuses	16,585	14,903	156,462
Retirement benefits (Note 12)	30,529	29,127	288,009
Other (Note 18)	96,171	69,412	907,275
	148,966	127,022	1,405,340
Statutory reserves (Note 14)	3,932	3,915	37,094
Total liabilities	10,882,534	9,446,632	102,665,415
Contingent liabilities (Note 15)			
Net assets:			
Owners' equity (Note 16):			
Common stock, no par value;			
Authorized—810,200 shares			
Issued—810,200 shares	100,000	100,000	943,396
Capital surplus	349,920	349,920	3,301,132
Retained earnings	346,250	382,279	3,266,509
	796,170	832,199	7,511,037
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	4,852	6,995	45,774
Total net assets	801,022	839,194	7,556,811
	¥11,683,556	¥10,285,826	\$110,222,226

See accompanying notes.

Statements of Income

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

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

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

See accompanying notes.

Statements of Changes in Net Assets

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

	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
Balance at April 1, 2016	810,200	¥100,000	¥349,920	¥ 323,818	¥ 7,427
Profit				58,461	
Net changes of items other than owners' equity					(432)
Balance at March 31, 2017	810,200	¥100,000	¥349,920	¥ 382,279	¥6,995
Profit				64,436	
Cash dividends paid				(100,465)	
Net changes of items other than owners' equity					(2,143)
Balance at March 31, 2018	810,200	¥100,000	¥349,920	¥ 346,250	¥ 4,852

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

See accompanying notes

Statements of Cash Flows

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

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

See accompanying notes.

Notes to Financial Statements

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

1. Basis of presentation

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

considered as necessary for fair presentation, is not presented in the accompanying financial statements.

The translations of the yen amounts into U.S. dollars are presented solely for the convenience of the readers, using the exchange rate as of March 31, 2018, which was ¥106 to U.S.\$1. The convenience translations should not be construed as representations that the yen amounts have been, could have been, or could be, converted into U.S. dollars at this or any other rate of exchange.

2. Significant accounting policies

Statements of cash flows—The Company defines cash equivalents as high liquid investments with original maturities of up to three months.

Trading assets and trading liabilities—Trading assets and liabilities including securities and financial derivatives for trading purposes are stated on a trade date basis at fair value in the balance sheets. Gains and losses, including unrealized gains and losses, related to transactions for trading purposes are reported as "Net gain on trading" in the accompanying statements of income. Fair value is determined based on market prices, quoted prices, internal pricing models (utilizing indicators of general market conditions or other economic measurements), or management's estimates of amounts to be realized on settlement, assuming current market conditions and an orderly disposition over a reasonable period of time. Securities owned for non-trading purposes, shown in the accompanying balance sheets as "Investment securities" are discussed below.

Securities other than trading assets and trading liabilities—The Company examines the intent of holding investments and classifies those investments as (a) debt securities intended to be held to maturity ("Held-to-maturity debt securities") which are carried at amortized cost, (b) other marketable securities available for sale (marketable "Available-for-sale securities") which are stated at their fair values based on quoted market closing prices with unrealized gain or loss reported in a separate component within the net assets on a net-of-tax basis, or (c) other non-marketable investments (non-marketable "Available-for-sale securities") which are carried at cost. Investment business partnerships ("Toshi jigyo kumiai") which are regarded as equivalent to securities by Article 2(2) of the Financial Instruments and Exchange Act are reported as "Investment securities" in the financial statements in proportion to the Company's share of the investment business partnership and designated as "Available-for-sale-securities." The cost of those investments is determined by the moving

average method.

Impairment is assessed for investments including private equity holding. For marketable securities, if the year-end market value declines 30% or more but less than 50% from the carrying value for individual securities, an impairment loss is recognized if there is no objective evidence of recoverability in value. Recoverability is assessed based on whether the decline is temporary by considering the movements of the market price over the last 12 months and the financial conditions of the issuer. If the year-end market value declines 50% or more from the carrying value, then an impairment loss is recognized immediately. For non-marketable equity investments, the Company generally compares the carrying amount and the net asset value of the issuing company attributable to the Company's holding share, and recognizes an impairment loss if the net asset value attributable to the Company's holding share is significantly lower than the carrying value and such decline is considered other than temporary. For non-marketable investments other than equities, the Company reviews the financial conditions of the issuers and provides allowance for possible investment losses, if necessary.

Collateralized short-term financing agreements—

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

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

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

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

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

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

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

The Company also has a defined contribution plan for which an annual contribution is charged to expense.

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

Income taxes—Income taxes consist of corporation, enterprise and inhabitant taxes. The provision for current income taxes is computed based on the pre-tax income of the Company with certain adjustments, as appropriate. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements *carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit 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:

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

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

4. Collateralized short-term financing agreements

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

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

5. Financial instruments

Qualitative information on financial instruments

(1) Policy for dealing with financial instruments

The Company, the primary businesses of which are investment and financial services businesses with a core focus on securities-related business, is involved in trading and brokerage of securities and derivative products, underwriting and secondary offering of securities, treating of public offerings for subscription and secondary offering of securities, treating of private offerings for subscription of securities, and other businesses related to the securities and financial fields.

The Company holds financial assets and liabilities as follows to execute its businesses such as trading securities and others, derivatives, investment securities, and raises its capital utilizing a variety of financial instruments such as corporate bonds, medium-term notes, borrowing from financial institutions, etc.

Under the Company's basic financing policy that enough liquidity for continuing business should be effectively secured, the Company strives to maintain an appropriate balance between assets and liabilities by diversifying financial measures and maturity dates, and realizing effective and stable finance when it decides to 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 manage the variety of risks incurred by holding financial assets and liabilities and maintains sound finances.

(2) Contents and risk of financial instruments

The Company holds financial instruments in the trading

business as follows: (a) trading securities and others (stocks and warrants, bonds and investment trusts), loans secured by securities and loans payable secured by securities, margin transaction assets and liabilities, (b) derivatives, traded at exchanges, such as stock index futures, bond futures, interest rate futures and options for those, (c) derivatives (OTC derivatives), not traded at exchanges, such as interest rate and foreign exchange swaps, forward foreign exchange contracts, currency options, bond options, FRA and OTC securities derivatives, etc. Also, the Company holds investment securities for the business relationship, etc.

The major risks implied in these financial instruments are market risk and credit risk. Market risk means the risk of suffering losses from fluctuations in the value of holding financial instruments and transactions in accordance with changes of market prices of stock prices, interest rates, currency exchange rates and commodity prices, etc., and from the market environment in which no transaction can be executed because of an excessive decrease of liquidity or one in which market participants are forced to trade in extremely unfavorable conditions. Credit risk means the risk of suffering losses from defaults or credit change of counterparties or issuers of financial instruments.

In the trading business, the Company conducts derivative transactions solely and as a part of structured notes to meet customers' needs. These include transactions which are highly volatile in contrast to the fluctuation of stock indices, foreign exchange rates and interest rates of reference assets and the correlation between them, or transactions which tend to move in a complicated manner. Therefore, these carry higher risk than the reference assets. These derivative transactions are categorized as trading assets and liabilities in the balance sheets and the realized and unrealized profit/loss by fluctuation of fair values are recorded as the net gain on trading.

The Company raises capital by utilizing corporate bonds, medium-term notes and borrowing from financial institutions, etc., and is exposed to liquidity risk. Liquidity risk indicates the risk of suffering losses such that cash management may be impossible and remarkably higher financing costs than usual may be requested as a result of an abrupt change of market environment or unexpected credit crunch of the Company, etc.

The Company enters derivative transactions as broker and end-user. Derivative products have been necessary to deal with a variety of customers' financial needs and as a broker the Company provides customers with financial instruments to meet their requests. For instance, the Company provides customers with forward exchange contracts to hedge the exchange rate risk of foreign currency of foreign bonds held by customers and interest rate swaps to hedge interest rate risk when customers issue corporate bonds, etc. As end-user, the

Company uses interest rate swaps to hedge interest rate risk regarding its financial assets and liabilities and utilize many kinds of futures and options to hedge trading positions.

(3) Risk management system for financial instruments

The Company has resolved the "Risk Management Rule" at the meeting of the Board of Directors which states the basic policy of risk management, and conducts risk management suitable for each business profile and size in accordance with the basic policy of risk management.

(i) Management of risk of financial instruments held for trading purpose

(a) Management of market risk

The Company manages its trading business by establishing the limit for VaR which indicates the estimate of the maximum loss amount under a certain probability, position and sensibility, etc., considering the financial situation, the business plan and budget of each division. The risk management department of the Company monitors the market risk and informs the management of the Company on a daily basis. In order to cover the capacity limit of VaR calculated by the statistical hypothesis based on the data obtained for a certain period, the Company applies the stress test with a scenario assuming the impact of an abrupt change in the market and the hypothetical stress events.

(Quantitative information concerning market risk)

The Company utilizes the historical simulation method (holding period: 1 day, confidence interval: 99%, observation period: 520 business days) to calculate VaR of trading financial investments. Total VaR as of March 31, 2018 (fiscal year-end) was ¥1.0 billion (\$9.4 million). In the meantime, the Company executes backtesting which compares calculated VaR and the actual profit/loss to verify its effectiveness. However the VaR statistically figures the risk based on historical market fluctuation and may be sometimes unable to completely grasp the risk in the environment that the market unexpectedly changes beyond the estimation.

(b) Management of credit risk

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

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

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

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

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

(Quantitative information concerning market risk)

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

Also, the main financial liabilities in the Company that are influenced by market risk are "bonds and notes" and "long-term debt." As of March 31, 2018, if all other risk variables were assumed to be unchanged and the interest rate supposed to be changed by 10 basis points (0.1%), the fair value of "bonds and notes" and "long-term debt" would fluctuate by ¥0.1 billion (\$0.9 million) and ¥1.4 billion (\$13.2 million), respectively.

(iii) Management of liquidity

The Company conducts its business with a core focus on the securities-related business utilizing a lot of assets and liabilities and establishes the basic policy which clarifies to efficiently secure enough liquidity for continuing its business.

The methods of raising capital of the Company include corporate bonds, medium-term notes, borrowing from financial institutions, commercial paper, call money, Gensaki transactions and repurchase agreements, etc. By those

methods, the Company realizes the effective and stable capital raise.

In terms of financial stability, preparing for a case where the environment vastly changes, the Company endeavors in ordinary times to secure a stable reserve to prevent the business from being disturbed. Especially in recent years, the Company has increased liquidity through raising capital from the market and borrowing from financial institutions, preparing for a worldwide financial crisis and credit crunch. Also, the Company tries to diversify the maturity of raised capital and sources of funding preparing for an event in which it becomes difficult to raise new capital and to reschedule the existing capital raising due to a financial crisis occurring.

Further, Daiwa Securities Group Inc.—our parent company collectively manages and monitors the liquidity of Daiwa securities Group Inc. and its subsidiaries ("Daiwa") under the basic policy to secure the appropriate liquidity of Daiwa as a whole. Also, the Company monitors every day if the liquidity portfolio, which should cover financing proceeds without collateral that has a maturity date within a certain period as well as the estimated cash outflow caused by realization of one of some stress scenarios prepared in advance during the same period, is maintained or not.

The Company has established the contingency funding plan as one of the measures of dealing with liquidity risk. This plan states basic policy concerning the report line depending upon the urgency of stress internally originated including credit crunch, and externally originated including an abrupt change of market environment, and the method of raising capital. This enables the Company to prepare a system for securing liquidity through a swift response.

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

(4) Supplemental explanation on fair value of financial instruments

The fair value of financial instruments includes the values based on market prices and the values theoretically calculated if no market price is available. Such theoretical prices may be changed with different conditions because a certain condition is applied to calculate theoretical prices.

Fair values of financial instruments

The figures stated on the balance sheets as of March 31, 2018 and 2017, fair value and the difference of those are as below. Any item for which it is extremely difficult to obtain its fair value is not included in the table below (see Note 2).

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

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

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

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

(1) Cash and cash equivalents

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

(2) Cash segregated as deposits for regulatory purposes

Cash segregated as deposits for regulatory purposes which consist of cash segregated as deposits for customers and investments in securities like government bonds are calculated based on reasonably calculated prices utilizing yield spread with index interest rates for each term which are defined by immediately previous traded prices including the ones of similar bonds. Other investment products are stated as their book value because fair values are similar to book value and they are settled in the short term.

(3) Trading assets and (11) Trading liabilities

Trading securities

Equities	Closing price or closing quotations at the main stock exchange
Bonds	Reasonably calculated price based on immediately previous traded price including similar bonds (OTC and broker screen, etc.) or market value information (trading price statistics, etc.) by utilizing spread with index interest rate
Investment trust	Closing price or closing quotations at the exchange, or net asset value

Derivatives

Derivatives traded at exchange	Mainly liquidation price at the exchange or basic price for calculation margin
Interest rate Swaps, etc.	Prices calculated by price valuation models generally acknowledged at the market or the model extending those, based on expected cash flow calculated from yield curve, price and coupon rate of underlying bonds, interest rates, discount rates, volatility, correlation, etc.
OTC equity derivatives	Prices calculated by price valuation models generally acknowledged at the market or the model extending those, based on price of equities or equities indices, interest rates, dividends, volatility, discount rates, correlation, etc.
Credit derivatives	Prices calculated by price valuation models that are generally acknowledged at the market or the model extending those, based on all the cash flows defined with discount rates that is calculated from interest rates and credit spread of the reference

Concerning OTC derivatives, both credit risk to the counterparty and liquidity risk are added to the fair value if necessary.

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

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

Payables related to margin transactions consist of customers' borrowings money from securities finance companies and sold amount equivalent of customers generated from margin

transactions. These are stated as their book value as settled in the short term because the former is marked to market and the latter is settled by reversing trades by customers' decisions.

(5) *Trading account receivables, net* and (13) *Trading account payables, net*

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

(6), (14) *Collateralized short-term financing agreements*

These are stated as their book value because fair values are similar to book value and most of them are settled in the short term.

(7) *Short-term guarantee deposits* and (15) *Payables to customers and counterparties*

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

(8) *Loans receivable from customers* and (9) *Loans receivables from other than customers*

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

(10) *Investment securities*

Equities	Closing price or closing quotations at the main stock exchange
Bonds	Reasonably calculated price based on the latest traded prices including those of similar bonds (OTC and broker screen, etc.) or market values information (trading price statistics, etc.) by utilizing spreads with index interest rates, or reasonably calculated price based on the values of collateralized assets

Certificates of deposits	Calculated price utilizing the latest traded prices including similar instruments (OTC and broker screen, etc.), and yield spreads (reflected credit spreads and supply-demand) from the corresponding index interest rates (yield curve of major short term interest rates) of the each calculated period
--------------------------	------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

(16) *Short-term borrowings* and (17) *Commercial paper*

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

(18) *Long-term debt*

The fair values of bonds and notes due within one year are stated as their book value since the terms of the settlement period are short and the fair values approximate the book values.

On the other hand, concerning fair values of bonds and notes whose maturities are longer than one year, if market prices (trading price statistics, etc.) are available in the market, fair values are calculated based on the market prices. If the market prices are not available, fair values are calculated from book values which are adjusted with consideration of interest rate fluctuations from the issuances and changes of credit spread of the Company. The credit spread of the Company is referred to the interest rate of the latest issuance or market prices of similar bonds issued by the Company, etc.

Concerning fair values of long-term borrowings, fair values are calculated from book values which are adjusted with consideration of interest rate fluctuations from the latest issuance and changes of credit spread of the Company. The credit spread of the Company is referred to the interest rate of the latest issuance or market prices of similar bonds issued by the Company, etc.

(Note 2) Any financial product which is extremely difficult to obtain its fair value at March 31, 2018 and 2017 is as below and is not included in the "Assets (10) Investment securities—Other securities" of fair value information of financial instruments.

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

The above are deemed to be extremely difficult to determine fair values because there are no market prices and it is extremely difficult to estimate future cash flows from the investments. Therefore, their fair values are not disclosed.

(Note 3) Scheduled redemption amount of financial receivables and securities with a maturity date after March 31, 2018

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

* Cash segregated as deposits for regulatory purposes is included in "Within 1 year" because it is comprised of trusts for holding customer assets.

* Receivables related to margin transactions are included in "Within 1 year" because they are expected to be settled in short term.

	Thousands of U.S. dollars			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and cash equivalents	\$12,429,698	\$—	\$—	\$—
Cash segregated as deposits for regulatory purposes	3,085,566	—	—	—
Receivables related to margin transactions	2,418,745	—	—	—
Collateralized short-term financing agreements	35,961,566	—	—	—
Short-term guarantee deposits	2,904,623	—	—	—
Investment securities:				
Other securities with a maturity date	—	—	—	—
Other securities	—	—	—	—
Total	\$56,800,198	\$—	\$—	\$—

* Cash segregated as deposits for regulatory purposes is included in "Within 1 year" because it is comprised of trusts for holding customer assets.

* Receivables related to margin transactions are included in "Within 1 year" because they are expected to be settled in short term.

(Note 4) Scheduled redemption amount of commercial paper and long-term debt after March 31, 2018

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

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

6. Trading assets and trading liabilities

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

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

Government, corporate and other bonds include convertible bonds.

7. Securities other than trading assets

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

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

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

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

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

8. Pledged assets

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

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

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

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

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

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

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

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

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

9. Lease transactions

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

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

10. Payables to customers and counterparties

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

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

11. Long-term debt

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

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

The amount for medium-term notes as of March 31, 2018 includes US\$397,094 thousand and AU\$3,000 thousand of foreign-currency notes.

12. Retirement benefits

Retirement benefits for employees

(1) Defined benefit plans

Retirement benefits in the balance sheets as of March 31, 2018 and 2017 are ¥30,478 million (\$287,528 thousand) and

¥29,053 million, respectively. Benefit expenses stated in the statements of income for the years ended March 31, 2018 and 2017 were ¥2,599 million (\$24,519 thousand) and ¥2,450 million, respectively.

Movement in retirement benefit obligations consisted of the following:

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

(2) Defined Contribution plan

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

Retirement benefits for directors

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

13. Income taxes

A reconciliation of the difference between the statutory income tax rate and the effective income tax rate reflected in the statements of income for the years ended March 31, 2018 and 2017 are as follows:

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

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

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

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

14. Statutory reserves

The Financial Instruments and Exchange Act of Japan requires a securities company to set aside a reserve in proportion to its securities transactions and other related trading to cover

future eventual operational losses caused by the securities company for customer transactions.

15. Contingent liabilities

The outstanding balances of the guarantees obligated by the Company arising as guarantors of employees' borrowings were ¥68 million (\$642 thousand) and ¥96 million at March 31, 2018 and 2017, respectively. The outstanding balances of

the guarantees obligated by the Company arising as guarantors of derivative transactions of fellow subsidiaries were ¥339 million (\$3,198 thousand) and ¥335 million at March 31, 2018 and 2017, respectively.

16. Owners' equity

In principle, the Companies Act of Japan ("the Act") requires a company to credit the entire amount of issued shares to common stock (and preferred stock, if any); however, a company may classify an amount not exceeding one-half of the entire issued amount of shares as additional paid-in capital, which is included in "Capital surplus" in the accompanying balance sheets, with a resolution of the Board of Directors.

According to the Act, a company should set aside 10% of cash dividends and other cash appropriations as additional paid-in capital or earned surplus until the total becomes one quarter of the common stock (and preferred stock, if any). Additional paid-in capital and earned surplus are allowed to be utilized to eliminate or reduce a deficit with a resolution

of the shareholders' meeting or may be transferred to common stock with a resolution of the Board of Directors, and also may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends. Additional paid-in capital and earned surplus are included in "Capital surplus" and "Retained earnings" in the accompanying balance sheets.

The maximum amount that the Company can distribute as dividends is calculated based on the financial statements of the Company in accordance with the Act.

Cash dividends of ¥79,531 (\$755) per share amounting to ¥64,436 million (\$607,887 thousand) were approved by the shareholders' meeting on June 20, 2018.

17. Segment information

The Company's reportable segment is defined as a group of operating segments for which discrete financial information is available and reviewed by the Company's management regularly in order to make decisions for resources to be allocated to the segments and assess their performance. The Company decides operating segments by business market and business category based on organization structure and aggregates to two reporting segments "Retail sales" and "Domestic wholesale."

"Retail sales" provides broad types of products and services

mainly to individual and unlisted-corporate customers. "Domestic wholesale" consists of "Global markets" and "Global investment banking." "Global markets" sells and trades stock, bonds, foreign exchange and the other derivatives mainly to institutional investors and investors of business, financial and public-interest corporations both at home and abroad. "Global investment banking" provides various investment banking services such as underwriting of securities and advisory of M&A, etc., at home and abroad.

(Net operating revenues by reportable segment)

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

	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	—	—	—	—	—
Total	¥182,580	¥125,705	¥308,285	¥363	¥308,648

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

* "Others" are the business segments which are not included in the reportable segments.

* "Net operating revenues" consist of "Operating revenue," "Interest expense," and "Commissions and brokerage" (Selling, general and administrative expenses).

* The Company does not disclose the segment information on assets because the management does not allocate it to each segment for managerial decision-making.

(Difference between the segment information and the financial statements)

(Adjustment of difference)

	Millions of yen		Thousands of U.S. dollars
	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)
Net operating revenue of financial statements	¥326,093	¥314,103	\$3,076,349

(Impairment losses on fixed assets by reportable segment)

Not applicable.

(Gains on negative goodwill by reportable segment)

Not applicable.

18. Transactions with related parties

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

Name of related company	Paid-in Capital	Description of transactions		Account balances
				Millions of yen
				2018
Daiwa Securities Group Inc.	¥247,397 million	Proceeds from Borrowings	Short-term borrowings	¥327,496
		Interest expense (Note 1)	Long-term debt	437,553
			Accrued and other liabilities—Other	2,165
Daiwa Capital Markets Europe Limited	£732 million	Continual transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	¥ 3,700
		Interest income (Note 3)	Collateralized short-term financing agreements (Liabilities)	596,242
		Interest expense (Note 3)		
		Continual transactions of loans	Loans receivable from other than customers	¥166,266
		Interest income (Note 3)	Receivables—Other	763
		Continual transactions of purchase and sale of securities (Notes 2, 3)		
		Continual transactions of derivatives (Notes 2, 3)	Trading assets	¥ 31,468
			Trading liabilities	40,003
		Continual transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	¥120,124
		Interest income (Note 3)	Collateralized short-term financing agreements (Liabilities)	537,611
Daiwa Capital Markets America Inc.	\$100 million	Interest expense (Note 3)		
		Continual transactions of purchase and sale of securities (Notes 2, 3)		
Daiwa Asset Management Co. Ltd.	¥15,174 million	Agency service agreement for investment trust funds	Receivables—Other	¥ 3,914
		Commissions (Note 4)		¥23,127
Daiwa Next Bank, Ltd.	¥50,000 million	Continual transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	¥121,374
		Interest income (Note 3)		
		Interest expense (Note 3)		
		Continual transactions of purchase and sale of securities (Notes 2, 3)		
		Continual transactions of derivatives (Notes 2, 3)	Trading assets	¥ 189
			Trading liabilities	92

* "Daiwa Securities Group Inc." is the parent company of the Company, holding 100% of shares.

* "Daiwa Capital Markets Europe Limited," "Daiwa Capital Markets America Inc.," "Daiwa Asset Management Co. Ltd." and "Daiwa Next Bank, Ltd." are subsidiaries of "Daiwa Securities Group Inc."

Terms and conditions of the transactions and transaction policy

(Note 1) Interest rates on borrowings are determined rationally in consideration of market interest rates.

(Note 2) The description of transaction amount is omitted because these are continual transactions.

(Note 3) Terms of transaction are determined based on the market trends.

(Note 4) These are based on the investment trust contract of each fund. The fee is determined in the same manner as other sales companies.

Name of related company	Paid-in Capital	Description of transactions		Account balances
				Millions of yen
				2017
Daiwa Securities Group Inc.	¥247,397 million	Proceeds from Borrowings	Short-term borrowings	¥374,876
		Interest expense (Note 1)	Long-term debt	277,672
			Accrued and other liabilities—Other	369
Daiwa Capital Markets Europe Limited	£732 million	Continual transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	¥ 2,200
		Interest income (Note 3)	Collateralized short-term financing agreements (Liabilities)	610,256
		Interest expense (Note 3)		
		Continual transactions of loans	Loans receivable from other than customers	¥ 98,278
		Interest income (Note 3)	Receivables—Other	228
		Continual transactions of purchase and sale of securities (Notes 2, 3)		
		Continual transactions of derivatives (Notes 2, 3)	Trading assets	¥ 30,703
			Trading liabilities	39,078
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
				2018
Daiwa Securities Group Inc.	¥247,397 million	Proceeds from Borrowings	Short-term borrowings	\$3,089,585
		Interest expense (Note 1) \$ 77,500	Long-term debt	4,127,858
			Accrued and other liabilities—Other	20,425
Daiwa Capital Markets Europe Limited	£732 million	Continual transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	\$ 34,906
		Interest income (Note 3) \$ 745	Collateralized short-term financing agreements (Liabilities)	5,624,925
		Interest expense (Note 3) 8,302	Loans receivable from other than customers	\$1,568,547
		Continual transactions of loans	Receivables—Other	7,198
		Interest income (Note 3) \$ 23,189		
		Continual transactions of purchase and sale of securities (Notes 2, 3)		
		Continual transactions of derivatives (Notes 2, 3)	Trading assets	\$ 296,868
			Trading liabilities	377,387
Daiwa Capital Markets America Inc.	\$100 million	Continual transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	\$1,133,245
		Interest income (Note 3) \$ 1,877	Collateralized short-term financing agreements (Liabilities)	5,071,802
		Interest expense (Note 3) 72,689		
		Continual transactions of purchase and sale of securities (Notes 2, 3)		
Daiwa Asset Management Co. Ltd.	¥15,174 million	Agency service agreement for investment trust funds	Receivables—Other	\$ 36,925
		Commissions (Note 4) \$218,179		
Daiwa Next Bank, Ltd.	¥50,000 million	Continual transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	\$1,145,038
		Interest income (Note 3) \$ 14,047		
		Interest expense (Note 3) —		
		Continual transactions of purchase and sale of securities (Notes 2, 3)		
		Continual transactions of derivatives (Notes 2, 3)	Trading assets	\$ 1,783
			Trading liabilities	868

* "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

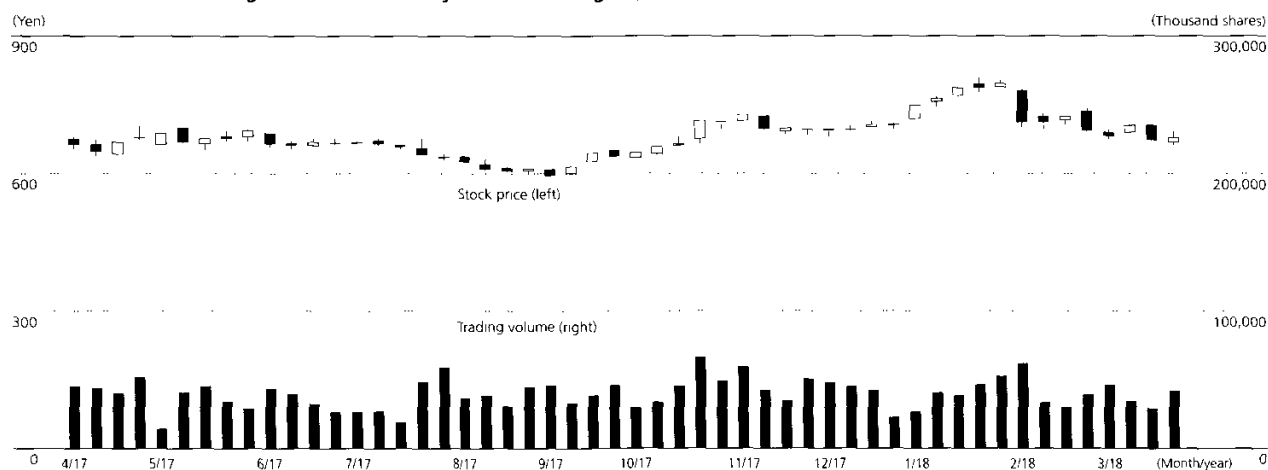
Fax: (81) 3-5555-0661

Email: ir-section@daiwa.co.jp

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)



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

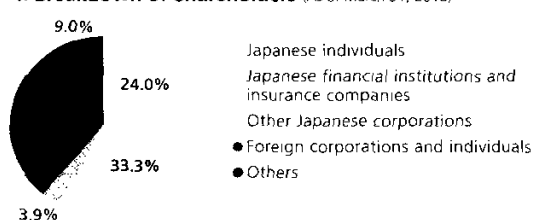
Note: Treasury stock of 80,765,494 shares is excluded for calculating the percentage of the above list of major shareholders

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)

Chairman of the Board	Outside Directors
Takashi Hibino	Keiichi Tadaki
	Tadashi Onodera
Directors	Michiaki Ogasawara
Seiji Nakata	Hiroataka Takeuchi
Toshihiro Matsui	Ikuo Nishikawa
Kazuo Takahashi	Eriko Kawai
Koichi Matsushita	
Keiko Tashiro	
Mikita Komatsu	
Morimasa Matsuda	

Corporate Executive Officers

President and CEO	Executive Managing Directors
Seiji Nakata*	Masaru Shirataki
	Atsushi Mochizuki
Deputy Presidents	Akihiko Ogino
Toshihiro Matsui* (COO)	Junichi Arihara
Kazuo Takahashi	(CRO and CDO)
Koichi Matsushita	
Nobuyuki Iwamoto	Corporate Executive Officer
Yoriyuki Kusaki	Takashi Hibino
Senior Executive Managing Directors	
Keiko Tashiro	
Mikita Komatsu (CFO)	
Masahisa Nakagawa (CIO)	

* Representative Corporate Executive Officers

Executive Officers

Senior Executive Managing Directors	Senior Managing Directors
Yoshimasa Nagase	Tomoyuki Murase
Hironori Oka	Shiko Yanagisawa
	Tomonori Tsuji
Executive Managing Directors	Eiji Sato
Takayuki Sawano	
Hideki Araki	

Daiwa Securities Co. Ltd.

Directors

(Members of the Board)

Chairman of the Board	Senior Executive Managing Directors
Takashi Hibino*	Keiko Tashiro
	Shinji Kawakami
President	Mikita Komatsu
Seiji Nakata*	Masahisa Nakagawa
	Tadao Sakashima
Deputy Presidents	Masahiro Kobayashi
Toshihiro Matsui*	
Kazuo Takahashi*	Executive Managing Directors
Koichi Matsushita*	Keisuke Natsume
	Hiromi Uemura
Senior Executive Managing Directors	Yoshinori Matsumoto
Yoshimasa Nagase*	Masataka Tsujimoto
Junichi Aizawa	
Koichi Maruo	
Yuichi Akai	

* Representative Directors

Audit & Supervisory Board Members

Shuzo Takami
Sumiyuki Akaiwa*
Morimasa Matsuda
Hiroshi Obayashi*
* Outside Audit & Supervisory Board Member

Executive Officers

Executive Managing Directors	Senior Managing Directors	Senior Managing Directors
Masaru Shirataki	Yoshifumi Otsuka	Tomoki Igura
Hirofumi Nomura	Tomoo Fujioka	Kei Sano
Hiroshi Hara	Kana Shirakawa	Futoshi Sekine
Yasushi Iwasaki	Hiroataka Shirokawa	Tomonori Tsuji
Yoshihisa Kaneko	Mitsuru Fujita	Eiji Sato
Atsushi Mochizuki	Tomoyuki Murase	Toru Yamamoto
Naoto Shimomura	Sungho Kang	Junichi Serizawa
Akihiko Ogino	Toshiya Tadokoro	Hidenobu Shirota
Junichi Arihara	Hiroko Sakurai	Isao Tsujioka
Shinsuke Niizuma	Hiroki Ikeda	Tsutomu Kobayashi
		Mineo Takatsuka
		Tsutomu Takahashi

Domestic Group Companies

(As of August 1, 2018)

Daiwa Securities Co. Ltd.

GranTokyo North Tower
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6752, Japan
Tel: +(81) 3-5555-2111

Daiwa Asset Management Co. Ltd.

GranTokyo North Tower
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6753, Japan
Tel: +(81) 3-5555-3111

Daiwa Institute of Research Holdings Ltd.

15-6, Fuyuki, Koto-ku, Tokyo 135-8460, Japan
Tel: +(81) 3-5620-5501

Daiwa Institute of Research Ltd.

15-6, Fuyuki, Koto-ku, Tokyo 135-8460, Japan
Tel: +(81) 3-5620-5100

Daiwa Institute of Research Business Innovation Ltd.

1-14-5 Eitai, Koto-ku, Tokyo 135-0034, Japan
Tel: +(81) 3-5931-8600

DIR Information Systems Co., Ltd.

1-14-6 Eitai, Koto-ku, Tokyo 135-0034, Japan
Tel: +(81) 3-6365-2580

Daiwa SB Investments Ltd.

2-1, Kasumigaseki 3-chome, Chiyoda-ku, Tokyo 100-0013, Japan
Tel: +(81) 3-6205-0200

Daiwa Securities Business Center Co. Ltd.

3-2, Toyo 2-chome, Koto-ku, Tokyo 135-0016, Japan
Tel: +(81) 3-5633-6100

Daiwa Property Co., Ltd.

2-1, Kyobashi 1-chome, Chuo-ku, Tokyo 104-0031, Japan
Tel: +(81) 3-5555-4700

Daiwa Next Bank, Ltd.

GranTokyo North Tower
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6756, Japan
Tel: +(81) 3-5555-6500

Daiwa Corporate Investment Co., Ltd.

GranTokyo North Tower
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6756, Japan
Tel: +(81) 3-5555-6300

Daiwa PI Partners Co. Ltd.

GranTokyo North Tower
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6730, Japan
Tel: +(81) 3-5555-6001

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

Daiwa Fund Consulting Co. Ltd.

GranTokyo North Tower
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6756, Japan
Tel: +(81) 3-5555-6550

Daiwa Real Estate Asset Management Co. Ltd.

2-1, Ginza 6-chome, Chuo-ku, Tokyo 104-0061, Japan
Tel: +(81) 3-6215-9500

Daiwa Investor Relations Co. Ltd.

2-1, Kyobashi 1-chome, Chuo-ku, Tokyo 104-0031, Japan
Tel: +(81) 3-5555-4111

Daiwa Securities Media Networks Co. Ltd.

GranTokyo North Tower
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6751, Japan
Tel: +(81) 3-5555-1175

Daiwa Office Services Co., Ltd.

2-1, Kyobashi 1-chome, Chuo-ku, Tokyo 104-0031, Japan
Tel: +(81) 3-5555-6200

Retela Crea Securities Co., Ltd.

2-1, Kyobashi 1-chome, Chuo-ku, Tokyo 104-0031, Japan
Tel: +(81) 3-6385-0611

Mi-Casa Asset Management Inc.

16-12, Shinbashi 6-chome, Minato-ku, Tokyo 105-0004, Japan
Tel: +(81) 3-5425-5600

Overseas Group Companies

(As of August 2018)

Daiwa Securities Group Inc.

Daiwa Capital Markets America Inc.

New York Head Office
Financial Square, 32 Old Slip, New York, NY 10005
Tel: +(1) 212-612-7000

San Francisco Branch
555 California Street, Suite 3360, San Francisco, CA 94104
Tel: +(1) 415-955-8100

DCS Advisory (New York)

605 Third Avenue 11th Floor New York, NY 10158
Tel: +(1) 212-904-9400

Daiwa Capital Markets Europe Limited

London Head Office
5 King William Street, London EC4N 7AX
Tel: +(44) 20-7597-8000

Geneva Branch
50, rue du Rhône, P.O. Box 3198, 1211 Geneva 3
Tel: +(41) 22-818-74-00

Bahrain Branch
31st Floor, East Tower, Bahrain World Trade Center,
P.O. Box 30069, Manama
Tel: +(973) 1753-4452

Paris Representative Office
17, rue de Surène 75008 Paris
Tel: +(33) 1-56-26-22-00

Moscow Representative Office
11, Gogolevsky boulevard, 2nd Floor, Moscow, 119019
Tel: +(7) 495-641-3416

Daiwa Corporate Advisory Limited (UK)

5 King William Street, London EC4N 7DA
Tel: +(44) 20-7856-0999

Daiwa Corporate Advisory GmbH (Germany)

Neue Mainzer Str. 1, 60311 Frankfurt am Main
Tel: +(49) 69-9720-040

Daiwa Corporate Advisory SAS (France)

17, rue de Surène 75008 Paris
Tel: +(33) 1-4212-4900

Daiwa Securities Co. Ltd.

Beijing Representative Office

Room 301/302, North Tower, Beijing Kerry Centre, No. 1 Guanghua Road,
Chaoyang District, Beijing
Tel: +(86) 10-6500-6688

Bangkok Representative Office

18th Floor, M.Thai Tower, All Seasons Place, 87 Wireless Road, Lumpini,
Pathumwan, Bangkok 10330
Tel: +(66) 2-252-5650

Daiwa Capital Markets Hong Kong Limited

One Pacific Place, 88 Queensway, Hong Kong
Tel: +(852) 2525-0121

Daiwa Capital Markets Singapore Limited

7 Straits View Marina One East Tower #16-05/06 Singapore 018936
Tel: +(65) 6387-8888

Daiwa Securities Capital Markets Korea Co., Ltd.

21 Fl. One IFC, 10 Gukjegeumyung-Ro, Yeongdeungpo-Gu, Seoul, 07326
Tel: +(82) 2-787-9100

Daiwa Capital Markets Australia Limited

Level 34, Rialto North Tower, 525 Collins Street, Melbourne, Victoria 3000
Tel: +(61) 3-9916-1300

Daiwa Capital Markets India Private Limited

10th Floor, 3 North Avenue, Maker Maxity, Bandra-Kurla Complex,
Bandra East, Mumbai 400051
Tel: +(91) 22-6622-1000

Daiwa-Cathay Capital Markets Co., Ltd.

14th Floor, 200 Keelung Road, Sec. 1, Taipei
Tel: +(886) 2-2723-9698

DBP-Daiwa Capital Markets Philippines, Inc.

18th Floor, Citibank Tower, 8741 Paseo de Roxas, Salcedo Village, Makati City
Tel: +(632) 737-3000

Daiwa (Shanghai) Corporate Strategic Advisory Co. Ltd.

44/F, Hang Seng Bank Tower, 1000 Lujiazui Ring Road,
Pudong, Shanghai
Tel: +(86) 21-6841-3292

Myanmar Securities Exchange Centre Co., Ltd.

21-25 Sule Pagoda Road, Yangon
Tel: +(95) 1-374894

Hanoi Representative Office

Suite 1306, Pacific Place Building, 83B Ly Thuong Kiet Street, Hanoi
Tel: +(84) 24-3946-0460

Daiwa Securities Group

<http://www.daiwa-grp.jp>