

Daiwa Securities Group

A Financial and Capital Market Pioneer That Creates the Future



Integrated Report 2020

Year ended March 31, 2020

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ESG Index Selection

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



**2020 CONSTITUENT MSCI JAPAN
EMPOWERING WOMEN INDEX (WIN)**

Forward-Looking Statements

This Integrated Report contains forward-looking statements about the Daiwa Securities Group. You can identify these statements by the fact that they do not relate strictly to historic or current facts. These statements discuss future expectations, identify strategies, contain projections of results of operations or of financial condition, or state other "forward-looking" information. These statements are based on currently available information and represent the beliefs of the management of the Daiwa Securities Group. These statements are subject to numerous risks and uncertainties that could cause the Daiwa Securities Group's actual results, performance, achievements or financial condition to differ materially from those described or implied in the forward-looking statements. The Daiwa Securities Group undertakes no obligation to publicly update any forward-looking statements after the date of issuance of this report. These potential risks and uncertainties include, but are not limited to: competition within the financial services industries in Japan and overseas, our ability to adjust our business focus and to maintain profitable strategic alliances, volatile and sudden movements in the international securities markets, and foreign exchange and global economic situations affecting the Daiwa Securities Group. "FY2019" refers to the fiscal year ended March 31, 2020, and other fiscal years are referred to in a corresponding manner.

In the event that any corrections are made to the content of the Integrated Report, an erratum will be posted on the Group's website.
<https://www.daiwa-grp.jp/english/ir/toolkit/annualreport/>

Editorial Policy

Publication of Daiwa Securities Group Integrated Report 2020

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

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

In this Integrated Report 2020, we provide details of our response and future strategies, focusing on the material issues that we believe underpin the Group’s Medium-Term Management Plan. In particular, this year we feature our hybrid strategy, being an integrated securities group with a hybrid business model that is looking to diversify and stabilize earnings by leveraging our strength as an independent comprehensive financial services group, entering business fields that can strengthen and complement existing businesses, and utilizing new technologies, all while maintaining the traditional securities business as our core.

In this report, we also aim to respond to opinions and requests from investors whom we once again held dialogues with this fiscal year about the Environment, Social, and Governance (ESG) field, such as the Group’s corporate governance and the disclosure of non-financial information centered on the SDGs.

Detailed ESG-related data and other information are available on our website which was revamped in the spring of 2020. I would appreciate it if you could provide us with your opinions on this report.

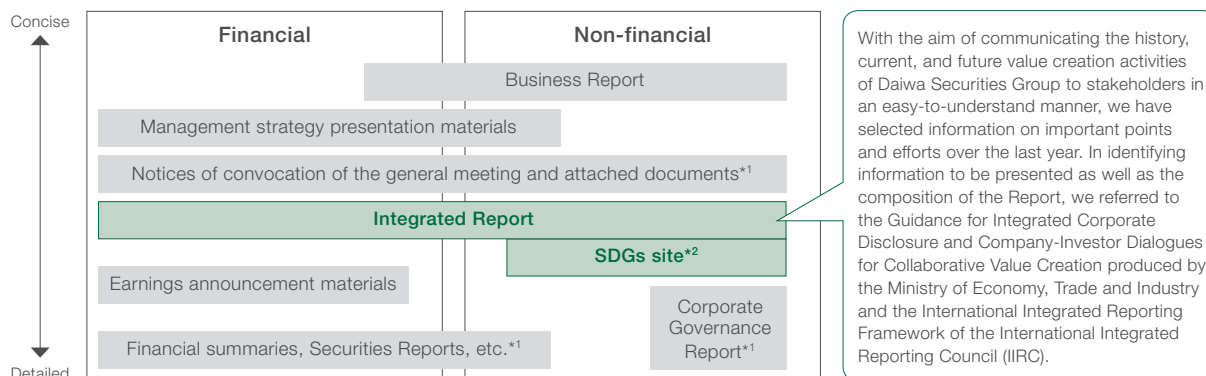
中田 誠 司

Seiji Nakata
President and CEO
Daiwa Securities Group Inc.



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

Position of Integrated Report in Disclosure Documents



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

*2 We have transitioned the SDGs Data Book (formerly CSR Report) to an online version in line with the renewal of our corporate website in the spring of 2020. <https://www.daiwa-grp.jp/english/sdgs/>



Supporting business activities

Values of Daiwa Securities Group

Daiwa Securities Group's corporate principles were established in 1998. Since the start of operations in 1902, each and every employee has been creating the history of the Group. Despite having been in operation around 100 years, the corporate culture that has been accumulated by and imprinted on the Group's employees has been the Group's Corporate Principles.

We have nurtured our corporate culture since the foundation of our business, and we regard it as the core of Daiwa's identity. Based on our Corporate Principles, we have also taken steps to crystallize the basic philosophy and mindset of the Group inherent in our culture to be manifested as the Daiwa Spirit, and worked to spread it among all employees. We hope that the Daiwa Spirit will enhance employees' sense of unity and togetherness and thus the Group's overall strength.

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.

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.

Taking into consideration changes in the business environment

Daiwa Securities Group's Materiality

In the current societal environment surrounding our business sectors there exists a multitude of emerging problems and uncertainties. Amid the expected dramatic changes in the business environment surrounding the Group, including the emergence of the 100-year life span and trend toward digital transformation, we have positioned efforts to provide

high value-added solutions through our No. 1 quality consulting capabilities as well as new value as a hybrid comprehensive securities group as our basic policy, and are aiming to be a pioneer in the financial and capital markets that create the future.

Risks and Opportunities Facing Daiwa Securities Group

Increased "uncertainty" associated with social change



Individuals

Era of living to 100

- ◆ Responding to longer lifespans
⇒ Health, nursing and economic problems
- ◆ Estate planning
- ◆ Diversification of old age lifestyles

Increasing disparity and diversity

- ◆ Destruction or life-long employment
- ◆ Expansion of income disparity
- ◆ Diversity of communication and information sharing methods



Enterprises and National / Local Governments

Dramatic changes in management environment

- ◆ Reduction of the domestic market
- ◆ Response to digital transformation
- ◆ Intensification of cross-industry competition
- ◆ Intensification of global competition
- ◆ Impact of climate change

Financial crunch

- ◆ Expansion of regional disparity
- ◆ Increase in social security burden
- ◆ Investment in obsolete infrastructure
⇒ Difficult to ensure healthy national/local finances

Daiwa Securities Group's Materiality

1 Providing added value for diverse needs

With the emergence of the 100-year life span, customer needs are gradually shifting to diverse and complex matters, including asset management, asset preservation, asset succession through inheritance and liquidation of owned properties. We will respond to the diverse needs of all our customer bases through the appropriate channels, while providing careful consulting and more accurate proposals.

▶▶ Page 24

2 Expansion of business portfolio

By leveraging its unique strengths and expanding its business portfolio, Daiwa Securities Group will create new value, meet the diverse needs of its customers, and create new value in response to changes in the environment.

▶▶ Page 37

3 Strengthen global competitiveness

Daiwa Securities Group is strengthening its global M&A network as an area in which it can expect significant growth even overseas. In Asia, where high economic growth is anticipated, we will capture the fruits of this growth through equity investments in leading local investment banks and securities companies, as well as through business partnerships.

▶▶ Page 52

4 Focusing on businesses that solve social problems

Daiwa Securities Group recognizes the Sustainable Development Goals (SDGs) adopted by the United Nations in 2015 as overarching goals to lead the world. Through our Group business, we will work actively for realization of a prosperous society by pursuing both the Group's economic values and solution of social challenges at the same time.

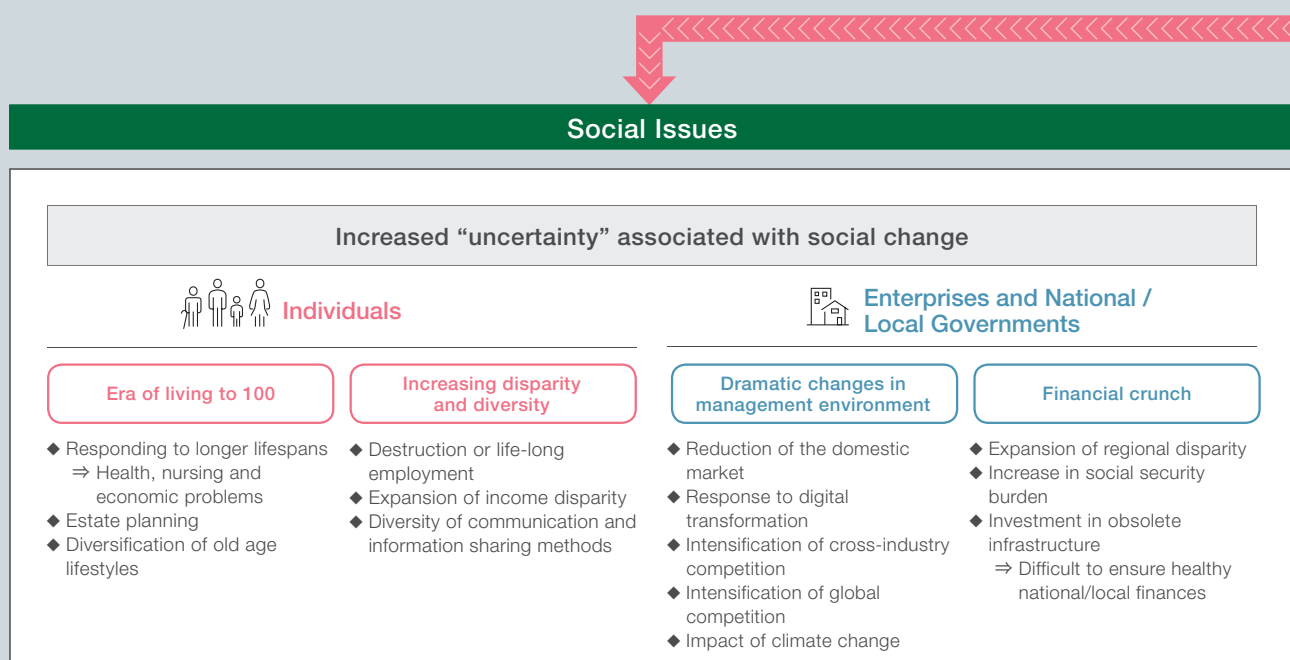
▶▶ Page 54

5 Governance strategy




Daiwa Securities Group has adopted the organizational form of a company with Three Committees with the aim of achieving a highly transparent and objective governance structure in international terms. In each committee, the majority is comprised of outside directors, one of whom serves as chairperson. Moving forward, we will continue to build and develop an appropriate corporate governance system through various measures including efforts to ensure diversity in the Board of Directors.

▶▶ Page 64

Daiwa Securities Group Value Creation Model



Daiwa Securities Group's Business Activities

Retail Division Net operating revenues ¥166.4 billion Ordinary income ¥6.4 billion		Management Resources and Strengths of Daiwa Securities Group	
Wholesale Division Net operating revenues ¥172.2 billion Ordinary income ¥38.0 billion	 Financial Capital		◆ Shareholders' equity ¥1.21 trillion ◆ Consolidated total capital ratio 21.16%
Asset Management Division Net operating revenues ¥48.0 billion Ordinary income ¥26.5 billion	 Human Capital		◆ Consolidated group employees 15,904 ◆ Certified Financial Planners 1,020 (the most in the industry) ◆ Nikkei Veritas Analysts Ranking 1st
Investment Division Net operating revenues ¥2.5 billion Ordinary loss ¥0.8 billion	 Social Capital		◆ Branches in 24 countries and regions ◆ Domestic locations: 174 as of the end of September 2020 ◆ Contact center: 820 seats ◆ Collaboration with a diverse group of alliance partners

An independent securities model where management has a strong degree of flexibility

Highly transparent and objective governance system

Corporate Principles The Daiwa Spirit

Note: Figures reflect FY2019 earnings or standing at the end of March 2020

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

Customer-oriented
KPI

Customer Satisfaction

NPS^{®*}, etc.

AUC at Daiwa Securities ¥80 trillion or more

Financial
KPI

Consolidated total
capital ratio

18% or higher

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

Solving social problems

Daiwa Securities Group's Materiality

1 Providing added value for diverse needs ▶▶ Page 24

2 Expansion of business portfolio ▶▶ Page 37

3 Strengthen global competitiveness ▶▶ Page 52

4 Focusing on businesses that solve social problems ▶▶ Page 54

5 Governance strategy ▶▶ Page 64

Against the backdrop of social change, the Group views that each material issue is a vital element in formulating its business strategy. The Group works to realize sustainable growth by solving social issues through its business activities.

Business Model



Quality No. 1



Hybrid Strategy

Creating Shared Value

Economic Value

(Figures reflect FY2019 earnings or standing at the end of FY2019
Ratings as of June 30, 2020)

Ordinary income ¥70.2 billion

ROE 4.9%

Total shareholder returns ¥55.8 billion

Rating
(Daiwa Securities Group Inc./
Daiwa Securities Co. Ltd.)
S&P BBB+/A-
Moody's Baa1/A3

Market capitalization ¥712.3 billion

Reinvestment

Performance
KPI

ROE 10% or higher
Ordinary income ¥200 billion or more

Corporate History

Since its establishment, the Group has been steadily building relationships with individual clients while encouraging the formation and development of Japan's financial markets. In consideration of our past mission statement of "being careful and bold," espoused from 1954, as well as our thoughts on prioritizing customer needs, Daiwa Securities Group cultivates products and schemes and works as a pioneer in the financial and capital market. This idea has not changed over time, and the Group was the first domestic securities company to introduce investment trust fund methods and online trading.

The response to the recent COVID-19 crisis has led to the acceleration of work style reform and digitalization worldwide, and not only the structure of industry but also society as a whole is undergoing a transformation. As we currently stand at a historical turning point, the Group will contribute to the realization of a sustainable and prosperous society through the provision of new value and the creation of shared value aimed at the achievement of the SDGs as a financial and capital market pioneer that creates the future.

Assets under custody
(¥ trillion)
80
40

1902

Commenced operations as Fujimoto Bill Broker



1900s

1990s

2000s

2010s

2020s

History of Our Activities • Organization • Business

1902

Commenced operations as Fujimoto Bill Broker

1910

Publication of the regularly issued Kinyu-Shunpo

1917

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

1919

Establishment of representative office in New York

1937

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

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

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

1970

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

1971

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

1985

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

1986

Start of Japan's first home trading with PCs

1998

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

1999

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

2004

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

2009

Entered the real estate asset management business
Daiwa Securities Group and Sumitomo Mitsui Financial Group decided to dissolve the joint venture in wholesale business

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 (Currently DC Advisory)

2018

Established Daiwa Energy & Infrastructure Co. Ltd.
Established Daiwa Food & Agriculture Co. Ltd.

2019

Established CONNECT Co. Ltd.

Transition in the Medium-Term Management Plan (2012–2020)

● 2012– “Passion for the Best” 2014

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

Basic Policies

- ◆ Return to profitability by pursuing management efficiency
- ◆ Achieve client-based high-quality earnings growth

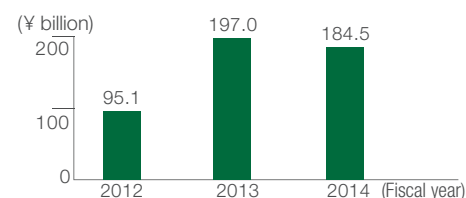
Review

In addition to achieving numerical targets (consolidated ordinary income of ¥120 billion or more and a fixed cost coverage ratio of 60% or higher), the Group built a robust business structure with shareholders' equity reaching a record high of ¥1.23 trillion. The amount of stable revenues in the fourth quarter of FY2014 expanded 1.7 times compared with the fourth quarter of FY2011.

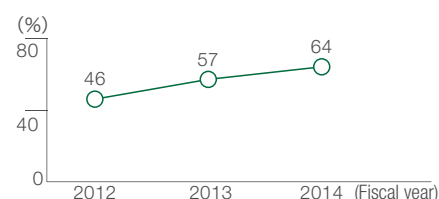
KPI

- ◆ Consolidated ordinary income
- ◆ Fixed cost coverage ratio

Ordinary income



Fixed cost coverage ratio*



* Fixed cost coverage ratio = Stable revenues such as investment trust agency fees and wrap account services fees ÷ Fixed costs

● 2015– “Passion for the Best” 2017

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

Basic Policies

- ◆ Pursue best quality
- ◆ Dramatically expand our customer base and revenue
- ◆ Support the sustainable growth of companies and the development of new industries

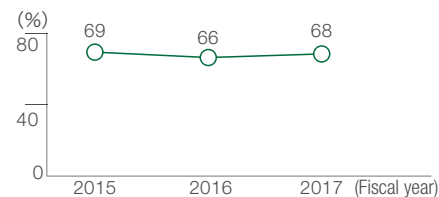
Review

While the numerical targets (ROE of 10% and a fixed cost coverage ratio of 75% or higher) are still a step away, we have increased the degree of completion of our goal under the previous medium-term plan to establish a robust business structure immune to the external environment by expanding and diversifying stable revenues.

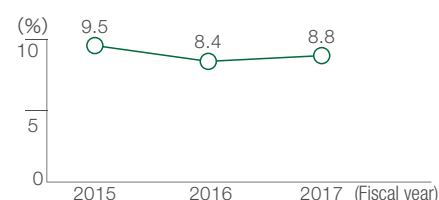
KPI

- ◆ Fixed cost coverage ratio
- ◆ ROE

Fixed cost coverage ratio



ROE



● 2018– “Passion for the Best” 2020

A financial and capital market pioneer that creates the future

Basic Policies

- ◆ Providing high value-added solutions through the use of “Quality No. 1” consulting capabilities
- ◆ Providing new value as an integrated securities group with a hybrid business model

KPI

Customer-oriented KPI

- ◆ Improve customer satisfaction (NPS, etc.)
- ◆ AUC at Daiwa Securities ¥80 trillion or more (as of the end of FY2020)

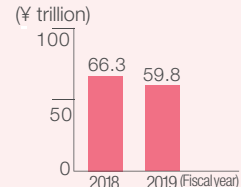
Financial KPI

- ◆ Consolidated total capital ratio 18% or higher

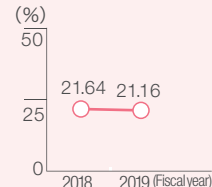
Performance KPI

- ◆ ROE 10% or higher
- ◆ Ordinary income ¥200 billion or more

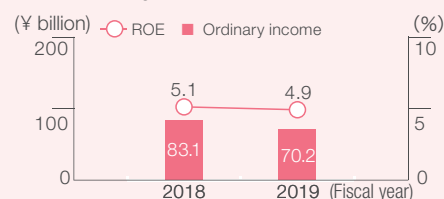
Assets under custody



Consolidated total capital ratio



ROE•Ordinary income



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

A financial and capital market pioneer that creates the future

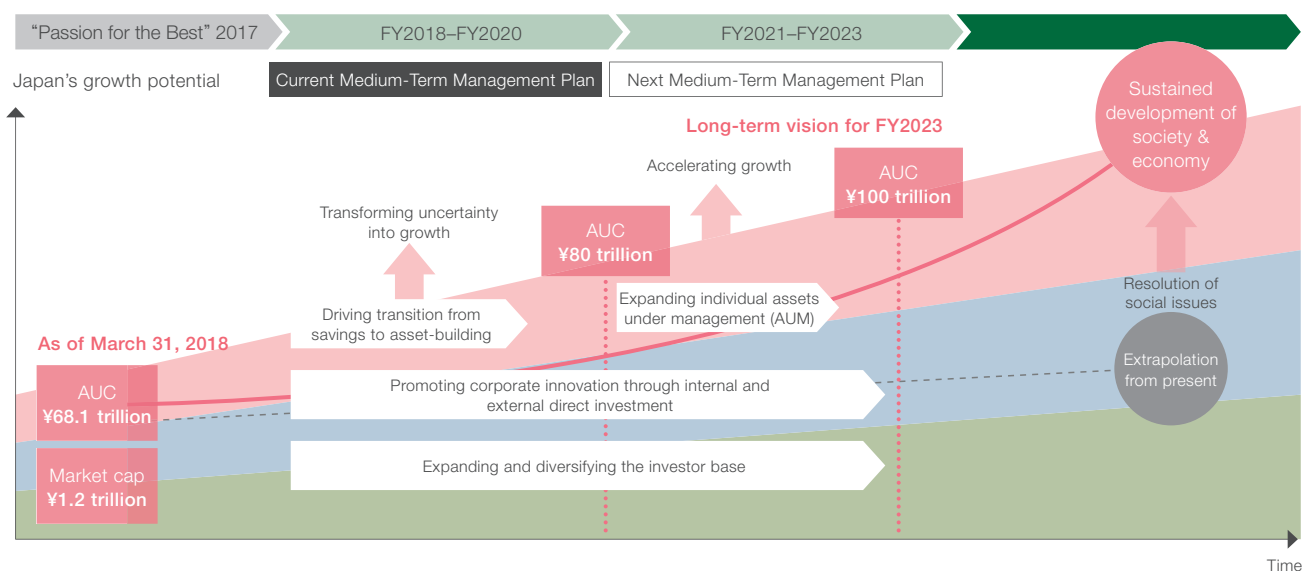
Looking toward sustainable growth, Daiwa Securities Group formulated our Medium-Term Management Plan “Passion for the Best” 2020 based on the perspective of what action we should take as our business strategy for the up-coming three-year period.

Our core mission in the securities business is to support

asset formation that provides various opportunities to our customers and brings them closer to the goals that they pursue. The Plan sets the degree of customer satisfaction as an important KPI, and we will improve the strength of the bonds that we share with our customers in order to secure a competitive edge over the long term and into the future.

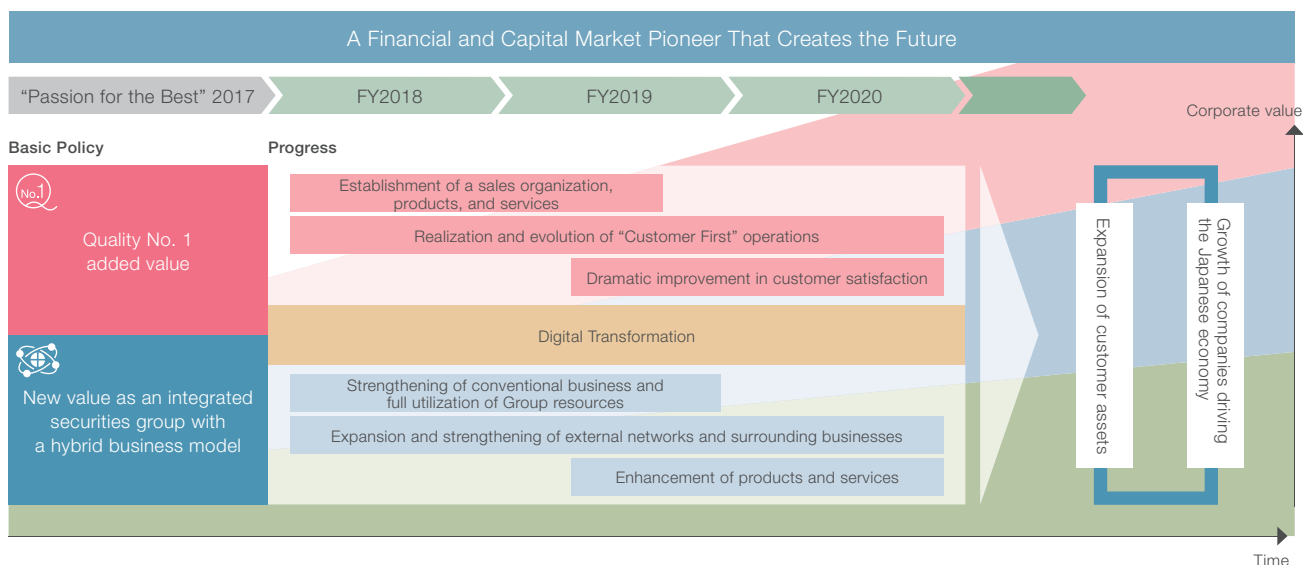
Please see the Message from the CEO in the Integrated Report 2018 for details with regard to our Medium-Term Management Plan.
https://ssl4.eir-parts.net/doc/8601/ir_material13/141759/01.pdf

Direction for the Future

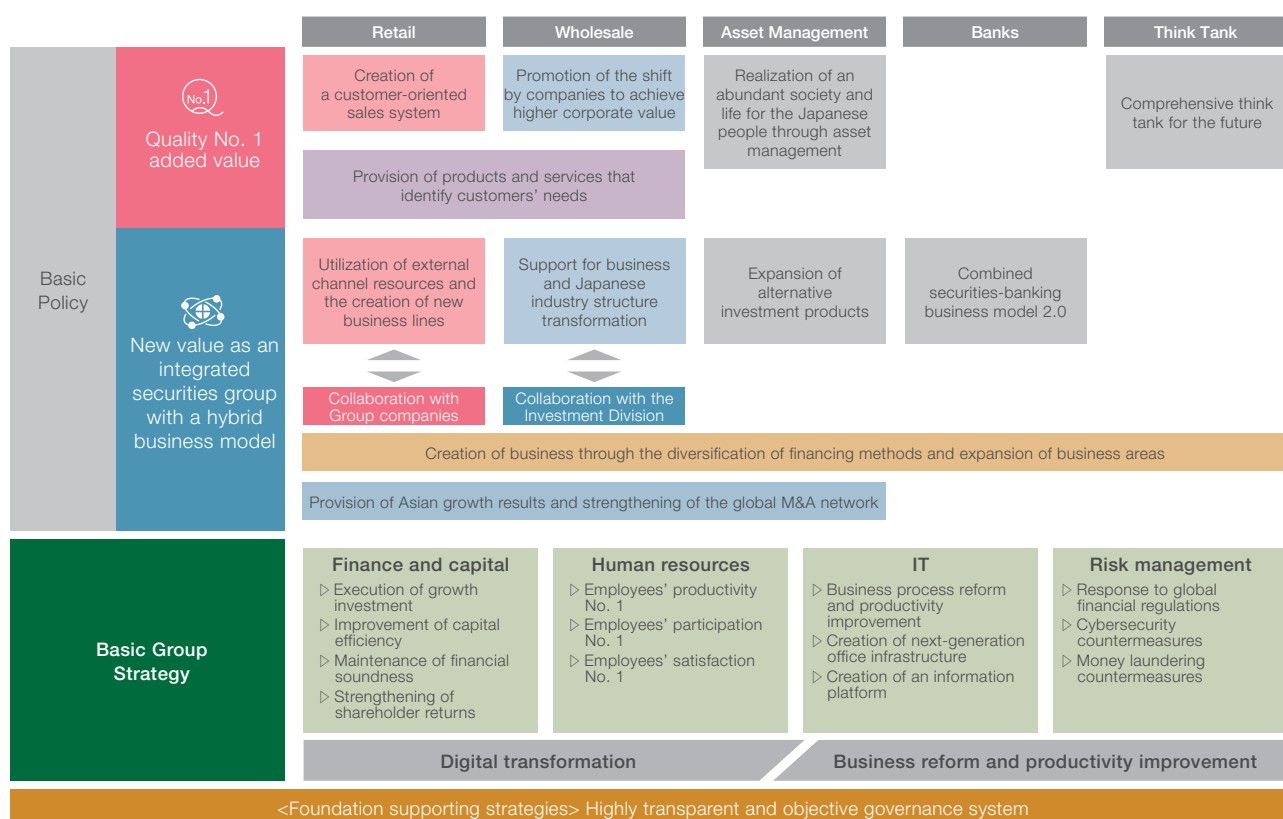


Framework of the Medium-Term Management Plan

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



Basic Policy and Key Themes for Each Business Line



Progress of KPIs

		Target (FY2020)	FY2019 Progress
Customer-oriented KPI	Customer Satisfaction	NPS, etc.	No. 1 in the face-to-face securities section*
	AUC at Daiwa Securities	¥80 trillion or more	¥59.8 trillion
		Monitoring indicator: Work Motivation Survey	
Financial KPI	Consolidated total capital ratio	18% or higher	21.16%
		Monitoring indicators: Liquidity coverage ratio, net stable funding ratio (NSFR)	
Performance KPI	ROE	10% or higher	4.9%
	Ordinary income	¥200 billion or more	¥70.2 billion
		Monitoring indicators: Fixed cost coverage ratio, operating efficiency ratio/digitalization index, earnings of overseas divisions	

* NPS benchmark survey announced by NTTCom Online Marketing Solutions Corporation in October 2019

Message from the CEO

We will continue to embrace change as opportunity, and create the future as a financial and capital market pioneer.

Seiji Nakata
President and CEO
Daiwa Securities Group Inc.



Note: The following is from an interview conducted in early June 2020.

Digital Transformation (DX)

The key is finding the optimal balance between remote and face-to-face workstyle options

The COVID-19 pandemic has brought about a fundamental rethinking of the way companies do business, and Japanese society now stands at a major crossroads. Working remotely, mainly from home, has become widespread nearly overnight, although the tools for video conferencing have been around for a long time. Telecommuting has caused us to recognize anew the IT tools at our disposal, and we have become aware in a very tangible way of the notion of digital transformation (DX). As its working population continues to decline, Japanese society must find ways to increase its per capita labor productivity. In that sense, the pandemic has served as a kind of catalyst, suddenly getting the society moving in the direction of the change it should have been pursuing. We've also discovered that webinars can take the place of seminars and other non-interactive events. It's important to take full advantage of DX while also seeking the ideal mix with face-to-face working styles. Going forward, we are considering what the best ratio of telecommuting should be, taking into consideration individual differences in ease of working and in job functions. In the context of telecommuting, we also have to look at clarifying job descriptions and visualizing work content, and building a system that allows the company to monitor employee output.

On the other hand, during the period in Japan when people were asked to refrain from going out, I myself was once again struck by the fact that the more widespread digital society becomes, the more important face-to-face meetings are, where you can get a feel for other people's moods.

It seems to me that we have a precious opportunity to rethink the value of face-to-face encounters, and learn to differentiate more effectively between video conferencing and other online communication, and real-world communication where we actually meet in person. A little while ago, thinking ahead about the planned Tokyo Olympic and Paralympic Games, and the related issues of traffic congestion and security, the Group already assumed the time was coming when telecommuting would become commonplace. So, two years ago, we initiated an upgrade to replace the company's core system with a cloud platform. At the same time, we began distributing 2-in-1 devices* to allow employees to do the same work remotely as they can do in the office. We distributed devices to all sales representatives by the end of December last year, and to employees at the head office and other departments by the beginning of March this year. So, we already had the office infrastructure in place for telecommuting. A 2-in-1 device allows access to the Group's core system at any time, anywhere, and securely. It is already possible to open accounts, make proposals, and receive and place orders. This summer, by making all contract documents paperless, it will be possible to handle every aspect of a transaction, including execution, for nearly all products, even wrap accounts. I'm very proud we were able to build an infrastructure which gives us a competitive advantage even among major financial institutions.

* Portable device that can be used as either a laptop or tablet.

Message from the CEO

FY2019 Summary

Making progress on earnings structure reforms and a hybrid strategy in a tough business environment

Here, I'd like to look back at FY2019. During the year, individual investor trading value on the Japanese stock market was at its lowest level since the start of Abenomics in 2012, as seen on a full-year basis. Under these conditions, the Group's overall business performance was down compared to FY2018 in terms of revenues and ordinary income. However, amid significant market fluctuation in the second half, we saw a recovery in revenues from the Wholesale Division, leading to higher revenues and ordinary income over the first half. Our three-year Medium-Term Management Plan sets out three key performance indicators (KPIs). In terms of the most essential, customer-oriented KPI, our aim in FY2019, Year Two of the Plan, was to further evolve our customer-oriented sales framework. This included raising our customer satisfaction scores, as measured by the Daiwa version of NPS (a customer satisfaction index). We spent considerable time getting all our employees on board with the NPS tools. Ever since I took office as CEO in April 2017, I keep repeating the same message wherever I go in the company: "It's no longer about competing only for sales results. Unless we really consider the needs of customers and their issues, and seek to improve customer satisfaction, and unless sales representatives are creatively motivated, neither our company nor our employees can be sustained." Although it's happening bit by bit, we are seeing changes in the sales staff's awareness and behaviors. As they better grasp the issues and needs that customers are facing, their ability to make proposals and the quality of their follow-up are improving. This is leading to a greater volume of large transactions such as wrap accounts, as well as inheritance, real estate, and other solution proposals. In an NPS survey conducted by an external research firm in late February this year, as with a similar result in late August last year, the Group obtained the highest score among the top five full line securities firms in Japan.

Assets under custody declined to ¥59.8 trillion as

of March 31, 2020 reflecting a significant downfall in stock prices. However, the inflow of assets remains much higher than anticipated in the medium-term plan. The consolidated total capital ratio, our financial KPI, was 21.16%, exceeding our target of 18%. Also in March, we issued our first ever unsecured perpetual subordinated bonds (AT1 bonds) in the amount of ¥150 billion, to expand our Tier 1 capital and maintain financial health. We continued to face challenges with our performance KPIs, which are very difficult to achieve in the current adverse business environment. To improve business performance, I want to see the Group push forward with the twin strategies set out by the Medium-Term Management Plan of Quality No. 1 consulting capabilities and hybrid strategy coupled with reforms to the income and expense structure. I'll come back to the hybrid strategy later, but for now I want to say that the aim of this strategy is not mere diversification or investment. At the end of the day, the goal is to stabilize group-wide earnings by diversifying our sources of income while at the same time being a means of increasing earnings in our traditional securities business. Ordinary income from hybrid business grew steadily, from ¥15.1 billion in FY2018 to ¥16.6 billion in FY2019. With the investment phase largely completed, to further reinforce the hybrid strategy, we are now turning our sights to enhancing Group profitability and strengthening the business portfolio, and along with it our business management system.

Our investment banking business was affected by the COVID-19 pandemic. In March and April, a string of planned IPOs and POs were either postponed or suspended altogether. Still, IPOs continue to be positioned as a key business area in the Plan, and since we believe that revitalization of the Japanese economy can't happen without the creation of excellent new startup firms, we will continue to aggressively support startup financing. Moreover, the investment banking business has significant future growth potential, although the immediate need for

companies is to secure liquidity. To this end, given the current ultra-low interest rate climate, we expect to see expansion in the debt financing market, including subordinated debt and other corporate bonds.

Next, there is growing need among companies seeking to restore damaged balance sheets. While many firms saw a surge in equity financing during the global financial crisis of 2008, as Abenomics brought about economic expansion, the internal reserves of companies also increased. We expect that part of the fallout from the coronavirus crisis will be that companies will distinguish more sharply between core and non-core businesses, or identify more businesses for divestment, which will lead to an increase in industry realignment and M&A activity, thus yielding more opportunities for us to make proposals. Rather than trying to cover everything from large- to small-scale acquisitions, considering where our size and expertise bring us the greatest competitive advantage, we have grown the business by focusing on mid-cap M&A projects in the ¥50 billion range. We already have a global system in place to achieve the number one spot in the worldwide mid-cap market.

Meanwhile, in the retail business, the full-scale introduction of 2-in-1 devices has created more opportunities to reach out to customers, both by reducing the travel time needed to meet with clients and by streamlining paperwork. In fact, during the “stay home” period in April and May, the number of remote sales approaches was nearly 1.5 times the number a year earlier. I think it’s even possible to increase the time spent in customer outreach by



30% or more from current levels. For a while now I’ve been saying, “Even if it’s only 10 minutes a day, sales representatives should set aside time from routine work to make contact with new clients.” Even small daily differences like that bear fruit over time. Indeed, as the saying goes, “persistence pays off”. On this point, if working remotely can free up an hour a day, that amounts to 5 hours a week, or more than 20 hours a month. The time thus freed up should enable significant improvements in productivity. In addition to manpower, I think there’s also a lot of room to pare down real estate costs by optimizing office space, as we make use of telecommuting to consolidate the middle and back office functions of sales offices.

▶▶ Page 27 Branch strategy

The SDGs

Helping to solve social issues through securities businesses

To reflect the fact that the active pursuit of the Sustainable Development Goals (SDGs) is at the heart of management for the Daiwa Securities Group, I chair the SDGs Promotion Committee. When the U.N. adopted the SDGs in 2015, the worldwide average economic growth rate was above

3%. Even in such relatively favorable conditions, the U.N. identified 17 social issues to be addressed. I can only assume that the global coronavirus pandemic will add to the issues we face. Among the SDG categories, there is particular emphasis on social issues related to the environment, such

Message from the CEO

as climate change caused by global warming. Of course, there's no doubt that environmental issues are pressing. However, to my mind the biggest social issues to be resolved are poverty and disparity. When all children aren't afforded the same potential for a bright future, that calls into question a country's long-term prospects. The Group has worked for many years to help solve the problem of child poverty. A recent example of our efforts is the issue in June of unsecured bonds targeting retail investors. We issued ¥75 billion of the notes, nicknamed Daiwa Securities Group Future Support Bonds, with 0.15% of the proceeds, amounting to ¥112.5 million, going to support children impacted by the coronavirus. In addition, the Group's banking subsidiary, Daiwa Next Bank, has been offering social contribution-type "'Ouen' (Supporting) Term Deposits." This initiative received a Special Award at the 3rd Japan SDGs Award ceremony, held by the SDGs Promotion Headquarters chaired by Prime Minister Abe. The total balance of Daiwa Next Bank's *Eraberu Yokin* ("choosable deposits") including "'Ouen' (Supporting) Term Deposits" has risen, mainly owing to contributions from corporate clients who support their objectives, and now stands at more than ¥100 billion. We have also started offering "'Ouen' (Supporting) Term Deposits" in support of organizations that help children affected by COVID-19. Going forward, the Group will actively propose, support, and promote social bonds, green bonds,

and other types of fundraising for social issues.

Even in Japan, not many years ago, one out of seven children faced relative poverty. Now, with the impact of COVID-19, there are concerns that the problem of relative poverty will become one of absolute poverty. My interest in the issue of child poverty is deeply related to my own experience. When you think of an entrance ceremony for kindergarten, you imagine all the parents excited about their children dressed up in their fine clothes. But years ago, at the kindergarten my child attended, there was a children's home next door. I was shocked to realize how much difference there was between children of similar age. At that time, I'd be hard pressed to say that relative poverty was widely recognized as a social problem in Japan. This personally made me want even more to support children's homes by donating toys and other items. While the support of just one person or one company is small, if the circle expands, it can eventually become a great force for change. Going forward, I would like to enable a bright future for as many children as possible by supporting organizations that contribute to the SDGs. As problems facing the Japanese economy deepen in the COVID-19 crisis, I feel more strongly than ever the need for the Daiwa Securities Group to redouble its efforts to help resolve social issues.

▶▶ Page 54 Focusing on businesses that solve social problems

Pursuing a Hybrid Strategy

Strategies to ensure that the Group survives and flourishes

Although we can't currently commit to all 17 SDG items, two years ago, for example, we established a wholly owned subsidiary, Daiwa Food & Agriculture (DFA). The Group, by providing risk money and deploying AgriTech (Agriculture technology) such as climate control systems and agricultural robots, is helping to increase farming productivity. We intend to be actively involved not only in agriculture but also in businesses that lead to regional revitalization. Securities companies aren't able to lend money directly

like banks do, but we can offer support and business activities that draw on the capital markets as a whole. For example, we can create capital cycles that connect people at various levels who share the same aspirations, such as people with the capacity to provide financial support, people who have extensive support expertise and knowledge, and people dealing directly with a social issue. I believe this is something a securities company both can and should do. Our ability to expand business activities that

contribute to the SDGs stems from the fact that the Group doesn't belong to any particular capital group, and thus can access resources in all directions.

In addition, the hybrid strategy entails keeping the securities business at the core of the Group, while also actively developing businesses in fields with a different risk profile, enhancing our ability to continuously generate stable earnings. The strategy has two facets: the securities business-type and the alternative-type hybrid strategy. The former involves alliances with the Japan Post Group and with Credit Saison, Shinkin Central Bank, regional banks, and other partners. The latter indicates our efforts to acquire stable cash flow from invested assets, while looking forward to ways we can leverage our securities expertise to create and sell new financial

products. In addition to DFA which I mentioned earlier, other investment ventures include Daiwa Energy & Infrastructure in the field of renewable energy; Good Time Living, which manages nursing care facilities; and collaboration with the Samty Group, a comprehensive real estate business operator. We have also recently formed a business and capital alliance with marketing company Katana, and are looking into investing in amusement parks and other leisure and commercial facilities that contribute to regional revitalization. It is a basic tenet of management to grow businesses where you have a competitive advantage, but I am convinced that the hybrid strategy we are pursuing is the only way that the Group can survive while drawing on its size and business expertise to develop global businesses.

▶▶ Page 38 Hybrid strategy

Domestic Retail Business

Leveraging our strengths as an integrated securities group to meet diversifying needs

Now, looking at our core securities business, especially in the retail business, we see great potential. In Japan, which is becoming an even more super-aged society, about 60% of the ¥1,900 trillion of total individual financial assets are held by people 60 and over. This proportion is due to increase to 65% in 10 years and 70% in 20 years. Looking even farther ahead, the situation will largely stay the same: In short, it's certain that the bulk of financial assets will remain in the hands of the elderly. There are growing needs among the elderly for consulting services such as asset preservation, business succession, and inheritance. So, there are great opportunities in the face-to-face businesses in which we excel. Moreover, Daiwa Securities also has dedicated employees called *Anshin* ("peace of mind") Planners, who are in charge of customers aged 75 and over. We are sure to see an increase in so-called "digital natives," or IT literate younger people, customers now in their 30s, for example, who will be in the over-60 group 30 years from now, who are more comfortable online and may not require face-to-face

service for their routine transactions. One initiative to reach such younger clients, which is a challenge for the Group, is CONNECT, a wholly owned subsidiary providing smartphone-based financial services. CONNECT started service in July 2020. For clients interested in beginner-level asset formation, CONNECT offers an odd-lot trading unit called *Hina Kabu* ("little bird stock"), while for active traders, the company is planning a product lineup that includes IPO subscriptions, a strategic focus of the Group. In addition, all customers receive a certain number of commission-free coupons every month, and also have access to a dedicated deposit account linked to Daiwa Next Bank, which makes possible the immediate transfer of funds.

On the other hand, we assume going forward that even elderly customers, who rely largely on face-to-face services, will do more and more multi-channeling. Wealthy people living overseas are a typical example, but there are some clients who want to leave asset management entirely to professionals, while others let the pros manage some of their assets

Message from the CEO

while they manage other assets themselves. Moreover, we expect client needs to branch out, so that in some areas clients will do transactions entirely online while in other areas, say inheritance issues, they will demand face-to-face consultations.

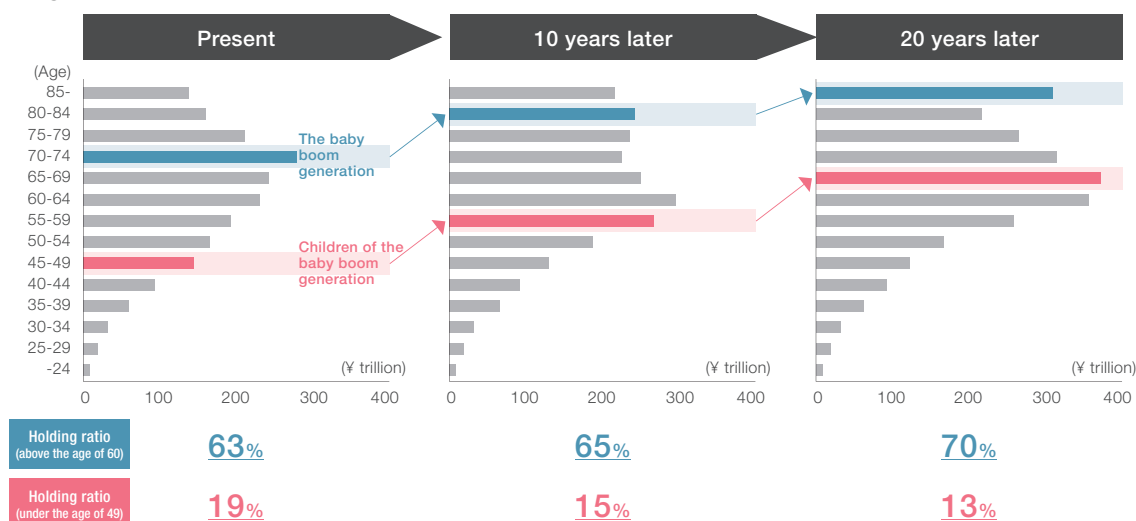
I think the ability to fine-tune products and services to meet various needs and provide services seamlessly, from CONNECT targeting younger clients to face-to-face consulting focusing on elderly clients,

represents the real advantage of an integrated securities firm like Daiwa Securities Group. By laying out the framework for offering the right products and services according to the channel required by the customer, we will be able to provide higher-quality consulting, more efficiently. Looking 10 to 20 years down the road, it's possible that no industry has the potential to grow as much as the securities business.

▶▶ Page 24 Providing added value for diverse needs

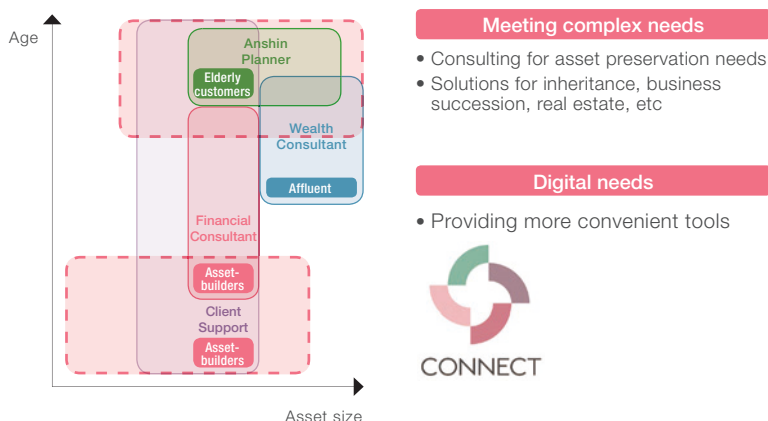
▶▶ Page 48 CONNECT

Long-term Forecast of Household Financial Assets



Source: Compiled by Daiwa Securities Group Inc. based on Komamura Kohei (2019) "Challenges of Aging Society and Future Role of Financial Gerontology" "Quarterly Personal Finance", National Institute of Population and Social Security Research "Future Estimation of Japanese Households (National Estimation)" (2018 (Heisei 30) estimation), Bank of Japan "Funding Cycle Statistics", Ministry of Internal Affairs and Communications "National Consumption Survey"

Providing Products by Optimizing Channels



The Future of Daiwa Securities Group

Combining economic value creation and social value creation at a higher level

In the near term, Daiwa Securities Group, while keeping traditional securities business at the core, will further develop and strengthen the hybrid strategy we are now pursuing, with the aim of becoming a diversified financial group. Moreover, we will ensure that all business we do contributes to the SDGs, and at the same time will combine the creation of economic value with the creation of social value at an even higher level. To sustain this momentum will require a shared philosophy and mindset among all our employees.

When I joined Daiwa Securities in 1983, Sadakane Doi was President and Yoshitoki Chino was Chairman. The two of them used to inspire the whole company with rousing phrases such as “Be meticulous and bold” or “intelligent wildness.” Daiwa Spirit is the current equivalent of this mentality. The phrase Daiwa Spirit was formulated in 2008 when I was the Head of Planning, and consisted of 6 major themes and 14 goals. It aims for us to be true professionals with unmatched speed and a positive attitude that turns hardships into opportunity, so that we can continue to pioneer products and services in financial and capital markets.

One inspiration for the thinking behind the Daiwa Spirit may have come from the Kyocera Philosophy. When I was in the Corporate Institution Department in my thirties, one of our clients was DDI Corporation (now KDDI), which was started by Kyocera's founder, Kazuo Inamori. We were pleased to be able to help structure a public stock offering for that company. But what I'm most thankful for are the many valuable

lessons and insights I learned from Mr. Inamori. It is well-known that he resolved never to do business in any way that deviated from Kyocera's philosophy, and before he entered into the telecommunications sector, he examined himself, asking, “Is my motive virtuous or selfish?” Wherever I go in the company I've always said that “the strength of an organization is not its collection of technical things such as individual skills or knowledge, but whether or not it is held together by a strong common bond and by trust, both vertically and horizontally, and between superiors and subordinates.” Whether it's a company or an individual, I think it's important to have a consistent philosophy and spirit, to faithfully put these into practice, and to push ahead with simple honesty.

FY2020 is the final year of the Group's current three-year Medium-Term Management Plan, and a new Medium-Term Management Plan will start in FY2021. The following FY2022, we will mark the 120th anniversary of Fujimoto Bill Broker, our predecessor organization, which was established in 1902. I hope you will look forward to watching the Daiwa Securities Group continue to evolve with the times.

中田 誠 司

Seiji Nakata

President and CEO
Daiwa Securities Group Inc.

Message from the CFO

We are striving for the optimal balance of growth investments, capital efficiency, financial health, and shareholder returns, aimed at improving sustainable corporate value.

Eiji Sato

Executive Managing Director and CFO
Daiwa Securities Group Inc.



FY2019 Summary

Strong performance in the Wholesale Division, despite lower ordinary income; steady progress in income and cost structure reform

In FY2019, net operating revenues were down 3.4% over the previous fiscal year to ¥426.2 billion, while profit attributable to owners of parent decreased 5.4% to ¥60.3 billion. In the Retail Division, sales of stock investment trusts and other products declined amid generally weaker individual investor activity, while both revenues and income increased in the Wholesale Division, as fixed income, currency, and commodities (FICC) drove revenues in the Global Markets. Return on equity (ROE) was 4.9% while the target of the Medium-Term Management Plan "Passion for the Best" 2020 was 10%. We will strive to secure an ROE that exceeds the capital cost and improve sustainable corporate value.

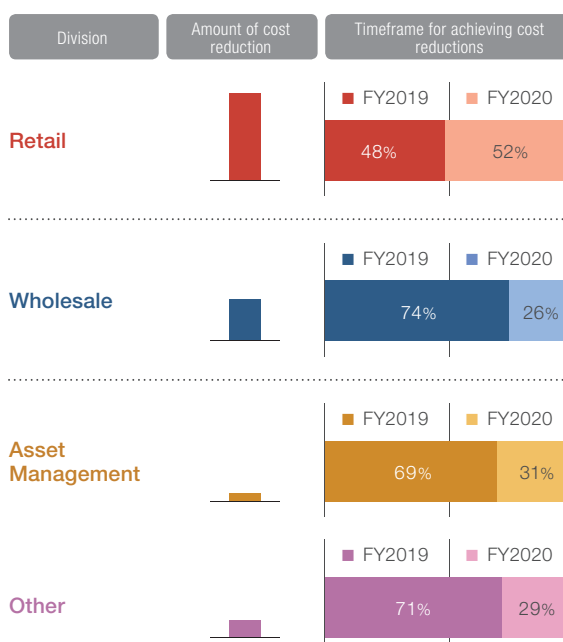
Overview and Progress in Income/Expense Structure Reform

Making smooth headway in cost reductions, carrying out further reviews of the cost structure

The securities industry continues to face a harsh profit environment. In line with the Plan which started in FY2018, the Group is pursuing reforms in the Retail Division, sales reform, productivity improvements, and greater operating efficiency. Furthermore, in FY2019 we began implementing our income/expense structure reform plan, conducting a far-reaching review of the cost structure of existing businesses to bring down costs, and boldly reallocating management resources to strategic hybrid businesses as set out in the Plan, with the goal of achieving sustainable growth over the medium and long term.

Specifically, for the two-year period from FY2019 to FY2020, we are reassessing unprofitable businesses and services, slimming down headquarters and division functions, improving the efficiency of sales branch functions, reassessing owned assets, and cutting unnecessary SG&A expenses. Through these measures, we aim to cut costs by ¥15 billion, while increasing the top line by ¥15 billion through the reassignment of employees to strategic areas, thereby improving income by ¥30.0 billion in total.

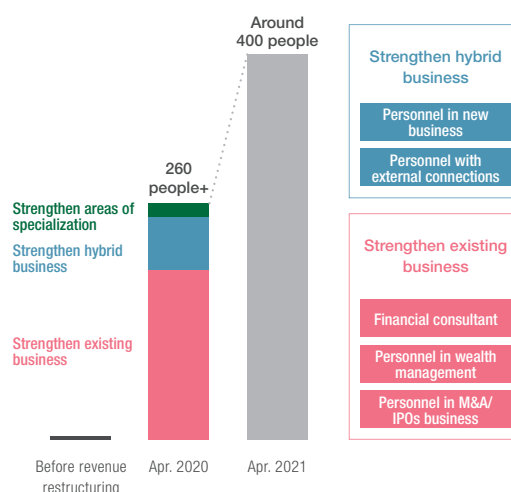
Forecast of ¥15 billion in Cost Reductions



The breakdown of the ¥15 billion in cost reductions as of FY2020 is 60% for the Retail Division, 30% for the Wholesale Division, and 10% for other areas. Steady progress is being made, with nearly 50% of the reduction targets reached as of the end of FY2019. In the Retail Division, we have relocated sales offices from the ground floor to upper floors, eliminated ATMs, made some client communications electronic, and reassessed advertising costs. About 80% or more of the cost benefit of relocating sales offices (about ¥2 billion) will be realized from FY2021 onwards, and so will be counted largely in the next Medium-Term Management Plan. Especially in a post-COVID environment, we believe there is further room for cost reductions, such as by consolidating the middle and back office functions of sales offices, taking advantage of workstyle reforms to further bring down real estate costs, integrating digital transformation (DX) into work processes, and making more communications paperless. We have set up project teams to move ahead with these measures.

Although we will continue to focus on cost reductions in FY2020, we also believe that amid the rapid advance of DX, we should make the aggressive IT investments needed to boost our competitiveness. Of course, we will strive to maximize the cost effectiveness of such investments.

Regarding our efforts to improve the top line by strategically reassigning employees from middle and back office departments to front-line positions and hybrid businesses, through measures such as streamlining head office personnel, we have accomplished over 60% of the plan (more than 400 employees). Remaining personnel will be reallocated as scheduled in FY2020.

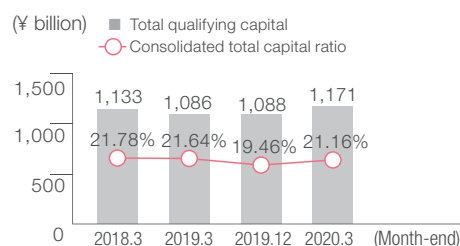


Financial and Capital Strategy

Realizing sustainable growth by securing healthy profits

I understand the basic policy of Daiwa Securities Group's financial strategy to be realizing sustainable growth by seeking an optimal balance between growth investments, capital efficiency, financial health, and shareholder returns, while ensuring healthy profits.

The First Issuance of AT1 Bond



Summary of AT1 bond

Name	Unsecured perpetual subordinated bonds with optional-redemption clause and write-down clause
Redemption Date	Perpetual (optional redemption after 5 years and 3 months, 10 years and 3 months)
Issue Amount	¥150 billion
Payment Date	March 16, 2020
Use of Proceeds	Investments for hybrid strategy, repayment of existing borrowings
Rating	BBB+ (Japan Credit Rating Agency, Ltd.)

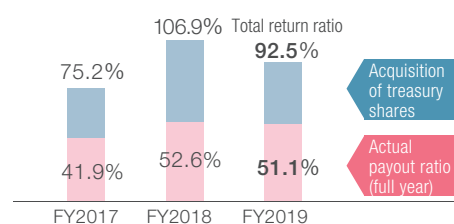


Dividend Policy • Shareholder Return

Dividend policy

- The Company will basically pay dividends semiannually at a payout ratio of at least 50% based on the consolidated financial performance.
- The Company will also consider increasing returns to its shareholders in various ways including share buybacks when it has sufficient accumulated capital to pursue further growth.

Shareholder return



Message from the CFO

Invest in Growth

In FY2019, we made several key growth investments, including investments to boost the competitiveness of existing businesses and acquisitions designed to diversify the business portfolio. With the investment phase nearly complete, we are now moving into the phase of pursuing significant business growth to expand profits.

At the same time, we have sufficient capital surplus necessary for ongoing investment, and will constantly explore investments to expand the customer base in the securities business, and also, as an integrated securities group with a hybrid business model, investments in areas with a high affinity to our core business. Furthermore, we will help to bring about a sustainable, flourishing society through the creation of shared value, stimulating the capital cycle by expanding investment in renewable energy, agriculture, microfinance, and other fields that contribute to the SDGs.

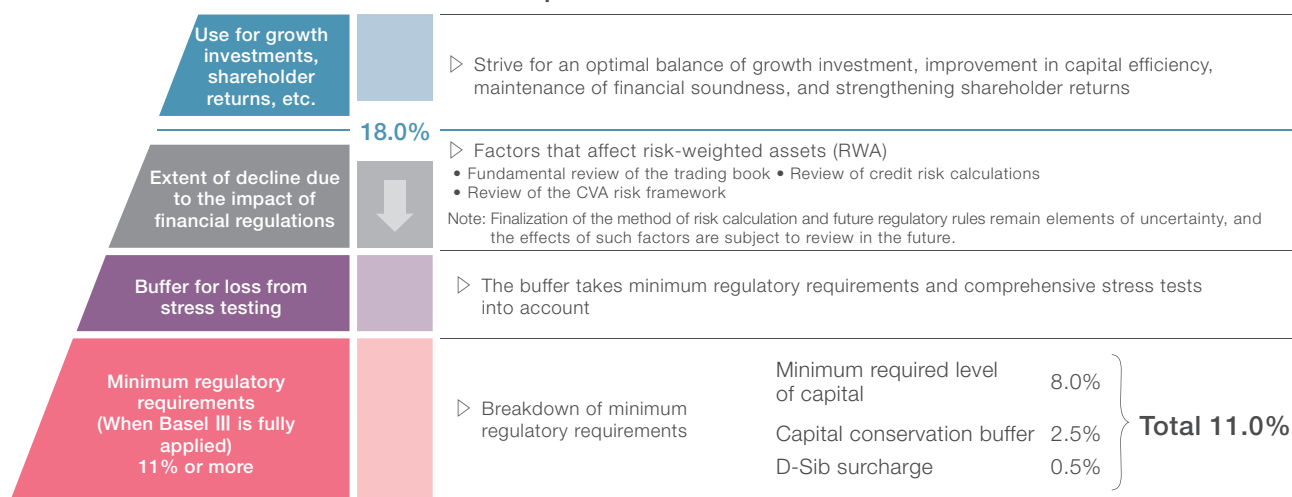
Maintain Financial Health

With regard to financial health, we understand the importance of maintaining an appropriate level of capitalization while responding to changes in the regulatory environment and securing the resources needed to invest in future business growth. We have adopted the consolidated total capital ratio as our financial KPI, and set a minimum level of 18%. This takes into account the fact that the ratio may drop by as much as 5 percentage points in the future with the full-scale implementation of the Basel III capital accord, and also includes a capital buffer that can withstand a stress test equivalent to past financial crises.

Reflecting fairly substantial growth investments, the consolidated total capital ratio decreased from 21.78% as of the end of March 2018, the start of the Medium-Term Management Plan, to 19.46% as of the end of December 2019. This was still above the minimum KPI target of 18%. However, given that investing in business expansion from a sound financial foundation is an essential factor in realizing sustainable growth as a Group, in January, we issued our first ever unsecured perpetual subordinated bonds (with a write-down clause), in the amount of ¥150 billion, thus significantly expanding our Tier 1 capital. As a result, the capital ratio as of the end of March 2020 was 21.16%, reflecting an extremely sound financial position.

View on Financial KPI

Consolidated total capital ratio: 21.16%



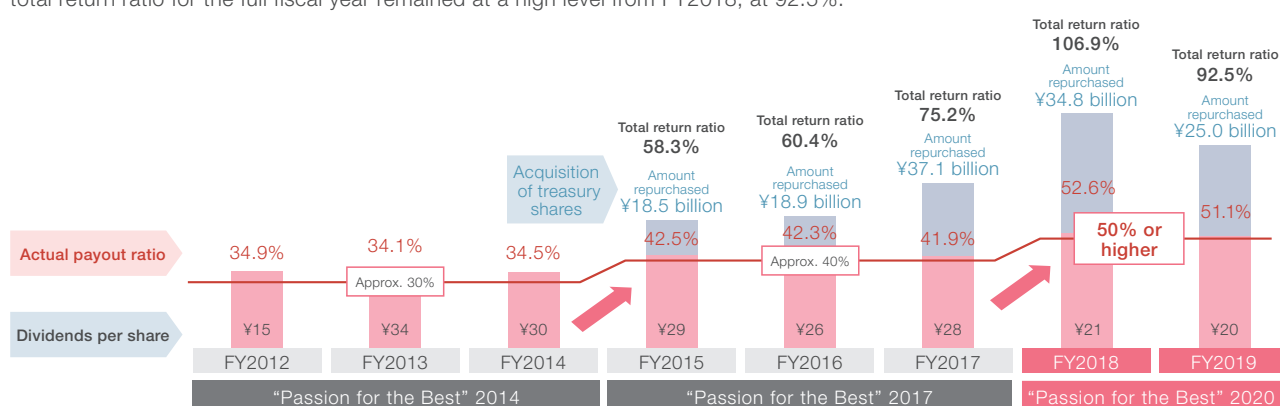
We have also adopted the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) as financial monitoring indicators. The LCR, which was phased in beginning in 2015, requires sufficient liquidity to continue operations for at least 30 days under extremely stressful conditions. As a minimum, a LCR of at least 100% is required; the Group's figures for FY2019 (calculated by dividing high-quality liquid assets by total net cash outflows) substantially exceeded this requirement.

The NSFR requires that stable capital and debt (available stable funding) exceed non-liquid assets (required stable funding), to ensure that adequate stable funding is available. The Group has taken measures to diversify its means of securing stable funding. Although implementation of the NSFR requirement has been delayed, current preliminary estimates indicate that the Group's NSFR is well above the required level.

Enhance Shareholder Returns

In terms of shareholder returns, we changed our dividend policy in FY2018, increasing the semiannual dividend payout ratio from approximately 40% to 50% or higher. It remains our policy that, when we are able to secure sufficient internal reserves for future business development and growth investment, we will consider increasing returns to shareholders in various ways including share buybacks. Such returns will be made after fully taking into consideration the impact of COVID-19 and other changes in business conditions, as well as our financial situation, regulatory trends ahead of finalization of the Basel Capital Accord, as well as share price levels, all while monitoring our credit rating.

The Group paid a dividend of ¥20 per share in FY2019. This represented a dividend payout ratio for the year of 51.1%. In addition, following the implementation of a share buyback program worth a total of ¥25.0 billion, the total return ratio for the full fiscal year remained at a high level from FY2018, at 92.5%.



Credit Ratings for Daiwa Securities Group Inc. and Daiwa Securities Co. Ltd. (As of June 30, 2020)

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

Strategic Shareholdings

Steadily decreasing: Down 26% from FY2016 to FY2019

Both Daiwa Securities Group Inc. and Daiwa Securities hold shares of other companies only when we consider such holdings to be meaningful. It is our policy to regularly examine whether shares held are of significance, and to dispose of holdings determined to be deficient in meaning with due regard to the impact on the market and other factors.

We determine significance both in terms of the economic rationale, whether earnings, dividends, and other returns associated with business partners exceed the capital cost standards we have set, as well as in terms of the purpose of the holding, including growth potential and the strengthening of business relationships. From these perspectives we then assess whether the holding will help enhance the medium- to long-term corporate value of the Group. Moreover, the Board of Directors regularly examines the significance of shares held as strategic shareholdings on an individual basis.

From FY2016 to the end of FY2019, the cumulative reduction in the book value balance of shares held as strategic shareholdings (excluding shares held for the purpose of business partnerships) reached ¥16.1 billion or 26%. We will continue to address our strategic shareholdings in light of the intent of our revised Corporate Governance Code.

Dialogue with Stakeholders

A central part of the mission of a CFO

Since I was appointed CFO in April 2019, over the past year I have had many conversations with individual investors, institutional investors, and analysts. I believe that drawing on the opinions and suggestions I get through these conversations in formulating and carrying out management strategies is one of the most important parts of my mission as CFO. Going forward, I will continue to engage in constructive dialogue with our stakeholders as I strive to continuously improve the corporate value of the Group.

Coronavirus pandemic accelerates digital transformation

Message from the CIO

Leveraging DX to further improve customer convenience and productivity



Tomoyuki Murase

Executive Managing Director and CIO
Daiwa Securities Group Inc.

Digital transformation (DX) continues to advance across countries and industries, bringing about dramatic social and economic change. Daiwa Securities Group is actively pursuing a core objective of its current Medium-Term Management Plan, which is to improve customer satisfaction and digitize our work processes. Our aim is to create a virtuous cycle in which every employee can free up more time to pursue higher value-added tasks, while expanding points of contact with customers and improving customer satisfaction. As an example, by February 2020 Daiwa Securities had finished distributing mobile business devices to all of its employees, and had put in place an office infrastructure that enables employees to support customers at any time, anywhere. This initiative actually began about two years ago, as we thought ahead to how to deal with the problem of traffic congestion during the planned 2020 Tokyo Olympic and Paralympic Games. In fact, we completed the plan ahead of schedule in response to the coronavirus pandemic, and so we quickly had a telecommuting system up and running. Even if employees were restricted from coming into the office and had to refrain from face-to-face meetings, they continued to be able to be in contact with customers. This is truly a case where the “pioneer spirit” and “speed” that are stamped into the Daiwa Spirit were on display.

In August 2020, the Group was designated as a Digital Transformation Stock Selection (DX Stock) 2020 in an initiative sponsored by Japan's Ministry of Economy, Trade and Industry and Tokyo Stock Exchange. This marks the third year in a row that the Group has been selected as a DX Stock company and its predecessor Competitive IT Strategy Company, indicating that our DX efforts are being widely recognized.

It is clear that the COVID-19 pandemic is poised to cause further social and economic uncertainty and disruption. In terms of financial products and services as well, we are seeing customer attitudes and preferences begin to change, with more customers showing a preference for online services, Web consultations, and other non-face-to-face services. I would like to move forward with even faster, more aggressive DX throughout the Group, undertaking a sweeping revision of all our processes, not only internally but also in terms of providing customer services. The Group will strive to find the optimal balance between analogue and digital capabilities, taking strategic advantage of IT and digital technologies to bring face-to-face services, a long-standing strength, to an even higher level while also reinforcing non-face-to-face services. In this way, we will continue to improve customer satisfaction, thereby increasing corporate value as well.



Examples of digital technology application and initiatives

Digitization of work processes to shift resources to work with higher added value

To both improve convenience for customers and boost internal efficiency, we are working to digitize a series of work processes, from the intake of various customer applications to internal check and registration processing. Specifically, we are expanding the range of customer applications that can be accepted using mobile business device apps, online trading systems, or e-mail, while implementing robotic process automation (RPA) and other automation and labor-saving processes for follow-up checks and registration in the core system.

These measures will free up time for employees to spend on higher value-added tasks, such as consulting with customers, which will lead to improved customer satisfaction, while also enabling the reallocation of personnel to strengthen our hybrid business areas. In addition, this has given us the infrastructure needed to continue to operate seamlessly even as our customer base expands exponentially in line with progress in our securities business-type hybrid activities, which combine our expertise with the strengths of our alliance partners.

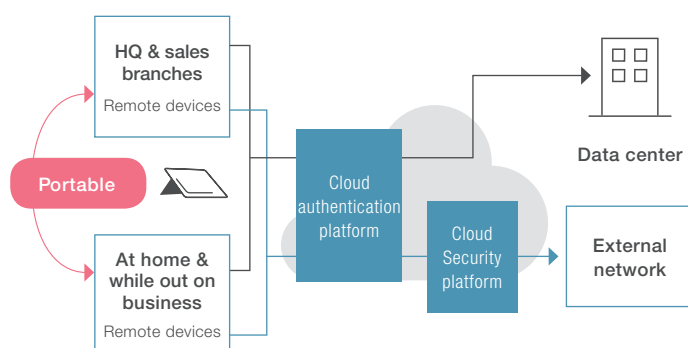
Building a business infrastructure that can support customers at any time, anywhere, securely

By February 2020, Daiwa Securities had rolled out mobile business devices to all employees, which are used whether in the office, out on calls, or at home. The devices are equipped with various sales support functions, such as accepting new account requests and other paperless applications, video conferencing for both customer meetings and in-house communication, as well as a function that can erase data in

case of a lost device and other measures against cyberattacks. Employees can work at any time, anywhere, securely, which is an essential foundation for efficient, quick contact with customers, for maintaining a healthy balance between work and childcare or care for an aging family member, as well as for ensuring business continuity in the event of a disaster or crisis like the recent pandemic.

Upgrading to Next-generation Office Infrastructure

Our office infrastructure



Characteristics 1

Internal office structure that can be used without modification while outside of the company

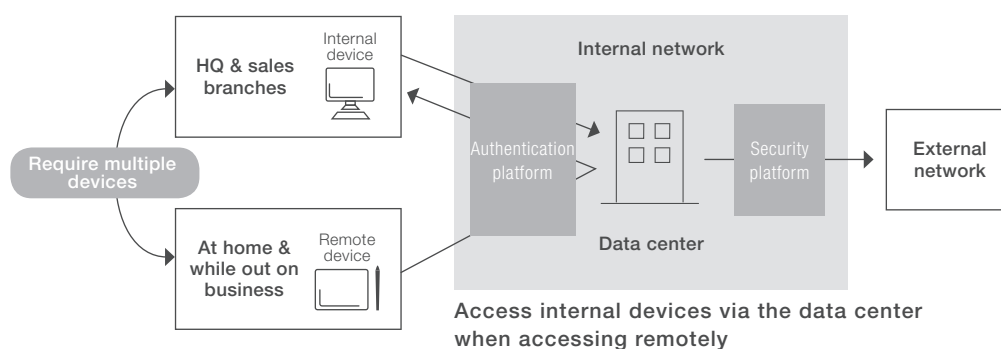
- Enables business to be conducted securely anywhere, at any time
- Enables an employee to telework with one device

Characteristics 2

Does not depend on internal network by using cloud environment

- Possible to increase capacity for simultaneous connection quickly and inexpensively
- No need for periodic infrastructure renewal

Typical remote environment



Fostering digital professionals

As IT-related markets in Japan continue to expand, we expect that there will be an increasing shortage of IT personnel, and in particular, a shortage of professionals who can handle AI, big data, IoT, and other advanced IT areas. Facing the need to make even greater use of digital technologies to reinforce our businesses in all departments and operating areas, the Group established a Digital IT Master certification program in October

2019 and, to promote the program, set up a Digital IT Office in April 2020. Our IT platform, which draws on next-generation technology, together with professionals who are well-versed in advanced digital technologies, will be the drivers bringing about DX in the Group, aiming to provide high value-added solutions and new value.

Providing Added Value for Diverse Needs

Since April 2017, Daiwa Securities Group has been raising “Quality No. 1” as one of its strategic themes for management policy while pursuing the building of a customer-oriented sales system and the provision of solutions that demonstrate advanced expertise.

To become the first choice of partner among our customers, we will work to improve customer satisfaction and the quality of information and, at the same time, continue to develop human resource strategies that anticipate a time when the capabilities of employees become a source of competitiveness.

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- 30 Daiwa Securities Group's Human Resources Strategy

Deepening of Customer-based Sales System

Message from the Head of Retail



Shinsuke Niizuma

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

In FY2017, we moved away from the so-called “product-out” sales system, by which sales goals were handed down in the traditional manner from the headquarters, and began a shift to a “bottom-up” sales system. Having introduced the Daiwa version of NPS to all branches in FY2018, we are working on sales reforms aimed at establishing a truly customer-oriented sales system.

In the years to come, it will be essential to establish a sales style that provides high value-added consulting that contributes to the pursuit of optimal profit for the customer, taking into consideration the customer's total assets, including assets such as real estate and stocks of the customer's own business for example.

By continuing these efforts and further deepening our customer-oriented sales system, we believe that we will become the customer's most preferred securities company and our profits will be sustainable and stable.

As a tool for accelerating reforms, we have introduced Asset Management Planning, which supports asset management toward the realization of customer goals. As a new lineup of Daiwa Future Designers,* this also provides individual customers with the services used by the world's most advanced institutional investors, such as portfolio analysis and risk/return analysis functions.

In light of the current situation associated with the spread of COVID-19 infections, we are continuing efforts to improve customer convenience, such as providing information by e-mail, utilizing online video conferencing, and expanding online procedures.

Going forward, we will strive to gain a deep understanding of each and every customer, assist in the building of customers' assets and in extending the lives of those assets, and will work with the aim of providing customers with peace of mind in terms of assets.

* Daiwa's asset management consulting service, which was introduced in July 2018. Before we introduced Asset Management Planning, we had conducted two product lineups: Life Planning, which proposed the optimal asset management plan to realize the ideal life plan for the customer, and Property Succession Planning, which proposed an optimal property succession plan in line with the customer's wishes based on analyses, for example, on the customer's thoughts with regard to the inheritance of assets and the status of owned assets.

Three Pillars Retail Strategy

In addition to structural changes, such as a decrease in the correlation between the market and business results, downward pressure on fees, and the aging of customers, the current securities industry is in a period of great change. These changes include intensifying competition due to new market entrants from different industries, such as FinTech companies. In contrast, the retail securities business has consistently been a growth industry even on a global basis. Since in Japan ¥1,008 trillion of individual financial assets, which equates to 53% of the ¥1,903 trillion total, lies dormant as cash and deposits, the potential of the retail business remains high. With its bottom-up sales promotion system and improvement of customer satisfaction regarded as being of equal importance, Daiwa Securities is working hard to build an operations framework entirely from the customer's perspective.

Daiwa Securities is promoting a Three Pillars Retail Strategy: (1) Quality: Ongoing improvement of quality based on the Daiwa version of NPS; (2) Segmentation: Customer segmentation and channel segmentation to cater in a fine-tuned manner to the needs of individuals and; (3) Reach: Thorough area marketing (branch strategy based on sales office expansion).

Deepening of Customer-based Sales System

The environment surrounding securities industry

Low correlation between markets and performance

Aging of society

New entrants from other industries

Pressure to lower fees for investment products

Strengthen customer-oriented business operations

Commoditization of financial products

NPS

- ▷ The Daiwa version of NPS was introduced to visualize the degree of customer satisfaction.
- ▷ **We have already introduced it at all branches.**
- ▷ We will aim for ongoing improvement.

Contacts

- ▷ Established rules to increase contact with customers.
- ▷ Analyze transaction data.

Branches

- ▷ Consolidate existing branches and put sales offices on higher floors in buildings.
- ▷ Expand the number of small, low-cost sales offices.
- ▷ Expand points of contact with customers.

No. of sales offices: 60
Total number of branches: 174 (in Japan)
(as of September 30, 2020)

Training

- ▷ Hold Quality No. 1 Meetings to develop a customer-oriented mindset among all employees.
- ▷ Establish a training program for employees who have been in the company for 3-5 years.

...No. 1 in the industry in the number of CFP certification holders: 1,020 holders
(as of March 31, 2020)

Channels

- ▷ Optimize channels according to customer attributes and life stages.

Elderly customers / Anshin Planner

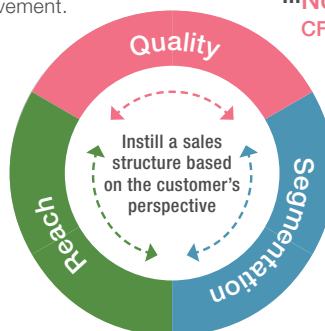
114 branches 212 planners

Asset-builders / Financial Consultants

93 branches 155 consultants
* as of April 1, 2020

Roles

- ▷ Transition from a headquarter-driven sales structure to a bottom-up sales structure driven by individual branches, based on customer needs.



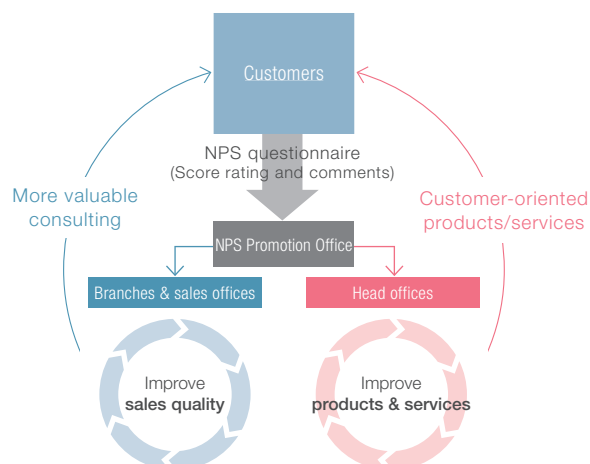
Quality: Customers' voice-based initiatives aimed at improving NPS

To serve as an index that can visualize and measure customer satisfaction more efficiently and continuously than ever before, Daiwa Securities introduced the Daiwa version of NPS to all branches in FY2018. To establish a new corporate culture and continuously improve NPS, sales branches and head offices work together to improve sales quality, products and services based on customers' voices while building the mechanism to implement PDCA cycles.

Since we believe that the very act of providing high-added-value consulting services in line with the customer's wishes will lead to improved customer satisfaction, at our sales branches we are striving to improve sales quality led by supervisor's guidance and based on the opinions of customers regarding the service provided by the representatives. By, for example, instilling the sales style centered on listening to customer needs, the average contract unit price for wrap accounts in FY2019 grew 1.4 times compared with FY2018.

In addition, customer requests are taken seriously at head office departments, and the Company is continuously reviewing and examining its products and services. Having established a new Customer Satisfaction Council at the headquarters level in FY2019 as a venue for the cross-functional discussion of response policies centered on the

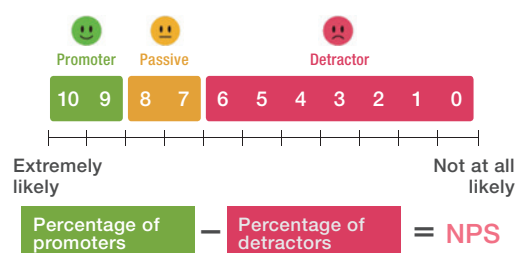
Chief Customer Officer (CCO), we are working to improve the effectiveness of product and service improvements based on the voices of customers. At meetings of the Council, items that customers often request and important items are categorized and discussed. Among the matters that we have already addressed are reviews of the funds targeted for investment in fund wraps, expanding no handling fee ATMs, and making the account opening procedures paperless.



What is NPS?

An index that quantifies the loyalty of a customer to a company, NPS provides a simple questionnaire to customers asking to what degree they would recommend a company's products and services to their own friends and colleagues, and asks customers to rate this on a scale of 0 to 10. Since NPS has a high correlation with the rate of business growth, the index is used by many global companies.

When calculating the total impact of the three-year cumulative increase in sales at Daiwa Securities in terms of the fees per person, of the customers who were classified as "detractors," "passive," and "promoters" according to their answers to the above questionnaire, there were 1.3 times more passives than detractors, and 1.8 times more promoters than detractors, so we believe that improving NPS will lead to increased sales performance.



Segmentation: Channel optimization according to customer attributes and life stage

In addition to Wealth Consultants, who are mainly in charge of affluent customers, the *Anshin* Planners, who are mainly responsible for handling elderly customers, and the Financial Consultants, who consult with customers on asset building, offer careful consulting and more accurate proposals to meet the diverse needs of customers from various demographic groups.

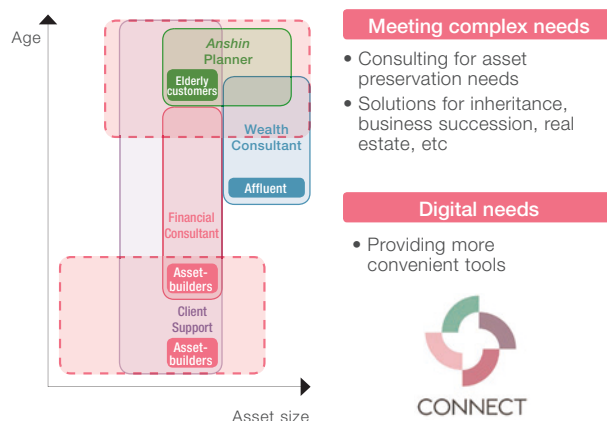
We also have Inheritance Consultants, who specialize in inheritance-related operations, assigned to the head office and all branches, and we provide each and every customer with an optimal solution to their needs with regard to asset conservation, such as inheritance and business succession.

Japan is already rushing toward becoming a hyperaged society, and it is estimated that by 2040 about 35% of the total population will be aged 65 or above. Amid the increasing importance in the financial business of providing solutions to elderly customers, customer needs are gradually shifting to diverse and complex matters, including asset management, asset preservation, asset succession through inheritance, liquidation of owned properties, and moving into facilities for the elderly. Addressing these needs through channels such as *Anshin* Planners and Inheritance Consultants,

Daiwa Securities will work to expand asset management-type, custody balance-based revenue and solutions revenue.

For those who are in their 20s to 40s who are digital natives, we have established CONNECT, a new brand of online securities specialized for smartphones that has been accessible since July 2020. We are also strengthening our approaches to beginners in investment and the asset-building generation.

Providing Products by Optimizing Channels



Reach: Branch strategy

Under the branch strategy, to expand the points of contact with customers and accurately capture diversifying needs, Daiwa Securities has been expanding small, low-cost sales offices without back office functions. By increasing the number of sales offices, we are effectively increasing the number of contacts with customers who had previously been difficult to reach.

Despite the fact that the number of personnel at sales offices represents 7.2% of those at all branches, the results for FY2019 were that, of all sales branches, sales offices accounted for 26.8% of net asset inflows and 27.7% of

ordinary income and thus contributed significantly in terms of both customer base and profit.

At the same time, we are promoting increased efficiency in branch management from the following three main viewpoints: (1) Integration and consolidation of large existing branches adjacent to each other in major cities; (2) Review roles of branch functions on first floor, increase branches that have relocated from street-level floor to upper floor; and (3) Consolidation of middle/back functions of relatively close branches and sales offices.

Deepening of Customer-based Sales System

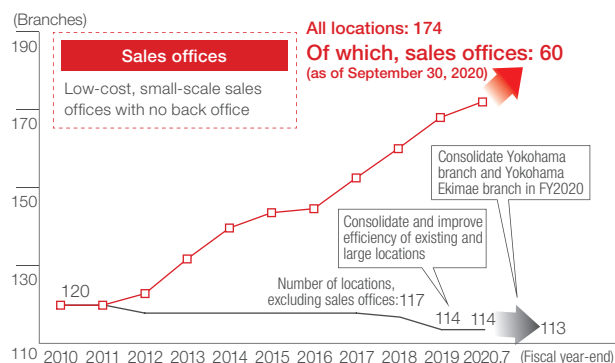
About 60% of all branches will be relocated to an upper floor and downsized.

Customers visiting a securities company have a clear purpose, such as investment or inheritance. Therefore, we are currently working to expand the private room space for consultations. The sales office is an access point for our sales representatives to visit customers in the area, and at the same time provides customers with the peace of mind that they have a store nearby.

We are also promoting paperless administrative procedures. In conjunction with the progress of paperless procedures, we can accelerate the integration of middle and back office functions, and the administrative work in branches can be significantly reduced.

Having been promoting the creation of a complete tele-commuting environment that predates the spread of COVID-19 infections, Daiwa Securities had completed the distribution of 2-in-1 devices to all sales representatives by the end of FY2019. The digitalization of documents and the use of video conferencing with customers are progressing, and some branches have begun to make offices free addresses. The optimal form has been created as a future business model for during and after any coronavirus outbreaks in the years to come.

Number of Branches and Sales Offices



Amagasaki Branch working area

Providing High Value-Added Information That Captures Customer Needs

Strengthening Research Capabilities

Daiwa Securities Group has been strengthening its research to provide products and services that capture customer needs.

We have been working to expand the base of research human resources by supporting the development of young people through the utilization of personnel shift and trainee systems*, and have strengthened the provision of information based on the SDGs and ESG. As a result, in the 2020 Nikkei Veritas equity research analyst ranking, we were placed No. 1 in the overall ranking by company for the second consecutive year. In the Nikkei Veritas ranking, eight analysts took first place, and at 44 the number of analysts ranked was the highest in the industry sector. In Institutional Investor's All-Japan Research Team survey, Daiwa Securities also won the No. 1 ranking by company, and in the corporate access provider ranking was also ranked first place in the corporate respondents' ranking and second place in the investor respondents' ranking.

The comprehensive strength of Daiwa Securities Group, including its corporate access function, is important in

obtaining the lead manager role for finance projects and advisory services for M&A, and we believe that such external evaluations will assist in obtaining projects.

* A system by which applicants are trained for a certain period and assigned according to their aptitude.




Nikkei Veritas Analyst Ranking 2020

2020 Institutional Investor All-Japan Research Team

1st place for 2 consecutive years
1st place

The Nikkei Veritas Analyst Rankings is a stock category ranking system by company.

Analysts voted top in the sector of coverage

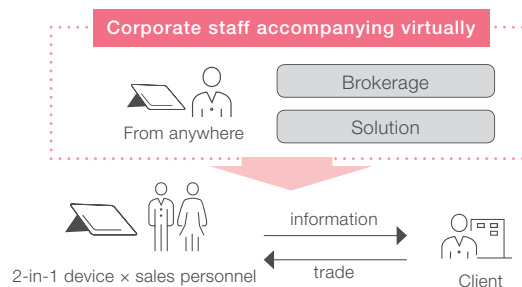
Electronics/Components  Takumi Sado Nikkei Veritas 1st (12 consecutive years) Institutional Investor 2nd	Telecommunications  Yoshio Ando Nikkei Veritas 1st (Three consecutive years) Institutional Investor 1st	Autos  Eiji Hakomori Nikkei Veritas 1st (Four consecutive years) Institutional Investor 1st
OTC & Small Companies  Jiro Kojima Nikkei Veritas 1st (Two consecutive years) Institutional Investor 1st	Auto Parts  Shiro Sakamaki Nikkei Veritas 1st (Two consecutive years) Institutional Investor 1st	Equity Strategy  Eiji Kinouchi Nikkei Veritas 1st
Biotechnology & Pharmaceuticals  Kazuaki Hashiguchi Nikkei Veritas 1st (Two consecutive years) Institutional Investor 2nd	Plant Engineering & Shipbuilding  Hirosuke Tai Nikkei Veritas 2nd Institutional Investor 1st	Construction  Hideaki Teraoka Nikkei Veritas 1st Institutional Investor 1st

High-Quality Information Provided by Leveraging Group Collaboration

For individual customers to acquire knowledge about asset formation, Daiwa Securities holds a wide variety of seminars and provides information, such as on domestic and overseas markets and inheritance, at Daiwa Securities branches and online. In making maximum use of the Internet, we are exercising our ingenuity in a variety of ways.

Even in the COVID-19 environment, we utilize 2-in-1 devices in providing information to sales representatives in the Retail Division and hold study sessions in which thousands of salespeople can participate interactively at the same time. In addition to promoting improvements in sales staff expertise, we support the timely provision of information to sales staff and customers by accompanying corporate staff virtually, using telephonic communication tools and the Web.

The webinar held by Daiwa Institute of Research in collaboration with Daiwa Securities' sales department for institutional investors was very well received, and more than 400 people participated in the seminar held online in May 2020.



Provision of ESG-Related Information

Daiwa Securities Equity Research Department newly established an ESG Research Division, which has brought together specialist human resources to respond to requests from customers (institutional investors) regarding ESG investment (responsible investment and sustainable investment). Working to provide useful ESG information in a timely manner, this Division is contributing to the sustainable development of financial and capital markets and society through, for example, the writing of reports, the setting up of ESG meetings between investors and companies, and the holding of seminars.

Many people are attending each webinar and other events, and I feel that there is growing social interest in ESG themes. As discussions on new ESG themes develop daily in Japan and overseas, we will continue to respond to the needs of investors and endeavor to provide information useful for investment decisions.



Yukino Yamada
Chief ESG Strategist

Daiwa Securities Group's Human Resources Strategy

Message from the Head of Human Resources



Kana Shirakawa

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

One of Daiwa Securities Group's Corporate Principles is "placing importance on personnel," under which heading it goes on to say that "the source of the Group's competitiveness lies in the capabilities of its employees." We are focusing on nurturing human resources as part of the Medium-Term Management Plan's basic policy. This entails providing high value-added solutions through the use of Quality No. 1 consulting capabilities.

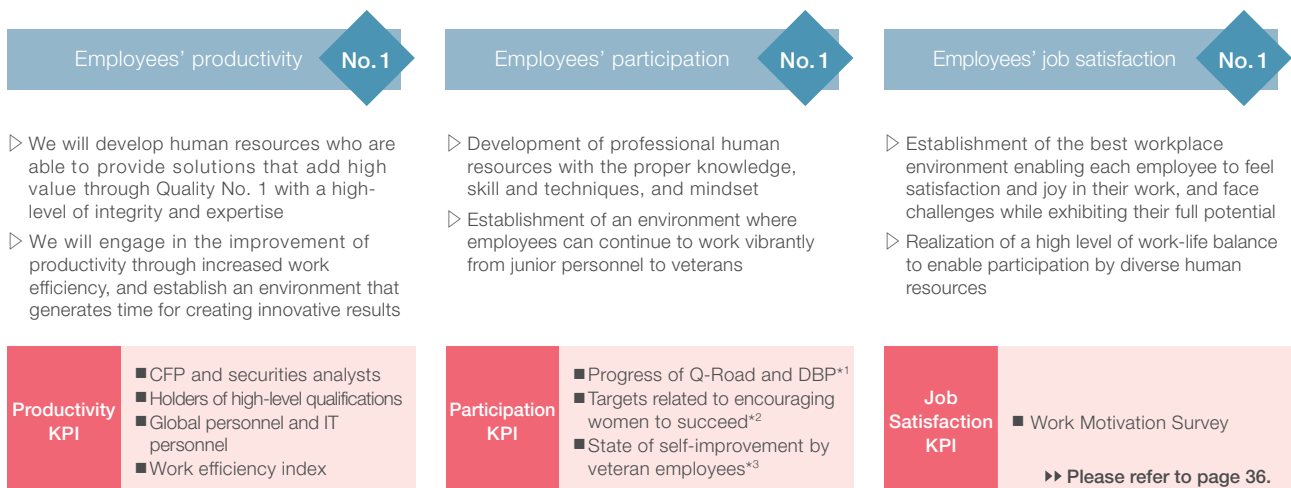
Innovative ideas and greater customer satisfaction can only be realized when employees are highly motivated. Therefore, the Group has been implementing various strategies toward maximizing the "productivity," "participation," and "job satisfaction" of our employees.

In March 2020, we formulated the No. 1 in Job Satisfaction Plan 2020. We are working to establish an environment that enables all employees to work efficiently in the limited time available and to demonstrate their full potential.

Faced with the COVID-19 pandemic, for the safety of our employees and their families, we have expanded the telecommuting system, which allows all employees to work from home. This has led to a number of insights. We believe that accelerating digital transformation (DX) and changing work styles are developments that will never be reversed. Going forward, we will continue to put in place a system that enables fair evaluation by paying close attention to the work content and performance of each and every employee.

We recognize that the ability of our employees to continue working vigorously, actively, and productively over the long term is a critical element for the expansion of the Group. We will continue to strategically implement employee health management from a management perspective. We believe that performance can only be achieved if the employees are healthy.

Human Resources Strategy aimed at No. 1 in Quality



*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

Initiatives for Quality No. 1 Human Resources Development

In order to improve employee satisfaction and realize a virtuous cycle along with improving customer satisfaction, we are implementing a range of measures, including introducing the Daiwa Securities version of NPS, taking steps to improve productivity, and promoting the SDGs. In 2018, to further advance these efforts, we introduced the Work Motivation Survey as a KPI for the job satisfaction employees gain

through taking up the challenge of high value-added work and contributing to society and customers.

In March 2020, we formulated the No. 1 in Job Satisfaction Plan 2020. We are working to establish an environment that enables employees to work efficiently in the limited time available and to demonstrate their full potential.

No. 1 in Job Satisfaction Plan 2020

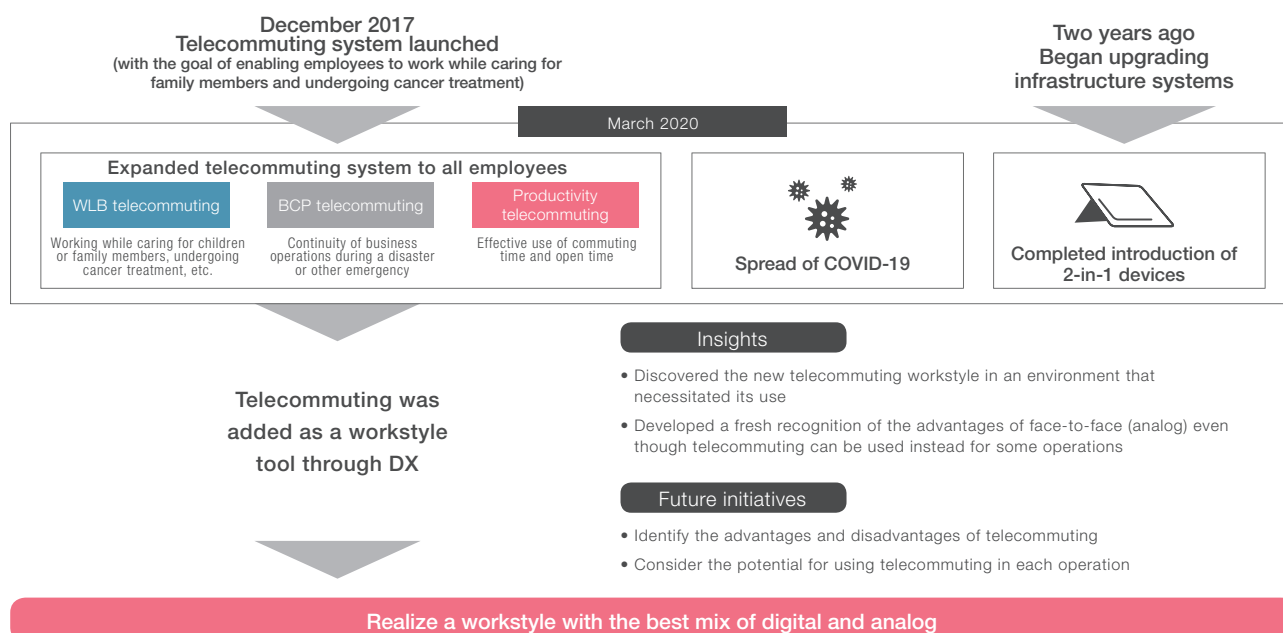
Theme	Measures
Workstyle	Establish systems and an environment that enable employees to work efficiently and demonstrate maximum performance in a limited time period ◆ Expand telecommuting system ◆ Implement SmartBiz year-round
Career development	Expand career options and establish an environment that enables employees to work actively, with higher motivation ◆ Establish a new Digital IT Master certification system ◆ Expand support for returning to work after taking childcare leave ◆ Expand the Daiwa Women's Management Forum (training program for women in management positions)
Work-life balance	Establish a system that increases employee job satisfaction and enables employees to continue working while experiencing various life events ◆ Establish a new pregnancy escort leave program and make it a general principle to take one week or more of childcare support leave

Expanding the telecommuting system

In March 2020, we expanded the telecommuting system in order to realize various work styles according to employees' different life stages and improve the productivity of the entire Group. We distributed 2-in-1 terminals to all Daiwa Securities

employees. Amid the new coronavirus pandemic, we are seeking to ensure the safety of employees and their families by making it possible to work from home in a similar environment to that in the office.

Realization of Diverse Workstyles through DX



Daiwa Securities Group's Human Resources Strategy

Education and Training

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

Mandatory programs

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

Elective programs

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

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

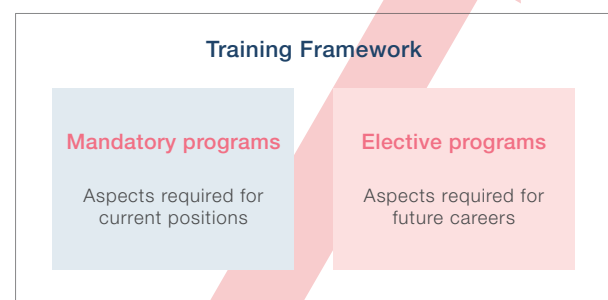
Skill Training

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

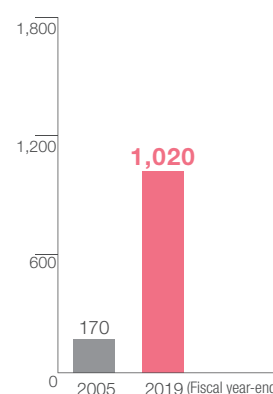
Examples: Presentation making, logical thinking, design thinking, inheritance and business succession, investment analysis, financial modeling, etc.



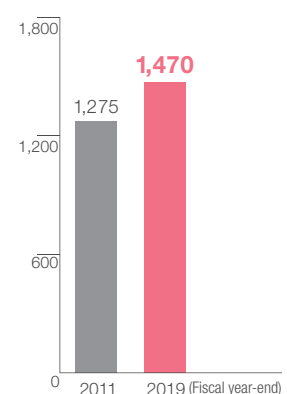
Personal career aspirations



CFP Employees



CMA Employees



Note: In December 2019, Daiwa Securities became the first company in Japan to reach 1,000 successful CFP certifications.

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

In addition, in FY2019, we established a new Digital IT Master certification system to help develop human resources who can transform our business by utilizing digital technology. We are utilizing the skills of certified employees to enhance customer services, develop innovative services, and undertake business process reforms with cutting-edge digital IT. The system has broadened the career choices of employees, who can now build highly specialized careers as human resources skilled in handling advanced digital technologies.

Encouraging Women to Succeed

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

In 2017, we established the Work Life Balance Committee, which is co-chaired by Chairman of the Board Takashi Hibino and President and CEO Seiji Nakata to promote active participation of women and dramatically improve productivity under stronger leadership. Officers and employees working in various positions at various departments, from executives and department managers to young employees, participate as advisors, and discuss a variety of measures including goals regarding promotion of women's advancement, support for balancing work and childcare/nursing care, leaving before 19:00, taking planned annual leave, and men taking childcare leave.

There are a total of nine women in top management

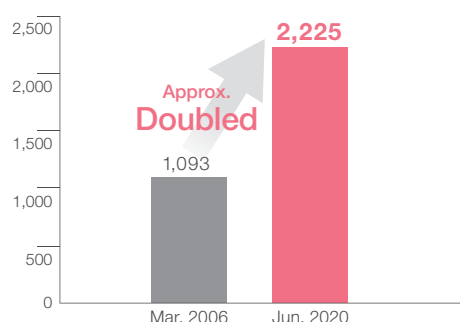
positions across the Group, including four female executives (director and corporate executive officer) at Daiwa Securities Group Inc. The number of women in management positions has increased every year, totaling 666 women at Group companies as of June 31, 2020. The ratio of women in management positions has risen from 2.7% (at the end of FY2005) to 13.2% for the Group, and from 2.8% to 15.9% for Daiwa Securities.

In addition, the Chairman of the Board and the President and CEO of Daiwa Securities Group Inc. participate as members in the 30% Club Japan, which was launched in Japan during May 2019. The 30% Club Japan aims to increase the ratio of women holding top positions among companies in Japan, and has raised the goal of achieving 30% for the ratio of women on the boards of directors among the companies that comprise TOPIX100 by 2030. Chairman of the Board Takashi Hibino is participating in the Advisory Board, and Executive Managing Director Kana Shirakawa is participating in the Steering Committee, helping drive their activities forward.

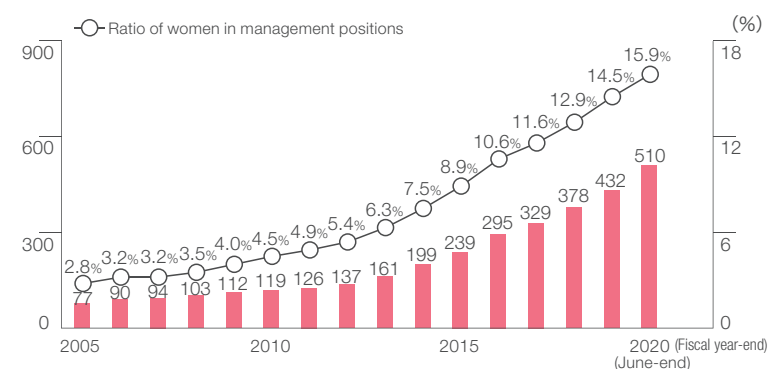
Targets through FY2020 (Daiwa Securities)

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

Pre-management Female Employees (Daiwa Securities)



Women in Management Positions (Daiwa Securities)



Daiwa Securities Group's Human Resources Strategy

Supporting career advancement among employees

By increasing the number of role models, we are making it easier for the Group's female staff to envision their career path. In this context, there has been a sharp increase in female employees aspiring to advance their careers by switching to career-track and regional career-track positions in recent years. To date, more than 1,400 female employees have converted to career-track positions. In 2015, we expanded those eligible for the Professional Return Plan (a system for rehiring employees who left for reasons of childcare or nursing care, for example, at the same level of compensation as when they left). The number of employees using this system has also increased, which has helped us secure talented human

resources that support operations. Moreover, the Group launched a career support training program for women (Daiwa Woman's Forum) in FY2014, and began a training program for women in management positions (Daiwa Woman's Management Forum) in FY2018 as a means of helping to build a network among women.

Against the backdrop of extended working lives amid the shift toward people living to 100 years old, in FY2019, we expanded the range of career choices to include "regional career-track" (positions that do not involve relocations). We have also established a new "broad regional career-track" system that allows employees to be relocated within a certain area, seeking to enable staff to continue to play active roles and remain strongly motivated.

Supporting the Active Participation of Diverse Human Resources

Supporting the participation of veteran employees

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

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

Supporting the participation of employees with disabilities

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

Moreover, the Group participates as a member in Accessibility Consortium of Enterprises (ACE). ACE was founded for the purpose of establishing models for disabled persons who can contribute to corporate growth and of broadcasting the human resources desired by companies to society. As of April 2020, 34 companies, many of which are

major corporations, are members of ACE. ACE provides awareness raising activities to related parties, develops role models, and makes recommendations to managers and society by organizing seminars, holding workshops, and publishing learning tools for the heads of human resource departments and employees with disabilities.

Promoting increased understanding toward the LGBT community and related issues

As an opportunity to deepen the understanding of LGBT issues, LGBT themes are taken up in training for new and young employees, as well as in training for those who have been promoted. A cumulative total of approximately 5,000 have participated in this training to date.

In addition, every year we hold a Human Rights Awareness Workshop for all employees in each department and office, which includes video training and discussion to promote understanding of LGBT issues. In addition, the Group's Compliance and Human Resources departments receive training from the NPO Nijiro Diversity to deepen their understanding of the fundamentals and case studies of other companies in order to create a comfortable work environment. Our Human Resources Department supports employees who are undergoing gender transition by allowing them to take time off. Efforts are also made to promote increased understanding among surrounding employees.

Systems for supporting balance

In recent years, we have also focused on support for employees' efforts to balance work and nursing care, and have expanded a variety of support programs. For example, we have allowed employees to divide their nursing care leave into up to four periods while extending the total length of such leave from one year (365 days) to three years (1,095 days). We have also introduced Nursing Care Concierge Service, established a work-from-home system, as well as life support paid leave, and started offering an e-learning course supporting initiatives for balancing work and nursing care. Similarly, we have also established a new nursing care travel home expense allowance. Moreover, all departments,

offices, and sales branches of Daiwa Securities hold a study meeting on how to respond to the aging society and balance work and nursing care. We are thus working to increase employees' awareness and foster an environment that facilitates the utilization of these support programs.

Male participation in childcare

We began promoting taking childcare leave by male employees in 2014. In 2013 the rate of male employees

taking childcare leave was just 2%, but for three straight years from fiscal 2017 the rate has held at 100%. From April 2020, we have also introduced new pre-childcare leave for male employees. This is designed to foster childcare awareness among men before children are born. Male employees can access a wide-ranging annual leave system that includes taking leave to accompany pregnant women to medical checkups, to attend pre-childcare parent classes, and to prepare for hospitalization before childbirth.

View from a participant who took pre-childcare leave for male employees

I was able to take pre-childcare leave and take my wife to the hospital by car. Amid the COVID-19 pandemic, this helped reduce the risk of my wife becoming infected as a pregnant woman traveling by train. In addition to giving us peace of mind and allowing us a couple to attend medical examinations together, using the program multiple times gave me the opportunity to talk directly with people at the hospital, and they taught me many things. I was able to share information and worries about the birth with my wife, and to prepare my mind for being a father after childbirth.

Student loan repayment support system

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

Global human resources development

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

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

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

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

Health Management Initiatives

Goals in promoting health management

One of Daiwa Securities Group's Corporate Principles is "placing importance on personnel." Based on the idea that the source of the Group's competitiveness lies in the capabilities of its employees, we are undertaking the strategic promotion of health management for both the wellbeing of our employees and improvement in the company's productivity. We are also seeking to establish an environment in which employees feel motivated to work actively over the long term.

Health management promotion system

We started our initiatives to improve employees' health in earnest in 2008, when specific health checkups and specific counseling guidance were initiated at worksites, through close collaboration between the Human Resources Department, the Health Insurance Society, and industrial as well as occupational health staff. In 2015, to further reinforce the Group's structure to promote health management, we appointed a Chief Health Officer (CHO) and established the

Health Management Promotion Section within the Human Resources Department. In addition, we began publishing a white paper on health and launched the CHO-sponsored Health Management Promotion Meetings, which are held quarterly across the Group to recognize issues, evaluate efforts, make improvements, and implement a PDCA cycle for health management.

Initiatives to maintain and improve the health of employees

➤ Toward fit and healthy employees

Since 2016, we have conducted the KA-RA-DA iki-iki Project which provides points to those who participate in health promotion events and other activities geared toward raising health awareness among employees. Employees can then exchange these points for donations to social contribution activities or health-related goods. Since 2019, we have been actively promoting the health of our employees by making the fitness app BeatFit available to them for free.

Daiwa Securities Group's Human Resources Strategy

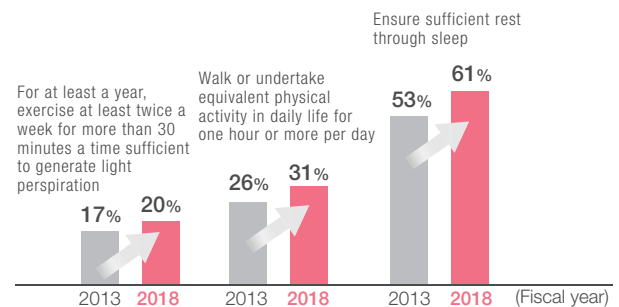
➤ Supporting the health of employees

In 2019, we introduced "first call," which is available to employees for free for them to consult directly with a specialist doctor for health consultations via chat or videophone. Also, in 2018, as a measure to help address women's health, we began comprehensive support relating to women's menopause issues, improving health literacy, and balancing work and infertility treatments. Through these efforts, we hope to help women remain healthy and to continue to work actively and enthusiastically.

➤ Supporting a balance between work and cancer treatment

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

Results of Initiatives, Various Indicators



Work Motivation Survey* (FY2019)

Work.....	3.3	Growth or career advancement opportunity ...	3.2
Organization.....	3.2	Compensation.....	3.0
Colleagues.....	3.2		

Four-scale evaluation (maximum of four points)

* Online questionnaire survey communicated directly to the Human Resources Department, used as a monitoring indicator designed to raise employees' motivation to work through challenges for higher value-added operations and contribute to customers and society, thereby achieving a virtuous cycle of improved employee and customer satisfaction

External Evaluations

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

Selected
six years
running

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



Ministry of Economy, Trade and Industry
Tokyo Stock Exchange

Selected
six years
running

**Health and Productivity
Stock Selection**



Ministry of Economy, Trade and Industry
Tokyo Stock Exchange

Selected
four years
running

**Certified as a Family-Friendly Employer
(Platinum Kurumin)**



Ministry of Health, Labour and Welfare

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



Ministry of Health, Labour and Welfare

Expansion of Business Portfolio

By leveraging its unique strengths and expanding its business portfolio, Daiwa Securities Group will create new value, meet the diverse needs of its customers, and create new value in response to changes in the environment.

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Hybrid Strategy

Expansion of business portfolio by leveraging strengths as an independent securities company

One of the strengths of Daiwa Securities Group is its high degree of management freedom. In the business models of major domestic financial companies, there are restrictions placed on the business risks that can be taken due to business law restrictions and strict capital regulations. In addition to the attributes of what is termed an independent securities group, Daiwa Securities Group is a financial institution with a stable and highly efficient revenue base and a sound financial base centered on its domestic securities operations, and the Group considers itself to be in a superior position in terms of the degree of freedom of its strategic options.

In contrast to companies entering the financial and

securities business from other industries, we offer advantages that include our network of bases in Japan and overseas, relationships of trust with customers, high-quality human resources, and know-how.

Leveraging these unique strengths while focusing on the securities industry, Daiwa Securities Group is aiming to expand its revenue base and improve profit stability by expanding its business portfolio into new businesses that will give rise to synergies. The construction of a business model that combines securities business and new business is called the hybrid strategy, and the new businesses are called hybrid businesses.

Securities business-type hybrid business and alternative-type hybrid business

Investments in the hybrid businesses are broadly divided into two categories: the securities business-type, which combines the strengths of alliance partners based on Daiwa Securities Group's know-how; and the alternative-type, which while acquiring stable cash flows from the assets of the investees will aim to capture profit opportunities through synergies with the securities business by, in the future, utilizing the Group's securities business know-how to create and sell new financial products supported by investee's cash flow.

There are some aspects of the profits of our main securities business that remain volatile due to the influence of the market. For that reason, our policy is to stably expand Groupwide profits while controlling volatility in business performance by expanding businesses that are not easily affected by market conditions and have a low correlation coefficient with the securities business.

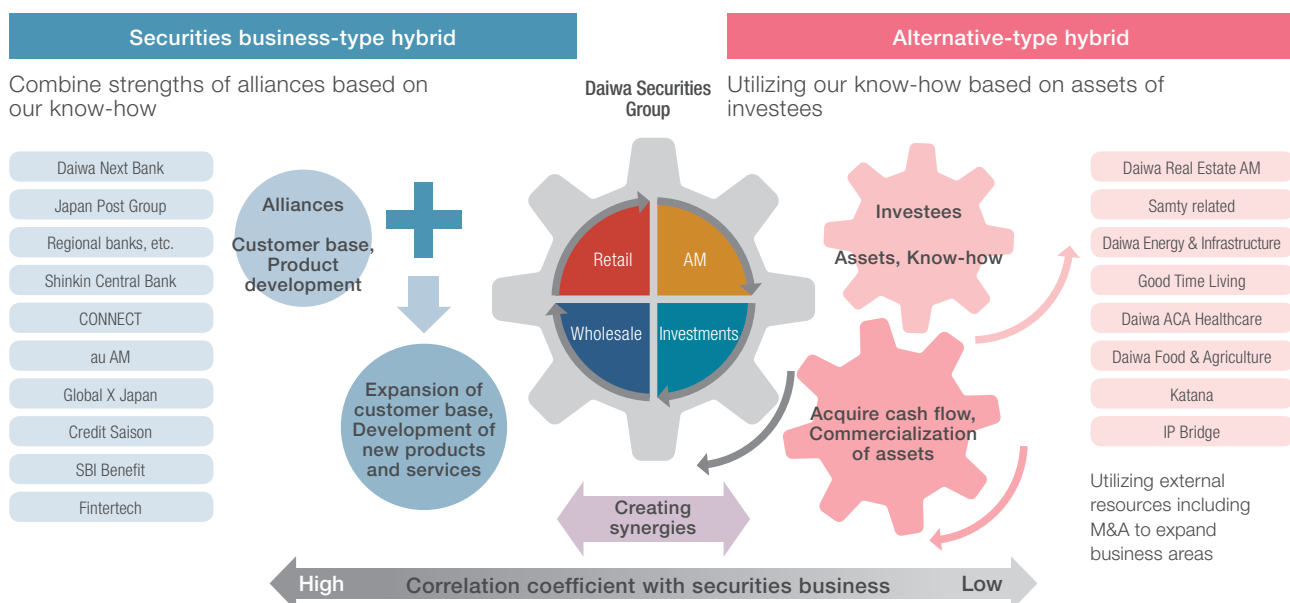
Examples of the securities business-type include our collaboration with Japan Post Group, alliance with Credit

Saison, Shinkin Central Bank, and several regional banks. On the other hand, examples of the alternative-type include real estate asset management business and business investment in energy and infrastructure.

Correlation Coefficient of Ordinary Income at Macroeconomic Level

Company	Similar industry	Correlation coefficient with securities business
Daiwa Next Bank	Banking	0.8
Real Estate Asset Management (Daiwa Real Estate AM, Daiwa Office Investment Corporation, etc.)	Real estate business	0.6
Daiwa Food & Agriculture	Agriculture	0.4
Healthcare (Good Time Living, etc.)	Medical, welfare	0.3
Daiwa Energy & Infrastructure	Power	0.09

Source: Calculated by Daiwa Securities Group Inc. based on "Corporate Statistics" from the Ministry of Finance
All companies with capital of 500 million yen or more
(finance and insurance: 100 million yen or more)



FY2019 hybrid business investment results

We executed an investment of over ¥100 billion in FY2019. The investment execution phase is almost completed, and we are now in the phase of significant business growth aimed at expanding earnings. To further strengthen the hybrid strategy

that we have been implementing so far, we will work to improve profitability as a group and to strengthen our business portfolio and our management system.

Securities business-type hybrid

Expansion of external network

Announced collaboration with Japan Post Group (May 2019)

Announced capital and business alliance with Credit Saison Co., Ltd. (September 2019)

Announced collaboration with Shinkin Central Bank (March 2020)

Provided Daiwa Fund Wrap for regional banks (FY2019: THE DAITO BANK, LTD., The Chiba Kogyo Bank, Ltd.) (FY2018: The Ehime Bank, Ltd., The Bank of Iwate, Ltd.)

Alternative-type hybrid

Increase alternative products

Investments to Samty and REIT managed by Samty Group

Capital and business alliance with Samty (May 2019)
Consolidation of Samty Residential Investment Corp. (August 2019)

Acquisition of Good Time Living, a company managing nursing care facilities and residences for elderly people (August 2019)

Investments of more than ¥10 billion are in **bold**.

Supporting restructuring of business and Japanese industries

Business and capital alliance with Katana, a company with expertise in marketing (January 2020)

Formed business alliance with IP Bridge, a company which engages in intellectual property procurement and licensing, with the goal of utilizing and facilitating monetization of intellectual property (April 2020)

Provision of benefits from Asia's growth

Established Daiwa ACA APAC Growth LP (July 2019)

Creation of new business line

Business expansion targeted at asset builders

Established CONNECT
A new brand for providing financial services customized for smartphones (May 2019)

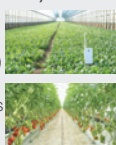
Investment to expand ETF business

Established Global X Japan (September 2019)
Invested into Global X (U.S.A.) (March 2020)

Create business through financial method diversification and business expansion

Expand agriculture business (Daiwa Food & Agriculture)

Entry into baby-leaves production business (April 2019)
Entry into tomato production business (March 2020)



Investments for startups

Established Innovation Growth Fund which invests in startup companies with Sony Corporation (July 2019)
Established DG Lab Fund II for global startups with next-generation technologies (August 2019)

Investments for renewable energy

Invested in Green Giraffe, a specialist advisory firm focused on the renewable energy sector (October 2019)
Entered into strategic partnership with Aquila Capital Holding (Germany), an investment manager mainly in renewable energy assets (December 2019)

Contribution to Group earnings through growth of hybrid businesses

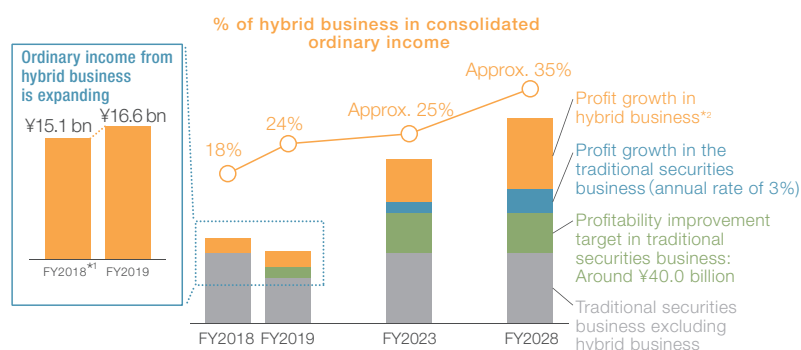
The ratio of hybrid business in consolidated ordinary income in FY2019 was 24%. A significant increase from 18% in the previous fiscal year, this was mainly due to lower profits in the traditional securities business.

Ordinary income from hybrid business was ¥16.6 billion, steadily increasing from ¥15.1 billion in FY2018. In addition to the real estate asset management business and Daiwa Next

Bank (bank business), which had previously made up the revenue of the hybrid business, Daiwa Energy & Infrastructure also contributed to profit.

Daiwa Securities Group's vision is to increase profits from the traditional securities business, which is the core business, and at the same time to increase the hybrid business ratio, thereby increasing the stability and profitability of the Group.

Image of Future Ordinary Income



*1 Real estate AM business, Daiwa Next Bank

*2 The profit outlook of the hybrid business is based on the base scenario of each profit assumption

Main hybrid business	
Retail Division	Business partnership (Japan Post Bank Co., Ltd., Credit Saison Co., Ltd.)
Asset Management Division	Daiwa Real Estate AM Daiwa Office Investment Corporation Samty Asset Management Co., Ltd. Samty Residential Investment Corporation Global X Japan
Investment Division	Daiwa Energy & Infrastructure ACA Investments Pte Ltd
Other	Daiwa Next Bank, Fintertech Healthcare (Good Time Living, etc.) Daiwa Food & Agriculture, Katana Inc.

Dialogue: Initiatives in Real Estate Asset Management

Sustainable society realized through hybrid strategy

Assets under management in the real estate asset management business have increased to more than ¥1 trillion, driving Daiwa Securities Group's hybrid strategy. Two central figures in this high-growth business sat down to talk about past performance and the potential for strong growth in the post COVID-19 era.

Akira Yamanouchi

Chairman of the Board
Daiwa Real Estate
Asset Management Co. Ltd.



Toshihiro Matsui

Deputy President and COO
Daiwa Securities Group Inc.



Entry into real estate asset management business

Matsui: Daiwa Securities Group became interested in the real estate asset management business in the late 1990s, when the "income approach" became mainstream for assessing real estate prices in Japan. This is the same method used to value shareholdings, a concept based on calculating the net present value of future income. This approach made real estate assets look more like a financial product. As a new product with accountability for investors, and also as a means of securing a reliable source of revenue, expectations for this business grew.

Back when we were considering M&As to enter the real estate asset management business, the 2008 financial crisis disrupted the real estate market, but Daiwa Securities Group was fortunately able to take advantage of an opportunity to acquire the asset management company of an office building J-REIT called daVinci Select, which is now Daiwa Real Estate Asset Management (Daiwa Real Estate AM). Soon thereafter, we brought in from the outside Mr. Yamanouchi, a professional manager in this type of business, and put him in charge of our real estate

asset management business.

Yamanouchi: When Daiwa Securities Group called, I quickly accepted the invitation to be in charge of the real estate asset management business, because I was excited and agreed to hear Daiwa Securities Group's vision. Most sponsors of J-REITs are major real estate firms. This is advantageous for the J-REIT in terms of securing a pipeline of properties, but can lead to conflicts of interest between the sponsor and J-REIT, which increases the need for transparency on the terms and conditions in their transactions. However, Daiwa Securities Group can always approach the business from an investor's point of view. It can always openly interact with the sellers of properties, enabling highly transparent management from an investor-oriented approach. I think this is an ideal format. Compared with independent management firms taking similar initiatives, Daiwa Securities Group is much more compelling in the context of its creditworthiness as a major financial group.

Since I began working, the business has received plenty of support from its sponsor, including rapid decision-making and the arrangement of bridge funding and subordinated bonds. Those are essential in the

speed-is-everything real estate industry and we have enjoyed significant advantages in terms of sourcing properties^{*1}. The biggest strengths of Daiwa Real Estate AM not found at other companies are its flexibility that comes with being independent and not tied to a corporate group, and the backing of the creditworthiness of a large financial group.

Matsui: I was surprised by Mr. Yamanouchi's high caliber soon after he took charge of the business. At the time of acquisition, a managed property's capacity utilization was not that high, but aggressive head hunting reinforced the leasing division^{*2}, which translated into rapid improvements in capacity utilization. Daiwa Office Investment Corporation has steadily grown since then, and recently posted a 19th consecutive period^{*3} of profit growth.

Yamanouchi: Methods for managing real estate are different for privately placed funds, which focus on short-term investments, and REITs, which manage assets with an ultra-long-term view. A majority of privately placed funds would probably seek gains on the sale of properties over a 3-5 year horizon, preferring to exit their investments by selling properties at



high prices while existing tenants are paying high rents, instead of leasing when market conditions turn sour.

For REITs, on the other hand, long-term relationships are very important between the owner (us) and tenants. By talking directly with tenants, we are often able to find mutually beneficial (win-win) solutions to problems, such as a tenant expecting renovations when we believe they are just looking for cheaper rent. To sincerely show Daiwa Securities Group's commitment to the owners of real estate, our teams have hit the ground, making the rounds to visit all of our tenants, like when we hand out Daiwa calendars at the end of every year, a practice not followed by upstart real estate firms and real estate funds. One of my key roles is to translate Mr. Matsui's vision for the real estate asset management business, and share this vision with the employees of Daiwa Real Estate AM, constantly pursuing this vision while managing real estate assets from an ultra-long-term viewpoint.

It is also important to consider ESG. In the real estate sector, there are many environment-related certification systems, and each property is certified by each system after considering the intentions of investors. As a management company, we clarify and

put into practice our ESG policies. For eight years running since 2012, Daiwa Office Investment Corporation has obtained the highest Green Star certification from GRESB^{*4}, a leading global ESG benchmark organization.

Major real estate companies prefer scrap and build strategies, where old buildings are torn down and replaced by newly built, large, modern buildings. While this strategy undoubtedly increases economic value, from an environmental and social standpoint, although newly constructed buildings have fewer CO₂ emissions, negatives include building construction waste and nuisances for neighbors during construction.

Even older buildings can be used for several more decades if properly maintained and repaired. These older buildings are cherished by people, and can contribute to society as a major feature of the communities in which they are located. For example, the head office of Daiwa Real Estate AM is located in a 58-year-old building in Ginza, and it has become a part of the beautiful landscape by blending in with the street vibe of Ginza.

Providing diverse asset classes with abundant human resources and open concepts

Yamanouchi: Daiwa Real Estate AM started out managing a REIT that invests primarily in office buildings, and then diversified operations into residential, healthcare facilities, hotels and logistics asset classes. Depending on the asset class, the risks and returns on real estate can vary. To let investors build an optimal portfolio, we have formed REITs specializing in a specific asset class. Naturally, investing in and managing real estate requires highly specialized knowledge. As our asset classes have expanded, we have carefully scrutinized the risks and made decisions while making sure we have enough expertise in a certain field. For example, we have not invested in commercial facilities, the only asset class we have yet to enter, because of the risks we perceive.

Matsui: As a financial institution, we welcome the diversification of risks and returns. Given the opportunity, we will expand the balance of assets under management through inorganic growth such as M&A, just like an investment bank. Our acquisition of

Dialogue: Initiatives in Real Estate Asset Management

the management company Japan Rental Housing Investment Inc. (now Daiwa Securities Living Investment Corporation) has contributed greatly to expanding the balance of assets under management. We turned asset management company Samty Asset Management into an equity-method affiliate in 2018, and then its parent Samty in 2019. Additionally, we turned J-REIT Samty Residential Investment Corporation into a consolidated subsidiary.

Yamanouchi: Business diversification is also very helpful when hiring personnel. President Fukushima at Daiwa Real Estate AM is constantly reminding employees to always take on new challenges. Younger employees are drawn to such challenges, and provide them with opportunities to gain experience and grow as individuals.

At Daiwa Real Estate AM, we have hired a large number of professionals with expertise in specific asset classes. Out of the 130 or so employees, just under 30 have backgrounds at Daiwa Securities, an optimal ratio, in my opinion. Both myself and President Fukushima joined as outsiders, and if they give it their best, even an outside hire can rise in the ranks to become president of a REIT management company, which is highly motivational to new employees.

There is a risk that the COVID-19 pandemic will drastically change how real estate is used, and the nature of demand for real estate. However, these changes could lead to major opportunities for us. We think a lot of new trends will emerge, such as ideas for office layouts for new work styles, different styles of residences in this “new normal,” new kinds of essential caregiving services, and new prime locations. Being able to flexibly and rapidly adapt to these changes with a positive attitude is one of our strengths. I believe this speaks to the training and professionalism of our employees, who have risen up to the challenge.

Alternative investments and sustainable society

Matsui: Actually, real estate and infrastructure both have major potential, and that stems from the fact that pension funds in Japan have not been that involved in alternative investments. The Government Pension Investment Fund (GPIF) has a rule that alternative investments cannot be higher than 5% of its total assets, which stood at ¥150 trillion as of March 31, 2020, but it has invested very little in alternative investments. In contrast, the California Public Employees' Retirement System (CalPERS) in the U.S. has 20% of its assets in alternative investments.

In Japan, the Bank of Japan's zero interest rate policy and yield curve controls have soured investments in bonds. After COVID-19 became a pandemic, interest rates plummeted in the U.S. If pension funds have to put more into alternative investments, they will probably choose real estate first.

In the future, all kinds of infrastructure assets, like roads, waterworks, hospitals and schools, could become assets targeted for management as financial products. If public utilities become more privatized, we may see more opportunities in this area.

Yamanouchi: Among institutional investors, an increasing number of firms have been shifting toward new energy and infrastructure assets, such as solar power, in addition to traditional investments in real estate. In my opinion, rather than having the government provide social infrastructure through tax revenue, having private-sector capital operate social infrastructure, through an asset management company with disciplined investors and a strong governance structure, and in an environment where market mechanisms are in play, would increase both economic and social value by improving services for users and enhancing profitability.

This implies that the citizens of a country could become beneficial owners, not just users, of social infrastructure, including real estate. Such owners would benefit from dividends and the like, while also indirectly being responsible for the social infrastructure. I think this would facilitate the transition to a more mature society where such owners are proud to be responsible for these social assets. The democratization of real estate and infrastructure would also lead to the creation of a more independent and stable society, in my view.

Taking it one step further, sharing ownership through the securitization of real estate and infrastructure across national borders would likely result in greater national security from the standpoint that all owners would want to protect and develop their assets.

Matsui: In the modern capitalist economy, the move away from the gold standard to a managed currency system led to considerable expansion in scale. Today, sustainability as a fiscal discipline has come to the foreground. If social infrastructure and welfare services provided by national governments can evolve into private-sector services in which citizens can directly invest, I believe the capitalist economy can expand even further.

I think that alternative investments like this, managed under a strict governance structure, could become a considerably important vehicle for sustainable financing.

*1 Discovery and purchase of investment properties

*2 Find a tenant and sign a leasing agreement with them

*3 Six-month fiscal periods

*4 Global Real Estate Sustainability Benchmark: This organization assesses and benchmarks real estate companies and funds from an environmental, social and governance (ESG) perspective.

Dialogue: Agricultural Business Initiatives



Supplying risk money to realize sustainable food and agriculture

Kazunori Hisaeda
Director
Daiwa Food & Agriculture
Co. Ltd.

Akihiko Ogino
Senior Executive Managing Director
Daiwa Securities Group Inc.

One and a half years have passed since Daiwa Securities Group entered the agriculture business with the establishment of Daiwa Food & Agriculture. Here, Akihiko Ogino, Senior Executive Managing Director, Head of Planning and Kazunori Hisaeda, Director, Daiwa Food & Agriculture discuss the background of the Group's entry into the agriculture business, progress made, and future prospects.

Daiwa Securities Group's mission in agriculture

Ogino: Daiwa Food & Agriculture (DFA) was established in November 2018. There are two main reasons why the Group decided to take up farming. The first is that it fits with the hybrid strategy that Seiji Nakata has been advocating since taking office as CEO in 2017. This hybrid strategy complements our core traditional securities business in an industry facing intensifying competition. It is part of our effort to enhance earnings stability by diversifying the business portfolio into areas with a low

correlation to the cyclicity of the securities business.

The second reason is that among the SDG initiatives that Daiwa Securities Group is pursuing as a core axis of management, the Group has identified regional revitalization as a priority theme. Our Group, which has branches in all of Japan's prefectures and has close relationships with local economies, is determined to help halt the decline of those economies.

Under the hybrid strategy, the real estate asset management business was launched first, followed by the banking business (Daiwa Next Bank), then renewable energy. We came to the conclusion that food and

agriculture are key future issues for society—issues that are as vital and challenging as energy. Some researchers say that by 2050, the world will need 1.7 times more food than today. In readiness for this food crisis, Silicon Valley has even seen the emergence of start-ups that convert insects into food. In addition, the 2016 amendments to the Agricultural Land Act opened up great opportunities. Those revisions made it possible for the wholehearted involvement of corporations in large-scale farming.

While all this was going on, we met Kazunori Hisaeda, a professional with expertise in the operation of large-scale agricultural facilities. We are currently

Dialogue: Agricultural Business Initiatives



Tomato cultivation at Mirai no Hatake kara (Kusu, Oita Prefecture)

seeking his assistance in setting up and operating the farms while having him travel back and forth between locations under the umbrella of DFA.

Hisaeda: I have long been involved in the management of agricultural facilities by local governments and companies. Around 2000, I received training in local agriculture in the Netherlands. I was able to see at first hand a truly efficient glass greenhouse facility covering several hectares. At this facility, the plant growth environment was comprehensively controlled, including nutrition, temperature, humidity and carbon dioxide concentration. That led to extremely high productivity. All of the people involved had research-level knowledge, and farm management was handled scientifically. I believe that my mission is to disseminate such methods and to help fundamentally change Japanese agriculture.

DFA's strengths and future possibilities

Ogino: When I heard about how things were in the Netherlands, I felt there were great opportunities for us. Taking the example of cultivating tomatoes, it has been said that in the Netherlands, the farmland area per farm is 20 times that of Japan and yield per unit area six times higher. Taken together, that amounts to efficiency that is 120 times higher than in Japan. Put another way, Japanese agriculture has huge opportunities. But to realize large-scale businesses, you need financial resources. I felt it was our time to step up as a securities business that at its core delivers necessary funds to where they are needed.

DFA started out cultivating baby leaves (in 41 vinyl greenhouse facilities covering approximately 2.1 hectares, as of March 31, 2020) in Kumamoto Prefecture. In this, we have partnered with Kajitsudo and SenSprout to achieve 14 crops a year with the latest ICT technology, and we have increased yields by 40%. We then

started cultivating tomatoes in Yamagata Prefecture (capital participation in Hirasu Farm, approximately 2.2 hectares) and Oita Prefecture (capital participation in Mirai no Hatake kara, approximately 1 hectare).

Mr. Hisaeda, what are your thoughts on joining Daiwa Securities Group?

Hisaeda: One of the major benefits of being with the Group is the quick access it gives to the people and companies I need. If I ask the head office to speak to someone from a particular manufacturer, or involved in a certain project, Daiwa Securities Group can arrange an interview in an instant. Nothing is more supportive in promoting our business.

Also, in order to ensure the spread of large-scale agriculture, I think it is necessary, as with other industries, to have a symbolic model of a successful entrepreneur. From the perspective of expanding scale, I think it is ideal to have the support of Daiwa Securities Group with financing, financial accounting, and strategy.

I hope that more employees within our Group will come to have a deeper



understanding of DFA and become familiar with it. If financial professionals really understand the business and then formulate business strategies in ways that go beyond the capabilities of conventional agricultural corporations, I think that could well contribute to the further development of agriculture in Japan.

Ogino: In greenhouse horticulture, securing sales channels for crops is also important and our Group's network is a major strength we can use to expand our business significantly. When it comes to access to other companies, the Group has branches all over Japan and many listed companies are business partners, so I think it is possible for someone within the Group to provide a contact to whoever may be required. Since many of our business partners are also interested in agriculture-related businesses, I also see great benefits in business matching. Employees who have built networks within the Group and are enthusiastic can move between departments because of the culture of our Group.

Mr. Hisaeda, what do you think is

lacking in Japanese agriculture today?

Hisaeda: Top of the list is, I think, human resources. Large-scale greenhouse horticulture is different from traditional Japanese family farming, which, even with modest successes, is unable to expand significantly. More than 100 people are needed for Dutch-type farming with 5-10 hectares. Greenhouse manufacturers can supply the equipment, but there are not many people who can manage them. I think here too DFA is in a good position to help, for example, nurturing human resources with a view to collaboration with universities.

I see technological and environmental developments as tailwinds. It used to be manufacturers of agricultural machinery and agrochemicals that underpinned Japan's agricultural technology. Today, though, it is the AgriTech industry—consisting of the IT industry and industrial machinery—that is the key supplier of technology to agriculture. It is now possible for sensors to assess the condition of individual plants and individually adjust fertilizer and water, and for tractors to operate without drivers. Against this backdrop, I believe the industry will change if it has symbolic success models to show the way. That might mean the listing of agricultural ventures.

According to the Basic Plan for Food, Agriculture and Rural Areas issued by the Ministry of Agriculture, Forestry and Fisheries, the model tomato cultivation facility is four hectares. In other words, the government itself is encouraging expansion of scale in agriculture. I think there are various opportunities for securities companies to support primary industries, and not just in terms of financing.

Sustainable capital cycle and great social needs

Ogino: From the perspective of regional revitalization, I think it is

important to be able to create large-scale employment. I feel that DFA's presence is welcomed in every region, and we have been consulted by various regions throughout Japan with a view to cooperation.

Daiwa Securities Group is currently at the stage of investing seed money in agriculture through DFA. However, we would like to see more investors reap returns from investments in agriculture while contributing to society. To do so, we need to establish systems to expand scale and recycle cash flow, while creating funds and promoting securitization. As a securities company, I believe we could not make a greater contribution to society than by building mechanisms that connect the supply of food—the most important of the essentials of food, clothing, and housing—with investors who hope to improve social value and wish to directly convey their feelings through investment.

Hisaeda: From now on, I think that management approaches with large-scale corporate farming and community-based family farming will diversify. Japan currently has about 42,000 hectares of greenhouses and other agricultural production facilities, but most of them are not equipped with environmental control equipment. It is said that it costs about ¥400 million per hectare in Japan to install a Dutch-type greenhouse control facility. I believe that in Japan, it is possible to carry out big projects involving the construction of large agricultural estates equipped with highly productive Dutch-type greenhouse control facilities by gathering funds through direct financing.

Considering its contributions to food supply, regional revitalization, energy conservation, and tackling climate change, large-scale farming through greenhouse horticulture is an ideal business from the perspective of the SDGs. I feel this is a field with both extensive social needs and great business potential.

Successfully Scaled Up Hybrid Businesses

Real estate asset management business

The Group entered the real estate asset management business in 2009 to provide new value in asset management. Ten years have passed since we entered the market, and the balance of assets under management, which in FY2019 exceeded ¥1 trillion, continues to grow. In addition, the contribution made by the real estate asset management business to ordinary income in FY2019 reached ¥11.1 billion, which represents a significant increase from the time of entry.

In March 2020, the Group's asset management company, Daiwa Real Estate AM, started operation of Daiwa Securities Logistics Private Investment Corporation, a private REIT investing in logistics facilities that continue to grow as e-commerce progresses, and is advancing diversification of its assets under management.

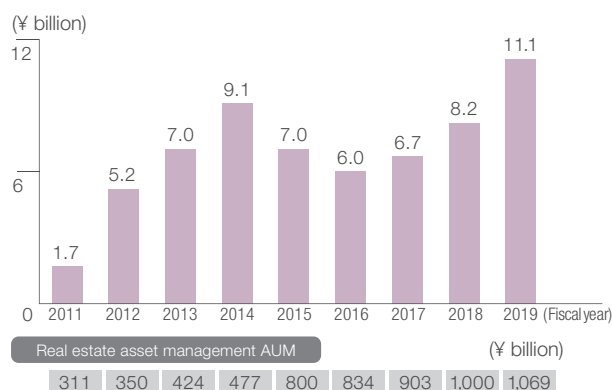
In addition, Japan Rental Housing Investment Inc. and Nippon Healthcare Investment Corporation, both operated by Daiwa Real Estate AM, merged on April 1, 2020, and were renamed as Daiwa Securities Living Investment Corporation. Aiming to maintain social infrastructure that comprehensively provides comfortable living spaces (rental housing/healthcare facilities) that match the life stages and support the lives and livelihoods of all people, the company will target further growth.

Expansion of Real Estate Asset Management

Expansion of investment areas ↓	Office	2009	Daiwa Office Investment Corporation
	Housing and healthcare facilities	2013	Daiwa Residential Private Investment Corporation
		2014*	Daiwa Securities Living Investment Corp.
		2018	Samty Residential Investment Corporation
	Hotels	2018	Daiwa Hotel Private Investment Corporation
	Logistics facilities, etc.	2020	Daiwa Securities Logistics Private Investment Corporation

* Japan Rental Housing Investment Inc. merged with Nippon Healthcare Investment Corp. in 2020 and changed trade name to Daiwa Securities Living Investment Corp.

Real Estate AM Related Business: Ordinary Income*



* Total of ordinary income of real estate AM business and profit from investment in Samty Group

Daiwa Next Bank

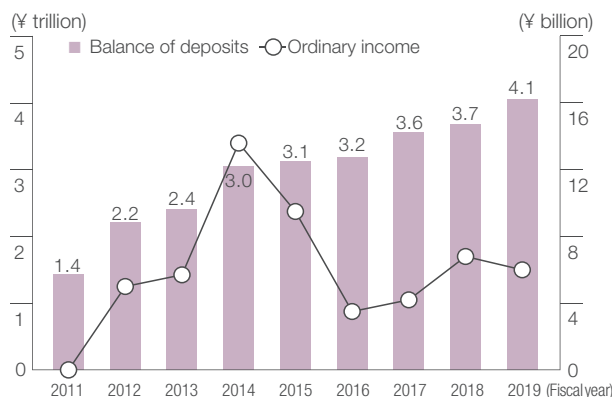
Having launched its services for customers in May 2011, Daiwa Next Bank adopted as its mission becoming a gateway bank that creates a major progression from savings to asset formation. The Bank is developing products and services centered on its unique business model for trading securities (a business model that seamlessly fuses deposit accounts and securities accounts on both online and face-to-face channels).

By providing favorable interest rates that leverage the low-cost operations unique to Internet banks, the deposit balance as of March 31, 2020, was approximately ¥4 trillion and the number of deposit accounts 1.4 million. In particular, for foreign currency deposits, the Bank has a lineup of currencies that meets customer needs, and as of the end of March 31, 2020, the balance exceeded ¥500.0 billion.

Commencing in 2017, the Bank started to handle *Eraberu*

Yokin, accounts that deliver added value beyond just the interest rates of time deposits. (Please refer to page 60 for “‘Ouen’ (Supporting) Term Deposits,” one of the *Eraberu Yokin*.)

Ordinary Income and Balance of Deposits



Daiwa Energy & Infrastructure

With the aim of supporting the creation of a future society by promoting investment and loans to energy from the SDGs×technology viewpoint, Daiwa Securities Group established Daiwa Energy & Infrastructure in July 2018. In the past, the company has invested in the domestic renewable energy field centered on solar power, but is now expanding its investment fields to the overseas renewable energy and infrastructure fields. The investment balance as of March 31, 2020, was ¥81.0 billion.

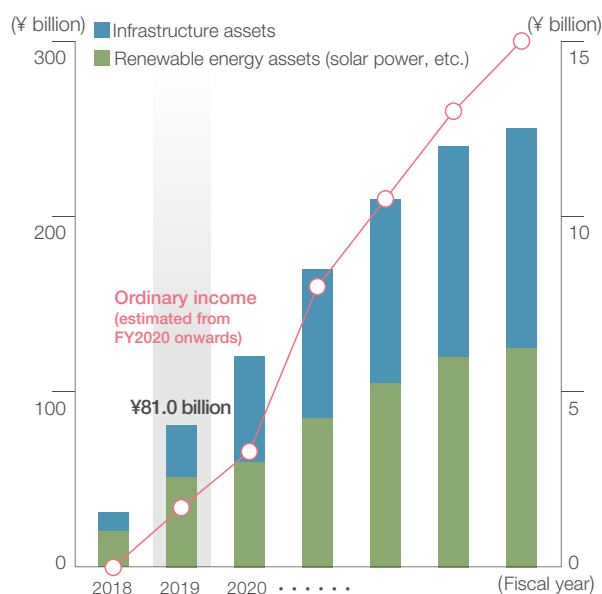
In December 2019, the company decided to enter into a

strategic partnership with Aquila Capital Holding GmbH in Germany, which develops and operates a renewable energy business. In addition to accelerating business development in Europe, which has a huge market size in the field of renewable energy, Aquila Capital will support investors in Japan and Asia by providing them with excellent investment opportunities.

Through Daiwa Energy & Infrastructure, Daiwa Securities Group will continue to promote investment and financing globally in the renewable energy, infrastructure, and resources fields in the years to come.

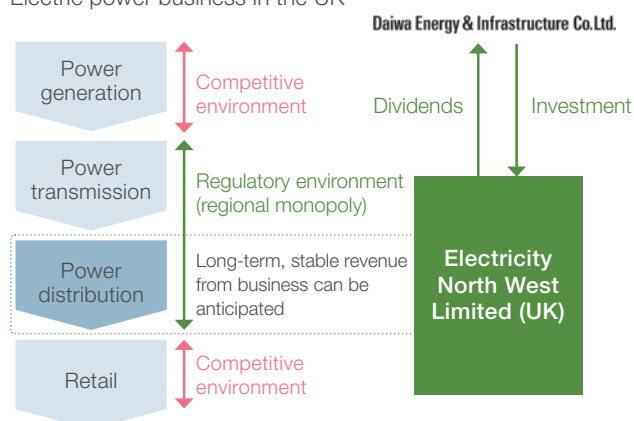
Daiwa Energy & Infrastructure Earnings Results

- ✓ FY2019 net operating revenues were ¥2.1 billion, and ordinary income was ¥1.7 billion.
- ✓ We are targeting ¥300 billion in AUM (including external funds) over the medium and long term.



Investment Example (Investment in Power Distribution Business in the UK)

Electric power business in the UK



Future Policy

Investment

Develop a track record in strategic investment

- ✓ Domestic solar power: Expand investment targets, including secondary projects
- ✓ Overseas renewable energy: Expand joint investment with Aquila Capital

Aquila Capital Profile

Description: Investment company that targets investment in renewable energy projects in Europe

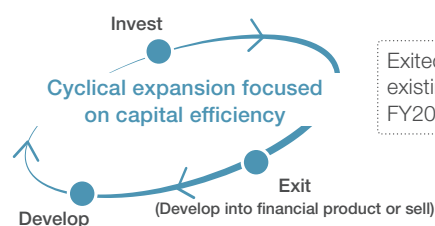
Equity interest: DEI acquired 40%

- Excellent partner for expansion of business in Europe
- Strengthen the global group platform by allying with DC Europe and Green Giraffe

- ✓ Infrastructure: Expand areas of investments (airports, telecommunications, etc.)

Exit

Establish a capital recycling model



Risk management

Enhance risk management and monitoring

- ✓ Strengthen the project risk management and monitoring structure as the investment balance increases.
- ✓ Strengthen the management structure of the company invested in.

Hybrid Businesses Launched during Current Medium-Term Management Plan

Securities Business-type Hybrid Businesses



Capital and business alliance with Credit Saison

In September 2019, Daiwa Securities Group and Credit Saison formed a capital and business alliance with the aim of creating the future of finance. Utilizing the finance business knowledge and customer networks built up by both companies since their founding, they will develop and provide next-generation comprehensive financial products and services to meet diversifying market needs.

In April 2020, Credit Saison started referral services for iDeCo (individual-type Defined Contribution pension plan), which has spread as a means of tax incentive-based asset formation, and in June of the same year started financial

product intermediary business relating to general securities accounts of Daiwa Securities. Credit Saison will provide various Daiwa Securities Group financial products and services, including Daiwa Fund Wrap Online for card members who have a particular interest in asset formation.

By working together under a long-term partnership, the two companies will support Japan's trends from savings to asset formation and contribute to the realization of a better society.

CREDIT SAISON



Fintertech

In April 2018, Daiwa Securities Group established Fintertech. For customers of the digital native generation, the company is offering a variety of products and services based on individual needs that are more fragmented than ever before, and aims to provide them flexibly through cutting-edge technologies and various digital channels.

In March 2020, Fintertech launched the Digital Asset Collateral Loan, by which crypto-assets are held as collateral for financing legal tender loans. Having become a joint venture of Daiwa Securities Group Inc. and Credit Saison in February 2020, Fintertech has realized a new loan service for crypto-assets, which had previously not been treated as collateral in

Japan, by bringing together the financial know-how that the Group and Credit Saison have been accumulating with Fintertech's own crypto-asset management technology.

Believing that crypto-assets and their enabling technology, blockchain, will play an important role in next-generation financial services, Daiwa Securities Group will continue to focus on these areas while aiming to create new financial services that meet varied demand for funds.

Fintertech



CONNECT

One of the important issues in recent years, for which the Daiwa Securities Group has been considering a variety of measures, has been approaches to the asset forming generation in their 20s and 40s. Referred to as investment beginners or digital natives, this generation regards transactions via the Internet or smartphone as a matter of course. One of the answers to this issue has been the establishment of the new brand, CONNECT.

Making full use of the know-how from the securities and finance business that Daiwa Securities Group has been accumulating since its foundation, CONNECT, which launched its services in July 2020, is a new financial service

for digital native customers to conduct asset formation for the future. CONNECT supports them in starting asset formation for the future and, once they have begun, continuing asset formation over the long term.

Not only dominant in terms of its fees, CONNECT will aim to acquire new investors by providing services that are fun to learn and enable a casual investment experience with points instead of cash while utilizing gamification.

CONNECT



Global X Japan

In September 2019, Daiwa Securities Group Inc., Daiwa Asset Management and Global X Management Company Inc. established a joint venture, Global X Japan, which supports asset formation through exchange-traded funds (ETFs).

Global ETF assets continue to expand due to their low cost and high liquidity. Although the Japanese ETF market has grown to be the third largest in the world, ETF adoption remains in its early stages, and it is expected that needs for investment products will grow in the future.

Daiwa Securities Group has been working to develop product and service platforms that meet the needs of a broad

investor base. By collaborating with Global X, which possesses an excellent track record in advanced product development in thematic ETF business, it will become possible to consistently perform product composition, management, and marketing as well as provide new investment opportunities to investors while strongly supporting the progression from savings to asset formation.

GLOBAL X



Daiwa Capital Management Silicon Valley

By establishing a local subsidiary in Silicon Valley and collaborating with WiL Strategic Partners, Daiwa Asset Management started managing a fund of VC funds, which diversifies investments in promising venture capital (VC) funds mainly in the United States. In the United States, institutional investors, such as pension funds and university funds, enjoy high returns by making long-term diversified investments in alternative assets. Seizing opportunities for diversified investments in promising VC funds and providing them mainly to the clients of qualified institutional investors in Japan, Daiwa Asset Management is supporting access to

the best U.S. VC funds. In addition, by providing risk money through the funds, Daiwa Asset Management will promote the cycle of corporate growth and the provision of investment opportunities, while supporting the development of new industries.

Daiwa Capital Management

Silicon Valley Inc.

Alternative-type Hybrid Businesses



Good Time Living

The provision of good nursing care facilities and services is an urgent issue, as the population of those aged 75 or older in Japan is expected to exceed 20 million in the first half of the 2020s.

In August 2019, Daiwa Securities Group acquired all issued shares of Good Time Living Co. Ltd. (former name: ORIX Living Corporation), which manages residences for elderly people, and made the company a subsidiary.

The Group supports Good Time Living's business development by making the best use of its resources as a comprehensive securities group. Also, the Group works on good health and well-being, one of the SDGs goals, through Good Time Living's business activities, which involve Improving Nursing Care Support that enhances daily life functions for its customers. This leads to ripple effects in

the Group's business by providing new solutions to the elderly customers and their families, and increasing customer contacts.



GOOD TIME LIVING Center-Minami entrance hall

Hybrid Businesses Launched during Current Medium-Term Management Plan

Business and capital alliance with Katana Inc.

In January 2020, Daiwa Securities Group and Katana Inc. entered into a business and capital alliance. Under the alliance, the Group will own a minority interest in Katana Inc. In addition to its marketing consulting business, Katana Inc. will provide management support by capital investment in combination with marketing capabilities.

Previously, the Group had been actively investing in rural areas through, for example, agriculture, energy infrastructure, and real estate. Through this business and capital alliance, the Group will further strengthen its investment in regional revitalization with the aim of creating and revitalizing new businesses. Efforts will also be made to expand Katana's

marketing consulting business by leveraging the Group's client base, thereby allowing Katana Inc. to support corporate growth. For its first project, Katana Inc. has invested in Japan Entertainment Inc. and will promote that company's theme park business in northern Okinawa as its largest shareholder.

By maximizing the Group's expertise in deal sourcing and financing and Katana's excellence in marketing, both companies will vitalize Japanese economy by helping businesses improve the probability of success.



Daiwa Food & Agriculture

With the aim of helping to solve social issues surrounding the agriculture and food sectors in Japan by seeking large-scale, efficient agricultural production, Daiwa Securities Group established Daiwa Food & Agriculture (DFA) in November 2018.

The aging of the agricultural labor force and the lack of successors due to the apparent decrease in the number of new-entrant farmers is set to become a major issue for the future of Japan's agricultural and food environment.

In the spring of 2019, DFA acquired a baby leaf production facility in Kumamoto Prefecture and entered the agricultural

production business. In 2020, the company started tomato production in large-scale gardening facilities in Yamagata and Oita prefectures, while promoting further improvements in production efficiency. By continuing to draw on the Group's resources, the company aims to create new agricultural and food businesses that contribute to solving social issues, including regional revitalization.



DFA tomato cultivation



Investment aimed at expansion of IPO business

The Group is strengthening its efforts toward enhanced sourcing capabilities in IPOs, which are positioned as a growth area in the securities business (Wholesale Division). In addition to Daiwa Corporate Investment (DCI) and Daiwa PI Partners (DPI) within the Group, we will work to provide risk money—both during and after the COVID-19 pandemic—to companies that are expected to grow through, for example, WiL in Silicon Valley, the DG Lab Fund with Digital Garage, and the Innovation Growth Fund established as a joint venture with Sony Corporation.

While providing funds, we are continuing to reinforce human resources in IPO-related departments and provide high-quality support by having doubled the number of staff compared with 2013, which was the smallest number after the financial crisis.

As a result of these efforts, Daiwa Securities placed second in the IPO share league table for the three consecutive years from FY2017.

Major VC Fund Investees

	 DG Lab Fund I, II	SONY × Daiwa Securities Group Innovation Growth Fund I	 WiL Fund I, II
Total amount	Approx. ¥20.0 billion	¥16.0 billion	USD 880 million
Theme	Block chain / AI / VR/AR / Security / Bio health	AI • Robotics	B2B / Sharing / Market place

An ultimate relaxing space to think about your financial future

A new hybrid coffee shop opens in Kichijoji (Tokyo) in a collaborative venture between Daiwa Securities Group and Komeda's Coffee



Okitane Usui

President & CEO
KOMEDA Holdings Co., Ltd.



Akihiko Ogino

Senior Executive Managing Director
Daiwa Securities Group Inc.



Ogino: Against the backdrop of such issues as global climate change and widening economic disparities in society, I think the new coronavirus pandemic will greatly change our lifestyles. Today, Daiwa Securities Group is seeking to help resolve social issues through a direct financing system with the SDGs as the axis of its management approach. We are implementing these new initiatives with our hybrid businesses. We are looking to direct money toward improving the world in such areas as solar power and agriculture.

Collaboration with Komeda's Coffee came about because it resonated with our commitment to the SDGs. We established Daiwa Food & Agriculture two years ago in the awareness that dietary habits will be a crucial issue in the future. The more I learned about the concepts underlying Komeda's Coffee, the more I realized how important it is sometimes to step back from our busy days—how we need to take time out in a relaxed space to think about our future and our communities. I think this hybrid coffee shop will be a place for Daiwa Securities Group and Komeda's Coffee to disseminate information so that many people can understand our value.

Usui: Komeda's Coffee has been offering delicious coffee in relaxing settings to its customers for many years. Two years ago, when we celebrated our 50th anniversary, we took a fresh look at what we are about and came to the conclusion that providing “places to relax the mind” would in future become more important than ever. That marked the launch of our sustainability activities. At Komeda, we place the emphasis on small things that anyone can do, but we do them in our own distinctive way. We are committed to not wasting wood and food, to using eco-friendly materials, and to paying scrupulous attention to hygiene. Believing that these things

contribute to the SDGs, we have prepared about 45 SDG Cards, that cover such topics as not wasting water, which are placed in various locations in the shop. The ultimate aim here is to nurture better daily lives together with our customers.

When I was invited by Daiwa Securities Group to collaborate in this hybrid coffee shop, it struck me that money is also important for spiritual happiness. In the age of longevity, we would like to find ways not only to build funds for retirement, but also to cultivate flourishing communities.

Ogino: At the collaborative coffee shop, tablet terminals are provided at all the tables, and we offer useful financial information to investment beginners and families with children. Many books on finance and the SDGs are available in the shop, and information is also presented on a large display.

Recently, we established CONNECT to provide securities products and services aimed at people in the digital age. Through this company, we aim to promote cumulative small investments targeting young people such as those in their 20s. In addition, Fintertech offers crowd-funding services featuring one-click contributions. I think that outlets of general securities companies have so far tended to have a rather unfriendly feel that discouraged people from visiting. With this collaborative coffee shop, though, we hope to provide a relaxing environment in which people of all generations feel encouraged to take an interest in their financial futures and investments.

This conversation is also featured on the KOMEDA COMES TRUE. website for customers of Komeda's Coffee.
<http://komedacomestru.komeda.co.jp/interview9/>
(In Japanese only)

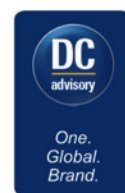
Strengthen Global Competitiveness

Daiwa Securities Group is strengthening its global M&A network as an area in which it can expect significant growth even overseas. In Asia, where high economic growth is anticipated, we will capture the fruits of this growth through equity investments in leading local investment banks and securities companies, as well as through business partnerships.

Over the past 10 years, Daiwa Securities Group's overseas business has been broadly divided into three phases: 1) a large-scale restructuring phase; 2) a phase in which the Group aims to expand its network by leveraging its relationships with business partners while controlling costs, and; 3) a phase in which efforts were directed toward growth against the backdrop of continued profitability. From around 2011, as the European debt crisis deepened, global financial regulations tightened and garnering profits through traditional methods became more exacting from a structural perspective, Daiwa Securities Group took steps to streamline its overseas operations by reducing or withdrawing from unprofitable divisions and bases and putting reductions of personnel into effect. From FY2012, the Group began working to expand its alliance network focusing mainly on leading Asian financial institutions from the perspective of supplementing services provided in Japan and expanding the top line while at the same time curtailing costs. In FY2015, we launched Asia Private Banking Services in response to the growing globalization of customers' needs.

From FY2016 onwards, the Group has been investing in its global M&A network as an area in which significant growth can be expected amid continued profitability of overseas operations. Based on this, steps are being taken to promote consolidated

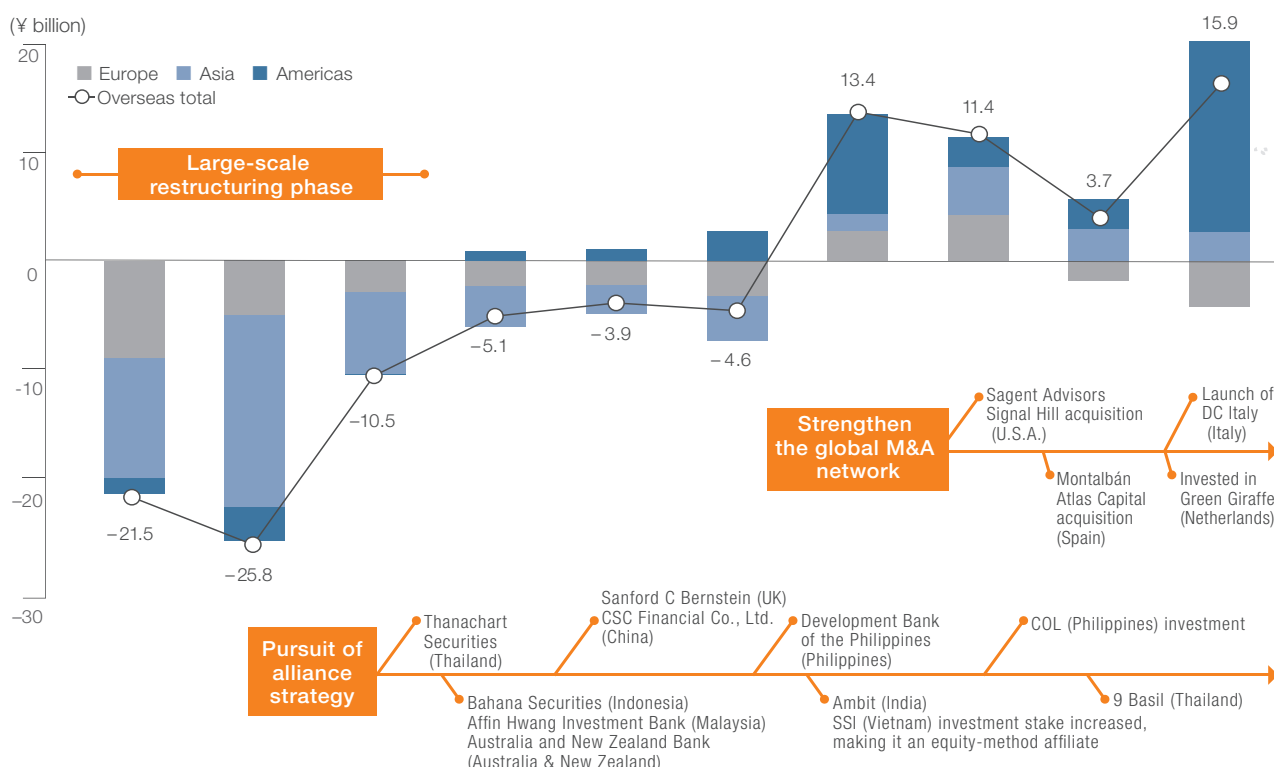
management of the global M&A advisory business, while putting in place a global network covering Japan, Asia, Europe and the Americas. In addition to unifying the brand name of the M&A Advisory business to DC Advisory from April 2019, Daiwa Securities Group is promoting cooperation among offices. In September 2019, Daiwa Corporate Advisory S.r.l., the 7th European base, was established in Milan, Italy.



In October 2019, Daiwa Securities Group acquired 50% of Green Giraffe Advisory B.V. (Green Giraffe), a financial advisory firm based in the Netherlands that ranked first globally (in the first half of 2019) for its advisory services in the renewable energy sector including wind and solar power. While targeting mid-cap deals of less than \$500 million in value in its M&A advisory business, Daiwa Securities Group maintains an overseas M&A workforce of approximately 500 including Green Giraffe. As an advisory firm that focuses on mid-cap deals, this global network scale is a significant inherent strength. As a result of these endeavors, Daiwa Securities Group achieved record M&A-related earnings in FY2019.



Overseas Ordinary Income (Loss)



FY2010

FY2011

FY2012

FY2013

FY2014

FY2015

FY2016

FY2017

FY2018

FY2019

DC Advisory was selected as the Mid-Market M&A Adviser of the Year USD 50-300 million at the Mergermarket Japan M&A Awards 2020, which selected the best M&A deals for FY2019.

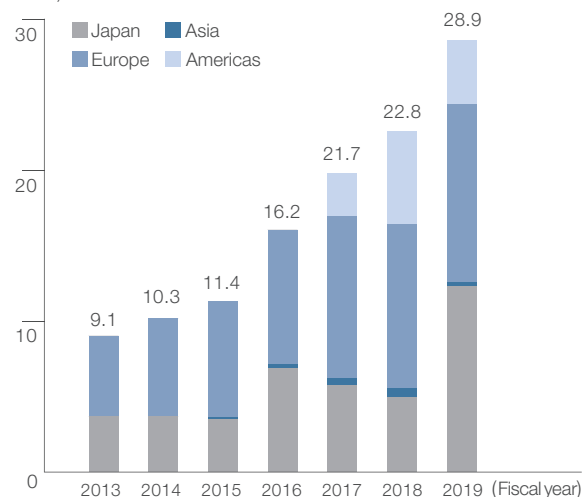


Daiwa Securities Group's overseas business has been profitable for four consecutive years with ordinary income reaching its highest point over the past 14 years in FY2019. Especially in the U.S., where Daiwa Securities Group has been a primary dealer in U.S. Treasuries since 1986, the Fixed Income, Currency and Commodities (FICC) Division has generated a high level of profit on the back of a strong share of the U.S. Treasury market in the short to medium term and its ability to accurately capture customer flows.

Looking ahead, Daiwa Securities Group will continue to expand its alliance network and improve its profitability.

M&A-related Revenues

(¥ billion)



Overseas Network

Locations of global bases

24 countries and regions

● The Daiwa Securities Group offices ▲ Overseas business alliances

Americas

◆ Americas

- New York
- Washington D.C.
- Chicago
- San Francisco

Major business lines

FICC
Equity (Japanese equities, US equities, Asian equities)
M&A advisory
Underwriting (equity, debt)

Europe/Middle East

◆ England

- London
- Manchester

◆ France

- Paris

◆ Russia

- Moscow

◆ Switzerland

- Geneva

◆ Poland

- Warsaw

◆ South Africa

- Cape Town

◆ Germany

- Frankfurt
- Hamburg

◆ Bahrain

- Bahrain

◆ Netherlands

- Utrecht

◆ Spain

- Madrid

◆ Italy

- Milan

Major business lines

M&A advisory Equity (Japanese equities, European equities, Asian equities) Underwriting (equity, debt) FICC

Asia/Oceania

◆ India

- Mumbai
- Bangalore

◆ China

- Beijing
- Shanghai
- Hong Kong

◆ Taiwan

- Taipei

◆ Myanmar

- Yangon

◆ Australia

- Melbourne
- Sydney

◆ Vietnam

- Hanoi

◆ Singapore

- Singapore

◆ Thailand

- Bangkok

◆ Korea

- Seoul

◆ Philippines

- Manila

Major business lines

Equity (Japanese equities, Asian equities)
Wealth management business FICC
Underwriting (equity, debt) M&A advisory

Discussion on the SDGs



Takeshi Mizuguchi

Professor
Takasaki City University of
Economics

Keiko Tashiro

Deputy President
Head of Overseas and SDGs
Daiwa Securities Group Inc.

Working with stakeholders towards economic impact for a better society

In April 2020, the Daiwa Securities Group appointed Deputy President Tashiro as Head of SDGs. Under Tashiro's leadership, they began monitoring activities based on KPIs that promote the SDGs. She spoke with Takeshi Mizuguchi, a professor at Takasaki City University of Economics and a pioneer in sustainable finance research, about the SDGs initiatives a company should undertake in an uncertain environment due to the COVID-19 pandemic.

The growing role of an integrated securities group in social responsibilities

Tashiro: After returning from the USA in 2016, I assumed the role of Head of Overseas Operations. Since then, I have had increased opportunities to meet with members of financial institutions in Europe. During those meetings, I could sense their increasing awareness of ESG and the SDGs. It was also a field of interest for me as well so I purchased Professor Mizuguchi's books to better educate myself.

I have been a member of the SDGs

Promotion Committee since it was established in 2018. I lobbied for the position and was later appointed the Head of SDGs in April 2020. I felt having a defined role within the company would make it easier to engage in activities.

Mizuguchi: Both ESG and the SDGs first gained traction in Europe. Deputy President Tashiro, as an expert in US finance I am sure you are aware of this but US financial institutions boasting some of the world's largest managed asset portfolios have become extremely engaged in ESG and SDGs initiatives in recent years. Japan, on the other hand,

is really just beginning to engage in such activities. As Head of SDGs, what are your thoughts on movements surrounding ESG and the SDGs?

Tashiro: I feel the SDGs are an incredibly important undertaking for all of society. There's any number of excuses for not accepting the challenge but I want to break through those barriers to engage in initiatives that everyone can believe in.

Our Group has a history of corporate management actively engaging in social issues. Promoting women in the workplace and workstyle reforms such as ensuring employees leave work by 7pm

are initiatives in which we have been engaged for over 10 years. President Nakata has identified child poverty as one of his core initiatives. With the difficult external environment caused by the COVID-19 pandemic, long-term initiatives such as the SDGs tends to be treated with lower priority. Daiwa Securities Group Inc. recently issued 75.0 billion yen in bonds for individual investors—the Daiwa Securities Group Future Support Bond—and donated 0.15% of the total issued amount, approximately 112.5 million yen, to COVID-19 support.

The donated amounts will be used towards causes such as providing emergency support to children's support foundations as well as towards medium- and long-term infrastructure development.

▶▶ P.60 Issuance of corporate bonds for individual investors

Mizuguchi: COVID-19 pandemic forced the issues of child poverty and the wealth gap back into the forefront. For example, there being children who were unable to receive online learning when schools shut down resulted in inequality in education, which in turn leads to a wealth gap.

Despite the fact that companies have worked to resolve various social issues and even the United Nations itself has been working towards these issues since its establishment after the

end of the Second World War, I ask myself why the issues outlined in the SDGs have yet to be resolved.

Tashiro: While it appears that the wealth gap between advanced nations and developing nations has declined, it has been noted that the wealth gap within advanced nations is growing. Compared to other advanced nations, Japan has a low number of immigrants. Some believe this creates an environment that makes it difficult for the development of a wealth gap but that is not the case.

Recently, the term SDGs is used frequently in Japan but, in truth, it is not used much in Europe or America.

Mizuguchi: That is true. Japan tends to show greater acceptance of uniform concepts such as environmental accounting or the SDGs. The issues at hand are specific issues such as climate change, poverty, immigration, and the wealth gap so, overseas, these tend to be approached as separate issues.

Tashiro: Considering this environment, what is your view on the current state of Japanese companies?

Mizuguchi: Japan has not demonstrated much leadership on green recovery, the attempt to promote initiatives related to a carbon-free

society and other environmental issues as part of the post-COVID-19 global economic recovery. In the sustainable finance sector as well, compared to Europe, Japan's mentality is largely to "Do what we can within the framework of existing rules". Japan is not demonstrating a willingness to make fundamental changes to those rules.

For example, when you think about the impact on existing industries, it may have been difficult to promote drastic measures related to renewable energy from a policy standpoint but, from a technology standpoint, there is more that could be done.

If the strategy of spending 10 or 20 years to make changes in industry had been adopted earlier, we might be living in a different world right now. I think we needed an understanding of the need to start promoting change to industrial structures sooner as part of a shift to an internationally competitive economy. Instead of simply leaving matters up to the government, investors must indicate the willingness to create new industry towards their own future benefit.

Thinking about how we use money

Tashiro: When you think about the problem of money flowing somewhere



Takeshi Mizuguchi

A professor at the Takasaki City University of Economics, Mizuguchi serves as a Chief Executive at the Japan Sustainable Investment Forum. Conducts research and has published several works in the fields of ESG investment, responsible investing, and non-financial information disclosure. Mizuguchi's past work includes serving as head of the Review Committee on Green Bonds / Green Loans, etc. (Ministry of the Environment), head of the Positive Impact Finance Task Force, and head of the Working Group on Impact Investments co-commissioned by the Financial Services Agency and the GSG National Advisory Board of Japan.

Discussion on the SDGs



else without being used towards those causes, I think there is inefficiency somewhere along the flow of cash. For individuals, low birthrates and population aging are also major issues. How does an individual save and manage cash in this age of 100-year lifespans?

Mizuguchi: The wealth gap will only increase in a society based on the concept of not depending on the government for money and instead expecting individuals to build wealth on their own.

Tashiro: On the other hand, there are social issues that require funding. I believe the mission of a comprehensive securities group is to create a framework that safely uses the massive stockpiles of cash held by individuals towards essential social infrastructure and returns that cash to the individual when they become elderly.

Japan has some 1,800 trillion yen in individual financial assets but the majority is simply sleeping in bank deposit accounts or at home under the mattress. This phenomenon is unique to Japan.

Money cannot help society if it remains in the form of cash. Investing

that money into stocks or bonds transforms that money into a force that drives the economy and creates benefits for the investor in the form of dividends and other returns. The greatest contribution a securities firm can make is to drive the flow of money.

Mizuguchi: So, how will the Daiwa Securities Group improve the flow of money?

Tashiro: I believe the key is with our younger generations. Even in smaller amounts of 1,000 or 2,000 yen a month, the best thing to do is invest and build, which will also create opportunities to think about what money is used for. From July 1, our Group launched a smartphone-based securities company called CONNECT. I believe this is the infrastructure that will provide such a framework to younger generations, particularly people in their 20s and 30s.

Mizuguchi: What about your initiatives related to sustainable finance?

Tashiro: We have been engaging in impact investment bonds since 2008. We have introduced bonds for the funding of activities to address child poverty, agriculture in developing nations, and water-related projects. Historically, these types of bonds are mainly issued by overseas entities but beginning from about two years ago domestic issuers also began issuing green bonds.

Moving forward, we hope to create more small-scale investment products that are highly focused on social contributions to appeal to individual investors.

Creating a flow of capital contributes to the SDGs

Mizuguchi: I believe you attended Davos 2020, where the Davos

Manifesto was proposed and there was a strong movement towards reevaluating corporate purpose and promoting stakeholder capitalism. As a securities firm, what was your reaction to this movement?

Tashiro: Compared to the past, I believe that opportunities for dialogue with stakeholders are increasing and that the level of transparency has improved significantly. How much consideration corporations give to stakeholders will be reflected in their capital costs. This is how stakeholder capitalism will establish itself in future capital markets. An important role of securities companies is to support the fund raising of corporations in the capital markets, so to this end, we must be able to evaluate the ESG commitment of corporates and advise and recommend how to efficiently utilize the capital markets.

Mizuguchi: Securities firms make significant contributions in terms of the impact on major corporations, which tend to procure capital through direct financing. Individual financial products are also important but I believe the true goal of the SDGs is to change the flow of the entire financial capital market. For example, I hope to see efforts to make it standard practice to include corporate ESG evaluations in analyst reports.

Tashiro: In May, we announced 12 SDGs driven KPIs based on the five themes we chose for the SDGs Action Plan. In addition, each division together with Group companies have set their own KPIs. It is still in its trial stage but we hope to get feedback from our stakeholders so we can brush it up and incorporate into our medium-term management plan that we will be announcing in fiscal year 2021.

Regarding the analyst reports you just mentioned, we have established a dedicated department in 2019. One of

the KPIs for this department is to increase the ESG information cover ratio of corporates. Of course it is not just about the ratio but the quality of the contents.

One theme outlined in the Action Plan for Promoting the SDGs is to foster and support industrial infrastructure that contributes to the SDGs. As part of that theme, we set M&A in the renewable energy sector as a KPI. In fiscal 2019, our Group invested in Green Giraffe, an M&A advisor specializing in the renewable energy sector. We would like to expand the advisory service globally.

Mizuguchi: I hope to see the Daiwa Securities Group take a broad approach to these issues. What about projects that involve multiple companies and investors? For example, a paradigm project that drives change for Japan's entire energy structure. It is my hope that a well-established and dynamic financial institution like the Daiwa Securities Group will take a leading role in this area.

Tashiro: Fiscal 2021 represents the start of a new medium-term management plan for our Group. At the same time, we are outlining our 2030 Vision. Aligning these periods with the deadline for the SDGs, we are drafting a vision that incorporates social change and the ideal future for our Group.

Looking back on the past 10 years, we saw the emergence of the sharing economy and 10 years before that was the deregulation of brokerage commissions. We have lived through turbulent times and dynamic change.

I believe the next 10 years will be the decade in which we truly feel the impact of having to prepare for 100-year lifespans. Living happy long lives requires not only assets but also a strong society. We want to create a flow of capital that contributes to asset building as well as the realization of the SDGs to create a better society.



Promoting the SDGs

The corporate philosophy of the Daiwa Securities Group is to contribute to society. We operate based on the mission of contributing to the development of society through the financial and capital markets. We have engaged in numerous initiatives aimed at resolving the social issues we identify through our stakeholder engagement.

The SDGs Promotion Committee meeting which was established in 2018, has been chaired by the CEO, to further promote the creation of the shared values that achieve both economic value and social value.

By building the Daiwa SDGs Value Chain, we believe we can create a flow of capital that contributes to a sustainable society.

February 2018: Launched the SDGs Promotion Committee (chaired by the CEO)

May 2018: Published Passion for SDGs | The Daiwa Securities Group Declaration on SDGs

May 2019: Announced Materiality for Promoting the SDGs and the Action Plan for Promoting the SDGs

April 2020: Appointed a Head of SDGs

May 2020: Established SDGs-driven KPI



Stakeholder engagement <https://www.daiwa-grp.jp/english/sdgs/stakeholder/>



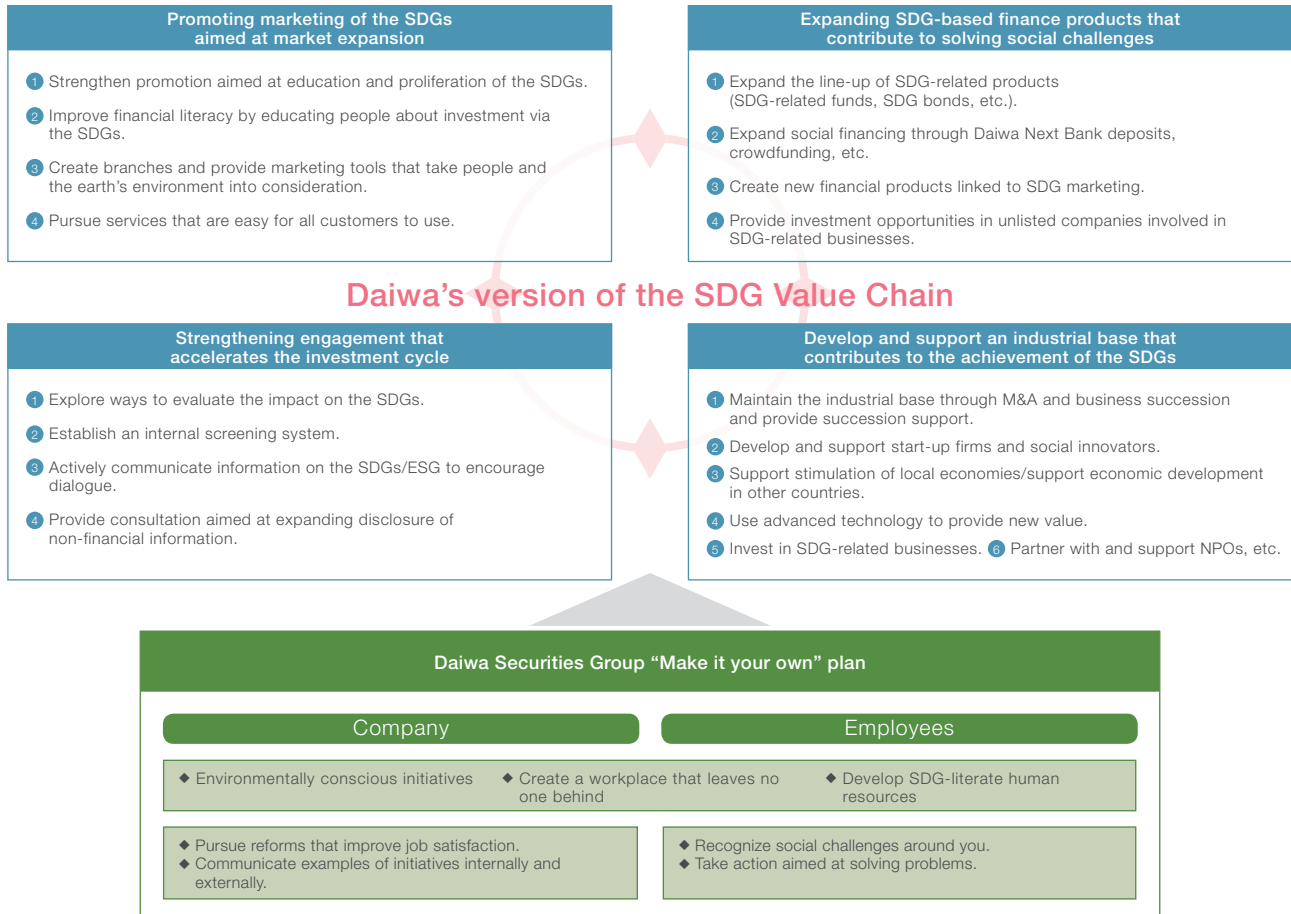
Daiwa Securities Group SDGs https://www.daiwa-grp.jp/english/sdgs/group_sdgs/

Daiwa Securities Group SDGs

Note: URLs preceded by the letters **JP** are in Japanese only.

SDGs Action Plan Being Pursued by Daiwa Securities Group

Building a Daiwa version of the SDG Value Chain that will create a sustainable capital cycle



FY2020 KPIs for Promoting Achievement of the SDGs

Action Theme	KPI
Promoting marketing of the SDGs aimed at market expansion	Number of people who have completed SDG training
Expanding SDG-based finance products that contribute to solving social challenges	SDG bonds (project bonds) league table
	Open time deposit balance
	SDG-related funds amount or no. of funds handled*1
	Net increase in SDG-related funds*2
Developing & supporting an industrial base that contributes to achievement of the SDGs	Investment in SDG-related businesses
	M&A league table in the renewable energy segment
	No. of M&A deals retained + No. of cases of business succession consulting
	Contribution through foundations and NPO, etc.
Strengthening engagement that accelerates the investment cycle	ESG coverage ratio in individual company reports
Daiwa Securities Group "Make it your own" plan	Percentage of women in management positions
	Volume of CO ₂ emissions

*1 Scope: Daiwa Securities *2 Scope: Daiwa Asset Management

Main SDG Promotion Results for FY2019

Promoting marketing of the SDGs aimed at market expansion

- With the aim of promoting sales of SDG bonds and SDG-related funds, held SDG seminars and tie-up seminars that covered SDG themes with asset management and other companies at sales branches (Daiwa Securities)
- Reviewed promotion tools and adopted environmentally conscious materials (Daiwa Securities)
- Introduced various initiatives related to Daiwa Securities Group's SDGs when in face-to-face meetings with customers and business partners (Group companies)



SDGs Booklet
https://www.daiwa-grp.jp/english/sdgs/data/pdf/daiwa_sdgs_en_booklet_2020sec.pdf

Expanding SDG-based finance products that contribute to solving social challenges

- Development/management of SDG-related funds (Daiwa Asset Management)

Daiwa Asset Management organizes and manages a variety of SDG-related funds. As of March 31, 2020, the total assets under management of 10 ESG-related investment trust funds amounted to approximately ¥37.4 billion.

ESG-related Investment Trust Funds

- Clean Tech Stock & Green Bonds Fund
- Social Challenges Fund
- Daiwa Society 5.0-related Stock Fund (nicknamed Smart Technology)*

* Established July 2020



- Underwriting/Sales of SDG Bonds (Daiwa Securities)

- Underwrote TICAD Bond (Social Bonds), the first themed bond by JICA

JP <https://ssl4.eir-parts.net/doc/8601/tdnet/1752714/00.pdf>

- Underwrote Japan's first domestic Sustainability Bond aimed at individual investors issued by Mitsui O.S.K. Lines

JP https://ssl4.eir-parts.net/doc/8601/ir_material3/136884/00.pdf

- Issued Green Bond in March 2020 to procure finance for solar power generation project that Daiwa Energy & Infrastructure has under development in Hokkaido

JP <https://ssl4.eir-parts.net/doc/8601/tdnet/1810815/00.pdf>

JP <https://ssl4.eir-parts.net/doc/8601/tdnet/1811529/00.pdf>

- Daiwa Securities also actively underwrites/sells themed bonds by means of structured bonds and privately subscribed SDG bonds

Develop and support an industrial base that contributes to the achievement of the SDGs

- Investment in Myanmar/microfinance business (Daiwa PI Partners)

In November 2019, established joint venture with OKM in Myanmar and commenced microfinance business

JP <https://ssl4.eir-parts.net/doc/8601/tdnet/1771379/00.pdf>

- Contribution to industrialization of agriculture (Daiwa Food & Agriculture)

March 2020, entered the tomato production business in collaboration with Kagome with capital participation in Heishu Farm, which produces tomatoes in the town of Kawanishi, Yamagata Prefecture



JP https://ssl4.eir-parts.net/doc/8601/ir_material3/136872/00.pdf

May 2020, capital participation in Mirai no Hatake Kara and commenced tomato production in the town of Kusu, Oita Prefecture

JP <https://ssl4.eir-parts.net/doc/8601/tdnet/1839477/00.pdf>

- Strengthening of advisory services business in the renewable energy business (DC Advisory Holdings)

October 2019, investment in Green Giraffe

JP <https://ssl4.eir-parts.net/doc/8601/tdnet/1760800/00.pdf>

- In February 2020, teTra aviation corp. was the only company to win an award in a global competition for air mobility (flying devices). teTra was a member of Hongo Tech Garage, hosted by the University of Tokyo, a Daiwa Securities Group donation project (Daiwa Securities Group Inc.)

JP <https://www.daiwa-grp.jp/english/sdgs/stakeholder/financial.html>

Strengthening engagement that accelerates the investment cycle

- Establishment of ESG Investment Policy

January 2020, announcement to clarify stance with regard to ESG (Daiwa Asset Management)

JP <https://www.daiwa-am.co.jp/company/esg/index.html>

JP <https://www.daiwa-am.co.jp/company/esg/index.html>

- Concerning exercising of voting rights that takes into consideration effects of COVID-19, announced the adoption of a flexible approach that would take current situation into account (Daiwa Asset Management)

JP <https://www.daiwa-am.co.jp/company/managed/coronagiketsu.pdf>

- Supported expanded disclosure of non-financial information (Daiwa Institute of Research, Daiwa Investor Relations)

Daiwa Institute of Research IR support

JP <https://www.dir.co.jp/business/consulting/ir/index.html>

Daiwa Investor Relation Corporate services

JP <https://www.daiwair.co.jp/listed/>

- ESG research, strengthening of related seminars

Held seminars on ESG investment and sustainable finance for institutional investors at the ESG Research Group within the Daiwa Securities Equity Research Department (Daiwa Securities)

Expanded companies that underwent ESG evaluations by in-house company research analysts by about 30% (Daiwa Asset Management)

"Make it your own" plan

- Established ESG/SDGs working groups at overseas bases and conducted activities such as study sessions that had diversity and inclusion as their theme

- Reforms to improve job satisfaction (Daiwa Securities)

Diverse workstyles according to life stages were introduced once the 2-in-1 devices were contributed to all employees. The telecommuting system was expanded with the goal of improving productivity throughout the company.

JP <https://ssl4.eir-parts.net/doc/8601/tdnet/1803364/00.pdf>

Daiwa Securities Group SDGs

Initiatives that took environment into consideration (Daiwa Securities)

Promoting environmental considerations at domestic and overseas bases, including the curbing of paper resource usage by promoting enrollment of e-members, who electronically deliver documents to customers, and the introduction of electric bicycles at branches

Improvement in third-party evaluations
Ouen Time Deposits awarded special prize at Japan SDGs Award (Daiwa Next Bank)

The Eraberu Yokin service Ouen Time Deposits have been very well received since Daiwa Next Bank started offering them in 2017, and their balance as of the end of March 2020 was



approximately ¥73.0 billion. The bank also proactively disseminates information, such as the issuing of recipient activity reports, about the beneficiaries. In recognition of these efforts, Daiwa Next Bank became the first new kind of bank to receive a special award at the Third Japan SDGs Award in December 2019.

[JP https://ssl4.eir-parts.net/doc/8601/tdnet/1778950/00.pdf](https://ssl4.eir-parts.net/doc/8601/tdnet/1778950/00.pdf)

Acquired ESG rating A (Daiwa Securities Group Inc.)

Under MSCI's ESG rating system, Daiwa Securities Group Inc. has improved from its previous BBB rating to an A rating since the end of 2019

Selected for Indices (Daiwa Securities Group Inc.)

Up to July 2020, Daiwa Securities Group Inc. had been selected for inclusion in the FTSE4Good Index Series for 15 consecutive years and selected by FTSE Blossom Japan Index and MSCI Japan Empowering Women Index (WIN) for four consecutive years since they were officially announced in 2017.

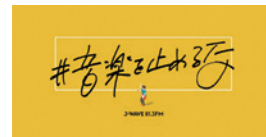
Initiatives to Combat Spread of COVID-19 Infections

Underwriting of social bonds

In April 2020, Daiwa Securities Capital Markets Europe Limited underwrote a social bond issued by the International Finance Corporation (IFC) to assist in raising funds to address social issues. A member of the World Bank Group, IFC is one of the world's largest international development finance institutions specializing in supporting the private sector in emerging markets. IFC's Social Bond Program adheres to the Social Bond Principles, and funds raised through bond issuance under this program are dedicated to projects whose beneficiaries are those people who do not receive the services they need in developing countries, including those affected by COVID-19.

Support for music industry (Fintertech)

In May 2020, Fintertech participated in the J-WAVE #Don't Stop Music project. To support the music industry, which has been significantly affected by the COVID-19 infections, the company provided a cloud-based "coin toss" system free of charge.



[JP https://ssl4.eir-parts.net/doc/8601/tdnet/1822277/00.pdf](https://ssl4.eir-parts.net/doc/8601/tdnet/1822277/00.pdf)

Issuance of corporate bonds for individual investors (nicknamed Daiwa Securities Group Future Support Bond) (Daiwa Securities Group Inc.)

About 0.15% (¥112.5 million) of the issued amount was donated for the purpose of supporting NPOs and other organizations that support children. To provide ¥10 million in emergency support to organizations providing assistance to children affected by the new coronavirus, the Company donated to the "COVID-19 Emergency Fund for Children Support Groups" established by the Public Resources Foundation, and the remaining amount as medium- to

long-term support, establishing the "Daiwa Securities Group Future Support Bond Child Support Group Sustainable Fund" in collaboration with the Public Resources Foundation with the aim of creating a foundation for an organization that can continue to support children in an emergency.

<https://ssl4.eir-parts.net/doc/8601/tdnet/1833616/00.pdf>

¥10 million

Public Resources Foundation
COVID-19 Emergency Fund for Children Support Groups


Emergency support

Care for children off school
Supporting children in single-parent families

¥102.5 million

Daiwa Securities Group Inc. x Public Resources Foundation
Daiwa Securities Group Future Support Bond
Child Support Group Sustainable Fund


Medium- to long-term support

Building a base that includes online business
Organizational digitalization

• **Support for healthcare workers (Daiwa Securities Group Inc., Daiwa Real Estate Asset Management)**

In May 2020, Daiwa Securities Group donated ¥5.0 million to cover the accommodation expenses of the Room Support Plan for Medical Professionals implemented at hotels operated by JHAT Co., Ltd.

JP <https://ssl4.eir-parts.net/doc/8601/tdnet/1821493/00.pdf>

• **Consideration for employees**

In addition to fully introducing a remote working system for all employees, the Group flexibly implemented a raft of measures.

- Improved commuting-related regulations to lower the infection risk of personnel who unavoidably have to go to offices, such as easing requirements for off-peak commuting, use of bicycles, cars and first-class cars on trains, offers of stays at hotels near offices, and provided private bus
- No limit placed on the number of days every employee can take special leave (paid)
- More consideration for employees who are raising children, pregnant, caring for the elderly or have underlying health conditions

Green Finance Initiatives

Support for issuance/promotion of Green Bonds/SDG Bonds*1

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

Active since 2008 in developing the ESG/SRI bond markets in Japan and overseas as a means to promote Impact Investment that contributes to solving environmental and social issues, the Group is promoting the full-scale spread of

SDG bonds, including Green Bonds, in Japan and overseas. Examples include serving on the committee developing the Ministry of the Environment's Green Bond Guidelines, 2017 and participating in the International Capital Market Association's working group on Green Bond Principles.

The Group added to its track record of having served as lead manager in some landmark underwriting projects, including, in FY2019, Japan's first domestic Sustainability Bonds aimed at individual investors issued by a business corporation from Mitsui O.S.K. Lines and TICAD Bond, the first Japan International Cooperation Agency-themed bonds. In FY2020, these projects include Social Bonds issued by International Finance Corporation, the Sustainable Development Bonds of the Inter-American Development Bank, and Tokyo Tatemono's Sustainability Bonds, the first Sustainability Bonds in the real estate sector.

Main SDG Bonds Underwriting from FY2019 Onward

Period	Issuer	Notes	Issue Amount
FY2019	Mitsui O.S.K. Lines	Sustainability Bonds (Including first domestic Sustainability Bonds for individual investors from a business corporation)	Total: ¥20.0 billion
	East Nippon Expressway	Social Bonds	Total: ¥110.0 billion
	Japan International Cooperation Agency	Social Bonds (TICAD Bond*2)	¥12.0 billion
	Daiken Corporation	Green Bonds (Domestic construction materials industry first/structuring agent*3)	¥5.0 billion
	Sumitomo Warehouse	Green Bonds (Domestic construction materials industry first/structuring agent)	¥5.0 billion
	Nidec Corporation	Green Bonds	Total: ¥100.0 billion
FY2020	Gakken Holdings	Social Bonds (Initial bonds)	¥5.0 billion
	International Finance Corporation	Social Bonds	AUS\$200 million
	Inter-American Development Bank	Sustainable Development Bonds	AUS\$50 million
	Tokyo Tatemono	Sustainability Bonds (first Sustainability Bonds in real estate industry)	Total: ¥40.0 billion

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

*2 Bonds issued to coincide with the holding of the Seventh African Development Conference at the end of August 2019 to allocate funds for social development projects in African countries

*3 Supporting the issuance of SDG bonds by advising issuers on the development of an SDG Bond framework and on obtaining a second-party opinion

Creation and management of investment trusts with themes such as consideration for the environment and transition to green energy

Having been a signatory to the UN Principles for Responsible Investment (PRI) in May 2006 and having announced its acceptance of the Responsible Institutional Investor Principles (Japanese Stewardship Code) in May 2014, Daiwa Asset Management proactively engages in stewardship activities on an ongoing basis. It is Daiwa Asset Management's responsibility to contribute to the enhancement of the value of investee companies and the realization of a sustainable society through its asset management operations. In January 2020, we announced the ESG Investment Policy to clarify our approach to ESG.


We also consider that providing investment opportunities through the establishment and management of investment trusts with ESG and SDG themes as part of our stewardship activities. We have a rich lineup of funds, including ETFs, which we aim to link to ESG indices and sustainable theme investment funds.


In February 2020, we set up and started managing the Clean Tech Stock & Green Bonds Fund. The fund invests in companies that contribute to the theme of environment friendly and in bonds that have the purpose of raising funds in line with this theme. Specifically, clean tech-related companies

—companies that place activities that promote global warming countermeasures, prevention of environmental pollution, waste treatment/effective use of resources, conservation of the natural environment at the core of their businesses—and green bonds, which limit the use of funds to green projects and invest in bonds that help solve environmental problems.

Daiwa Asset Management believes that this fund will provide investors with the opportunity to contribute to the realization of a clean and green society and the opportunity to grow assets through balanced management.



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

 Concerning ESG Investment (Daiwa Asset Management)
JP <https://www.daiwa-am.co.jp/company/esg/index.html>


Investment in renewable energy

Daiwa Securities Group established Daiwa Energy & Infrastructure Co. Ltd. in July 2018, and transferred the energy investment functions that had been previously been undertaken by Daiwa PI Partners. In the past, we have invested in the domestic renewable energy field centered on solar power, but now we are expanding our investment area to overseas renewable energy and infrastructure fields.

In FY2018, we started a joint project with Biomass Fuel, a capital and business alliance partner, to build a wood pellet manufacturing plant in Vietnam with an annual production capacity of approximately 200,000 tons. In FY2019, we decided to invest in Electricity North West Limited,^{*1} which conducts a power distribution business in the United Kingdom,

and to enter into a strategic partnership with Germany's Aquila Capital Holding GmbH,^{*2} which develops and manages renewable energy businesses.

Through Daiwa Energy & Infrastructure, the Group will continue to promote investment and financing globally in the renewable energy, infrastructure and resources fields in the years to come.

^{*1}  <http://www.daiwa-ei.jp/en/news/pdf/20190730e.pdf>
(Press release July 30, 2019)

^{*2}  <http://www.daiwa-ei.jp/en/news/pdf/20191205e.pdf>
(Press release December 5, 2019)

Environmental Initiatives

Protecting the global environment, which is the basis of our livelihood, is essential for a sustainable society. Through its business activities, Daiwa Securities Group contributes to the resolution of environmental issues by developing products that reduce the environmental burden, and also by assisting financing for the development of environmental technologies and infrastructure. At the same time, we are working to establish a system that efficiently collects data on the Group's environmental load. We are also focusing on raising employees' environmental awareness to empower them to reduce the environmental burden of daily business operations.

Environmental Vision	The Group is dedicated to protecting the precious global environment and preserving it for future generations by leveraging financial capabilities.
Environmental Principles	The Group recognizes the importance of environmental principles such as the effort to combat global warming, recycling and reuse of raw materials, and preserving biodiversity, in order to create a sustainable society for the 21st century. The Group pledges to contribute to solving environmental issues through its business as a financial service company and to constantly seek new ways to reduce its environmental impact as a responsible corporate citizen.
Basic Environmental Policies	<ol style="list-style-type: none"> 1. Make positive environmental contributions through our core business activities We shall seek to develop and provide financial products and services that promote a low-carbon, recycling-oriented, and symbiotic society. 2. Implement an environmental management system We shall implement an environmental management system and constantly seek new ways to improve environmental activities. In addition, we shall support environmental education and publicity efforts, while promoting environmental protection efforts by employees. 3. Take steps to save natural resources, reduce energy consumption, and promote biodiversity system We shall continue to progress in our efforts to reduce the use of natural resources and energy, and seek ways to improve materials and energy efficiency (including efforts to improve business efficiency). We shall also take steps to reduce water use and reduce, reuse, and recycle other materials to contribute to a more environmentally friendly society. Furthermore, considering the importance of biodiversity, we shall seek a symbiotic relationship with the environment and use safe, clean methods of materials procurement. 4. Promote environmental communication Working in concert with business partners, the local community, NGOs and NPOs, we shall actively disseminate information about environmental issues, and communicate our concern for the environment to customers and society at large. 5. Strictly observe environmental regulations We shall always endeavor in environmental preservation, observing environmental laws and regulations in addition to the Group's environment policies. <p style="text-align: right;">Daiwa Securities Group Inc. (May 22, 2012)</p>

Targets for FY2030

- Reduce CO₂ emissions by at least 20% from the FY2009 level

Targets for FY2020 (Daiwa Securities Group)

- Initiatives for the reduction of CO₂ emissions
Continue to reduce* CO₂ emissions by at least 1% compared with the previous fiscal year
- Initiatives for the reduction of electricity consumption
Achieve a reduction of at least 10% from the FY2009 level* (as of FY2020)
Achieve a reduction of at least 20% from the FY2009 level* (as of FY2030)
- Improve the accumulation of environment-related data and hone analytical skills
- Continue to introduce eco-cars
- Purchase products certified under Top Runner standards

*On a domestic consolidated basis

* On a per unit area basis for both targets

Company cars in Japan (Daiwa Securities)

1,065 vehicles including 837 eco-cars and 157 hybrid cars
(As of March 31, 2020)

Introduction results for FY2019: 409 eco-cars and 11 hybrid cars

Introduction plan for FY2020: 76 eco-cars and 28 hybrid cars

Cases of soil and groundwater pollution found within office sites

FY2019 0

Investment in energy-saving air conditioning systems for FY2019

¥47 million
(including installation costs)

FY2019 CO₂ emissions (Japan)

YoY 0.7% down



See the Group's HP for details of Environmental Initiatives.
<https://www.daiwa-grp.jp/english/sdgs/environment/>

Governance Strategy

Daiwa Securities Group has adopted the organizational form of a company with Three Committees with the aim of achieving a highly transparent and objective governance structure in international terms. In each committee, the majority is comprised of outside directors, one of whom serves as chairperson. Moving forward, we will continue to build and develop an appropriate corporate governance system through various measures including efforts to ensure diversity in the Board of Directors.

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Corporate Governance Dialogue

The Group will take a further leap forward
by strengthening the effectiveness of the
Board of Directors in the Post-COVID Era.



Michiaki Ogasawara
Outside Director



Takashi Hibino
Chairman of the Board
Daiwa Securities Group Inc.

The business environment for companies changed drastically in 2020 along with the profound economic and social impact of the novel coronavirus pandemic and growing demands from society for companies to address climate change issues. Chairman Takashi Hibino and Director Michiaki Ogasawara discuss the future of the Daiwa Securities Group and the themes of future management from a corporate governance perspective.

Corporate Governance Dialogue

Growth-oriented corporate governance to address a sea change in the business environment

Hibino: I am speaking with Michiaki Ogasawara, who has served as an outside director for the Group since 2015. Mr. Ogasawara was with the former Ministry of Posts and Telecommunications, and the Ministry of Internal Affairs and Communications. Both are well-known, sizable ministries in Japan's government district, so Mr. Ogasawara is well-versed in the ins and outs of running large organizations. He is full of ideas for adapting the highly specialized discussions of outside directors to the actual organization, and plays a major role in transferring concepts to the business.

Ogasawara: As a public official, I worked for a long time in communications-related areas. The goal of a public official is to shape national legal and budgetary structures to achieve social and economic progress, which in turn leads to increased national well-being. When formulating and implementing government policy, I followed a process of listening to the opinions of various stakeholders, refining such ideas in

pursuit of solutions, and then seeking to win understanding. Logic and reasonableness were important to me in this process. As an independent outside director of the Group as well, I continue to place great importance on the reasonableness of our decisions.

At heart, a company is an organization whose goal is to pursue profits. In recent years, however, there's been a major paradigm change towards management approaches that contribute to various stakeholders. There's a traditional saying in Japan, *sanpo-yoshi*, which means a three-way win—good for the seller, good for the buyer, and good for society. Going forward, though, I think the ideal for companies to strive for will be "What is needful in society?". This process may be similar to what I experienced from my time as a public official.

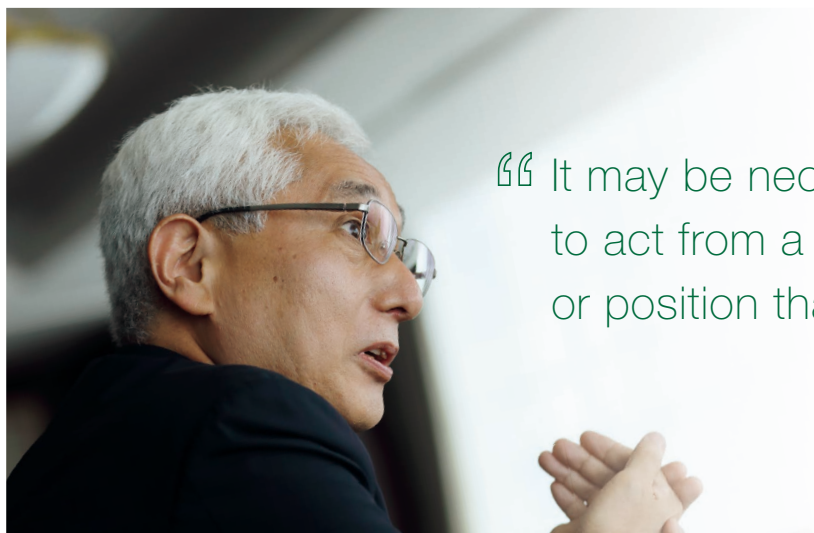
Since my background is in communications, I observed closely the past quarter century, as the Internet and mobile telecommunications began to spread in earnest. The financial industry, to which the Group belongs, by nature has a high affinity for information and communication technologies (ICT). It is an area where leading-edge IT is constantly being introduced into applications such as trading systems, and was one of the first fields to get into online businesses. On the other

hand, since many retail customers are elderly, communication with individual customers changes at a slower pace than many other fields. I am very interested to see what will happen in a world where digital transformation (DX) continues to accelerate.

Hibino: In response to the coronavirus pandemic, the Group was at the forefront of the financial industry in Japan in putting into place a full-scale telecommuting system using remote devices. This enabled the Group to continue operations without a loss in productivity. Preparations for this system originally began with a view to the Tokyo Olympic and Paralympic Games that were scheduled to be held this year. But the system was rolled out ahead of schedule due to the pandemic.

Although remote work using a portable device presents extremely high hurdles in terms of compliance, Mr. Ogasawara had insisted on the need for telecommuting for a long time. So, we moved ahead in implementing an infrastructure that is very robust in terms of both security and compliance. I think this was an example of how the outside directors' extensive knowledge and attentiveness to management can bear fruit for the Group.

Having also received many



“ It may be necessary at times to act from a different perspective or position than internal directors.

Michiaki Ogasawara ”

“Taking initiatives to disseminate human-centered digital innovation from Japan to the world.”

Takashi Hibino



suggestions from our outside directors regarding systematic reforms to corporate governance, in FY2020 we undertook three key reforms. First, we established a Corporate Secretariat Office to support Board meetings and the Outside Directors Council in its operation and communication. Second, we reassessed the composition of the Board, so that corporate executive officers who are heads of specific business divisions do not serve as Board members at the same time. And third, we increased the number of Selected Committee Members* of the Audit Committee from one to two. Through these measures, the Board of Directors has become much more effective.

Ogasawara: In terms of the corporate governance of the Group in 2020, I think the separation of management supervision and execution has become clearer. As you know, separating supervisory and executive functions enables more agile business decision making and contributes to greater competitiveness. As a company with Three Committees System, Daiwa Securities Group had already been working to separate supervisory and executive roles. In recent years, however, as the Group's business activities have expanded significantly under the hybrid strategy, a stronger governance system, which includes appropriate monitoring

functions, is needed.

Under this system, an even more robust supervisory function is required. Increasing the number of Selected Committee Members, as well as separating Board administrative functions from the Corporate Planning Department and giving them to an independent department are appropriate strengthening measures.

* An Audit Committee member specially selected by the Audit Committee, who may request officers and employees to report on matters related to the performance of his/her duties at any time, and may also examine the status of the company's business operations and assets.

Rigorous monitoring to enhance the Board of Directors' effectiveness

Hibino: Mr. Ogasawara, at five years, you have the longest tenure among all the outside directors of the Group. You also chair the Outside Directors Committee. Furthermore, in 2020, you were appointed as chair of the Nominating Committee. How do you view our Board of Directors?

Ogasawara: In addition to regular Board meetings, I also feel the Outside

Directors Committee meetings are significant. We independent directors always need to keep in mind that “it may be necessary at times to act from a different perspective or position than internal directors.” For example, when dealing with a management scandal at another company, or considering an M&A. To improve the Board's effectiveness, it is extremely important for the outside directors to maintain close communication with each other and work together to pursue improvements on a daily basis, not only in emergencies but at normal times as well. I hope that the new Corporate Secretariat will be able to provide substantial support to the Outside Directors Committee.

Hibino: In terms of corporate governance, our biggest evolutions happened in 1999, when we shifted to a holding company structure, and in 2004, when we adopted the committee system. We had four outside directors in 2004, five in 2009 and six in 2016. As of July 2020, the ratio of outside directors was 46%, far exceeding the level recommended by Japan's Corporate Governance Code. In 2017, all three statutory committees were chaired by outside directors. Even with this history, I think that 2020 stands out as a major step forward in terms of reforming governance.

Corporate Governance Dialogue



Ogasawara: The Board of Directors isn't meant to be the organization that makes day-to-day decisions about how to conduct business, but the organization that monitors how the business is conducted. I think this characteristic is clearer under the new system. Another issue is responding to calls for more robust financial, risk management, and compliance monitoring.

At the same time, I feel that cooperation between the Board of Directors and the Committees is important going forward. In particular, it is important that the Board and the Audit Committee, which constantly monitors the legality, reasonableness, and adequacy of operations, be on the same page.

Hibino: We reinforced our monitoring system in FY2019, centering on the Audit Committee, taking steps so that the Committee Members can understand operations on the ground in better detail. Currently, the Audit Committee conveys monitoring feedback to the various business divisions based on opinions from the Committee, and we have built a system that allows for the course of business operations to be corrected.

In that sense, we also need to revisit how Board agendas are set. Up until now, we have mainly established limits on investment amounts, etc. But

if our monitoring capability is reinforced, we will need to come up with other criteria, such as social impact.

In terms of Board diversity, since 2019 we have had three female directors, bringing the current ratio of females to 23%, which is quite high for Japanese companies. Nevertheless, we are aiming to further increase that ratio as a member of the 30% Club*. I don't feel that foreign directors are indispensable to the Group at this time, but it's my sense that many directors, both internal and external, have extensive overseas experience. In 2020, we appointed an experienced manager to the Board, Toshio Iwamoto, former President of NTT DATA Corporation. This reflects our awareness that ICT is a vital area for the securities industry.

Ogasawara: Mr. Iwamoto is someone who has been a driving force behind DX and FinTech in Japan, and it is very encouraging to have him on the Board.

Regarding Board agendas, in line with the hybrid business strategy, the level of discussion should be determined not only by the potential amount of investment in a business, but also by the extent to which the Group is committed to the business in question. For businesses to which the Group is willing to make a deep, long-term commitment, social impact should certainly be a central concern. In addition, through

continuous monitoring, we will need to make appropriate changes to our strategy to address developments in the business environment.

Hibino: What are your thoughts as chair of the Nominating Committee?

Ogasawara: Japan is not the only country where many CEOs and other members of the management team are promoted internally. It makes sense that a person who is most familiar with the company's businesses should be in charge of management. However, in the case of internal promotions, which are usually based on the current CEO's suggestions, it shouldn't be an arbitrary or opaque choice. The role of the Nominating Committee is to ensure the objectivity and transparency of executive appointments. The outside directors should be given an adequate explanation as to why a person is being recommended, interview the candidate, and carefully weigh all the factors before making a judgment.

With their diverse experience and knowledge, outside directors should examine executive appointments, including the succession of top management, from a variety of perspectives, and consistently carry out the processes needed to ensure fair and appropriate appointments. I think we owe this to stakeholders.

* A global initiative whose mission is to reach at least 30% representation of women on all Boards of Directors. Chairman Hibino and President Nakata are members of the 30% Club Japan, which was established in May 2019.

The management theme going forward is human-centered DX

Hibino: In the second half of FY2020, we will formulate a new Medium-Term Management Plan. One overriding premise of the plan will be that DX is going to make great advances all over the world in the Post-COVID Era. It is

my belief that not only will businesses be transformed by digital technology, but cybersecurity risks will also increase.

Meanwhile, the shortage of IT professionals has become a pressing issue in Japanese society. The Ministry of Economy, Trade and Industry estimates that by 2030 there will be a shortage of up to 790,000 IT specialists in Japan. We are fortunate that the Group's subsidiary, the Daiwa Institute of Research Group, has a wealth of IT professionals, but to build the IT skills of staff across the Group, in FY2019 we established a Digital IT Master certification program. IT plays an increasingly critical role in the financial industry, and IT skill sets will be instrumental for Group employees in developing new business.

Ogasawara: When you're placed in a constraining environment like the COVID-19 pandemic, it becomes clearer what really matters and what doesn't. So, getting on a crowded train and commuting to work every day was not so important after all.

Daiwa Securities Group has been designated as a Digital Transformation Stock Selection (DX Stock) 2020* by Japan's Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange. However, the ICT field actually has what I would call a "late-comer advantage," so that participants who come later often overtake their competitors. We constantly need to be vigilant. Also, it's important to note that ICT is a tool, not an end. With the pandemic, I've found that there are far fewer limitations than we thought in terms of working hours, locations, and methods.

If this is true, we should take the maximum advantage of ICT to provide the best possible service to customers, including elderly customers, with more flexibility and imagination than before.

From the perspective of the Group's responsibility towards investors, companies face expectations from the communities to which they belong.

These days, it may be the earth itself. A company that can't meet these expectations will be unable to persevere and flourish over the medium and long term. What society is calling for today is DX and answers to environmental, social, and governance (ESG) issues. For a country like Japan where the birthrate is falling and the population is aging, the only way to remain prosperous is to increase productivity. It's all about leveraging technology. Regarding the environment, Japan has numerous constraints on energy, and making the transition to new forms of energy is far from easy. We stand to face criticism for not meeting the standards of international accords. The Group must be part of the ongoing conversation about how to deal with these issues.

Hibino: At the World Economic Forum annual meeting in 2020 in Davos, the theme was "multi-stakeholder capitalism" and the problem of climate change. Although Davos is a ski resort, there was no snow on the ground in January, so all the participants had a particularly vivid sense of the crisis.

For example, the Japan Business Federation (Keidanren), under the banner of Society 5.0 for SDGs, is taking initiatives to disseminate human-

centered digital innovation from Japan to the world. The key is sustainable finance, especially funding sustainable social innovators. As a front runner in the capital markets, we want to take the lead in this field.

Ogasawara: One other point, regarding diversity and inclusion, I think the Group is in a good position, having already made great strides in enacting measures relating to women and older employees. In the future, I think the Group will need to look at a wider range of abilities from employees, such as IT professionals and employees who can grow the hybrid businesses. So, I personally think that more diversity is needed, in terms of not only gender and age, but also employees with more unconventional individuality.

Everyone is pulling for the Daiwa Securities Group to further grow and develop as an innovative company where all employees are highly motivated. I would like to contribute to this as much as I can.

* The award name was changed in 2020 from Competitive IT Strategy Company (▶▶ see P.22)



Directors (Members of the Board)

Internal Directors

Toshihiro Matsui

Deputy President and COO
Deputy President,
Daiwa Securities Co. Ltd.

1985 Joined Daiwa Securities Co. Ltd.

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

Chairman of the Board

Takashi Hibino

Chairman,
Daiwa Securities Co. Ltd.

1979 Joined Daiwa Securities Co. Ltd.

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

Seiji Nakata

President and CEO
President,
Daiwa Securities Co. Ltd.

1983 Joined Daiwa Securities Co. Ltd.

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



Hiromasa Kawashima

1992 Joined Daiwa Securities Co. Ltd.

After serving in the Personnel and Investment Banking Divisions, he served successively as Managing Director of the Executive Office and Internal Audit Dept. of the Company. He has broad knowledge and experience in Personnel and Internal Audit.

Akihiko Ogino

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

1989 Joined Daiwa Securities Co. Ltd.

He served as Managing Director of the Executive Office, the Corporate Planning Dept. and the Legal Dept. of the Company. Since his inauguration as the Senior Managing Director of the Company in 2014, he served successively as Head of Legal, Deputy Head of Planning and Overseas of the Company and now serves as Head of Planning and Legal, and Executive Head of Personnel of the Company. He has broad knowledge and experience in Planning and Personnel and also has experience in Investment Banking.

Keiko Tashiro

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

1986 Joined Daiwa Securities Co. Ltd.

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

Sachiko Hanaoka

1990 Joined Daiwa Securities Co. Ltd.

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

Outside Directors

Ikuo Nishikawa

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 four years.



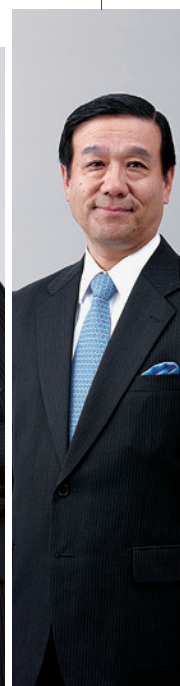
Michiaki Ogasawara

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 five years.



Toshio Iwamoto

He held positions such as the President of NTT DATA Corporation, etc., and currently is the Advisor of NTT DATA Corporation. The Company has drawn on his significant accumulated experience in management of global companies and experience and extensive knowledge about IT, and at the Company's 2020 General Meeting of Shareholders he was newly appointed as an outside director.



Katsuyuki Nishikawa

Prior to his current position as an attorney-at-law, he was the Vice-Minister of Justice, and served as the Superintending Prosecutor of the Tokyo High Public Prosecutors Office and the Prosecutor General. The Company has drawn on his wealth of experience and expertise on legal and compliance issues nurtured throughout his career in providing management advice. He has been a director for one year.

Hirotaka Takeuchi

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 four years.

Eriko Kawai

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

Corporate Executive Officers



Seiji Nakata*

President and CEO
President,
Daiwa Securities Co. Ltd.



Toshihiro Matsui*

Deputy President and COO
Deputy President,
Daiwa Securities Co. Ltd.



Keiko Tashiro*

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



Kazuo Takahashi

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



Mikita Komatsu

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



Koichi Matsushita

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



Masahisa Nakagawa

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.



Akihiko Ogino*

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



Shinsuke Niizuma

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



Atsushi Mochizuki

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



Junichi Arihara

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



Yoshifumi Otsuka

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



Kana Shirakawa

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



Tomoyuki Murase

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



Eiji Sato

Executive Managing Director and
CFO
Deputy Head of Planning and
Deputy Head of Overseas
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.

Nominating Committee Report



Comment from Committee Chairman

The appointment and dismissal of directors is one of the most important matters in corporate governance. So that transparency and objectivity with regard to these important decisions is ensured, the Nominating Committee will appropriately carry out processes, such as clarifying the reasons for appointments, interviews with candidates, and full discussions in Committee meetings, while striving to appoint suitable people.

Michiaki Ogasawara

Outside Director
Chairman of Nominating Committee

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

The meetings of the Nominating Committee are held once or more a year. In FY2019, there were three meetings in total.

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

Composition of Board of Directors

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

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

Policies for selection of candidates to serve as directors

- ▷ Able to exert maximum effort to realize Daiwa Securities Group's Corporate Principles

- ▷ Have a high sense of ethics and morals and take the initiative to set a good example
- ▷ Have experience in the course of business or have expert knowledge in law, accounting, or management, etc.

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

Policies for selection of outside directors

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

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

https://www.daiwa-grp.jp/english/about/governance/pdf/corporate_governance_report.pdf

FY2020 Committee Members (Committee Attendance Status in FY2019)

Outside Director	Michiaki Ogasawara (Chairman)	(3 / 3)	Outside Director	Eriko Kawai	(3 / 3)
	Takashi Hibino	(3 / 3)	Outside Director	Katsuyuki Nishikawa	(3 / 3)
	Seiji Nakata	(3 / 3)	Outside Director	Toshio Iwamoto	Newly appointed
Outside Director	Hiroataka Takeuchi	(3 / 3)			

FY2019 Nominating Committee activity outline

Apr.

Selection of director candidates

Mar.

Consideration and confirmation of the composition of the Board of Directors and the policy for nominating director candidates

Audit Committee Report



Comment from Committee Chairman

Relating to the core of management, the areas monitored by the Audit Committee include whether the Customer-Oriented Operations of Daiwa Securities Group are actually being carried out in compliance and whether governance is working properly in the decision-making process of investment and other business operations. The four outside directors and two full-time internal directors on the Committee conduct discussions and undertake verifications.

Ikuko Nishikawa

Outside Director
Chairman of Audit Committee

The Audit Committee of Daiwa Securities Group Inc. consists of four outside directors and two full-time internal directors. Complying with the audit standards of the Audit Committee formulated by the Audit Committee, the Audit Committee's duties include the conducting of audits of the execution of duties by directors and corporate executive officers, audits of business reports and financial statements, and the preparation of audit reports. The Audit Committee consists of members who possess extensive knowledge of finance, accounting, and legal affairs.

In addition to the members of the Audit Committee attending meetings of the Board of Directors, Audit Committee members selected by the Audit Committee (hereinafter referred to as Selected Committee Members) attend important meetings, such as the Executive Management Committee, and listen to reports from officers and employees. By sharing information with other Audit Committee members, the Audit Committee is striving to improve the environment for effective audits. In June 2020, the number of Selected Committee Members increased from one to two. In addition, the Audit Committee's Office is serving as a dedicated department to assist the work of the Audit Committee.

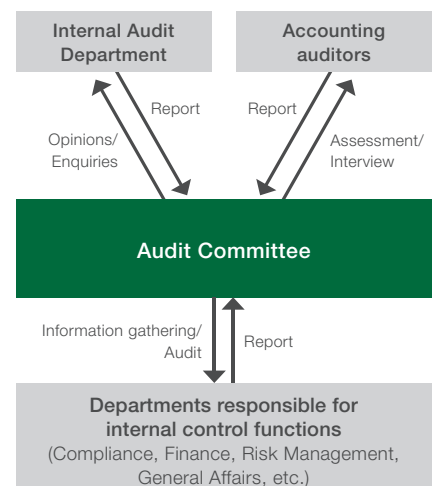
As a general rule, the Audit Committee convenes once a month. Convened on 17 occasions in FY2019, the Audit Committee carried out audits with the following as priority issues:

- ① Efforts to realize and deepen Customer-oriented Operations
- ② Efforts to create and expand new value by integrating new businesses with traditional securities businesses
- ③ The effectiveness of the internal controls and the risk management system in each of the Group companies

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

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

The Audit Committee receives periodic reports from the Compliance Department, the Finance Department, the Risk Management Department, the General Affairs Department and other departments that have jurisdiction over the internal control function. Also, the Selected Committee Members attend meetings of the Executive Management Committee, the Group Risk Management Committee, the Group Compliance Committee and other meetings, collect extensive information, and audit the status of execution of duties by directors and corporate executive officers. The outside Audit Committee members share all important information with the Selected Committee Members and make recommendations as necessary.



FY2020 Committee Members (Committee Attendance Status in FY2019)

Outside Director	Ikuko Nishikawa (Chairman)	(17 / 17)	Outside Director	Michiaki Ogasawara	(17 / 17)
	Sachiko Hanaoka	(15 / 15)*	Outside Director	Eriko Kawai	(17 / 17)
	Hiromasa Kawashima	Newly appointed	Outside Director	Katsuyuki Nishikawa	(15 / 15)*

* Attendance status given is that for Audit Committee meetings held since appointment as a director of the Company in June 2019.

FY2019 Priority Issues and Specific Audit Points

Efforts to realize and deepen customer-oriented operations	Efforts to create and expand new value by integrating new businesses with traditional securities businesses	The effectiveness of the internal controls and the risk management system in each of the Group companies
<ul style="list-style-type: none"> Progress and implementation status of various measures in the Retail Business to realize and deepen Customer-Oriented Operations (including establishment of sales system after introduction of NPS, instilling of improvements such as changes in sales staff awareness, progress/implementation status of NPS efforts at each sales office, compliance improvement plan efforts) 	<ul style="list-style-type: none"> Confirmation of investments/investment and income and expenditure status (results, future plans) in new business fields (including real estate asset management business, private equity investment business, and agriculture business) Status of strengthening risk management system in new business fields 	<ul style="list-style-type: none"> Responses to global regulations, Brexit Efforts to counter money laundering and terrorist financing Development status of risk management system for investment financing

Main Audit Activities

Attend important meetings and view important documents	<ul style="list-style-type: none"> Attendance at important meetings by full-time audit committee members Inspection of decision and approval documents
Listening to reports from management and each department	<ul style="list-style-type: none"> Interviews with the Chairman, President, corporate executive officers, etc. Listening to reports from each department and Head Office of Daiwa Securities Listening to reports from executive officers in charge of overseas subsidiaries Exchanging opinions with corporate auditors from major Group companies and attendance at their important meetings by the Committee member serving also as subsidiary corporate auditor
Collaboration with internal control departments and accounting auditors	<ul style="list-style-type: none"> Consent to internal audit policy and audit plan, listening to reports of audit results Listening to reports from accounting auditors, and evaluations of accounting auditors (quality control systems, confirmation of independence, etc.)
Reporting to Board of Directors	<ul style="list-style-type: none"> Preparation of audit reports Report of job execution status



Audit Committee members receive an explanation from the Managing Director of the Compliance Department, Kazunori Fujii.



General view of a floor at Head Office

Compensation Committee Report



Comment from Committee Chairman

I believe that the role of the Compensation Committee is to ensure transparency and objectivity in the executive compensation decision process, create a compensation system that is commensurate with responsibility, and motivate executives. As one of the ways to motivate executives, we introduced Restricted Stock Compensation Plan allocations. Going forward, we will endeavor to increase incentives for executives to enhance their performance over the medium to long term.

Hirotaka Takeuchi

Outside Director
Chairman of Compensation Committee

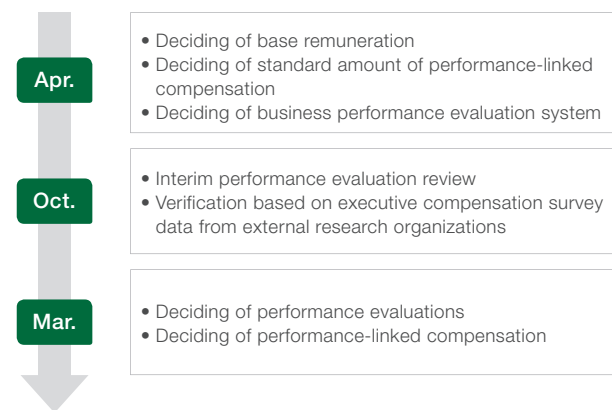
The Compensation Committee of Daiwa Securities Group Inc. consists of three outside directors, including the chairman, and two internal directors, who decide the director remuneration policy and the individual compensation for directors and corporate executive officers.

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

In FY2019, the Compensation Committee convened four times. The Committee discussed issues related to the director remuneration policy and decided upon individual remuneration as well as the incentive plan of the Group to ensure the enhancement of consolidated earnings.

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

FY2019 activities of the Compensation Committee related to determining the amount of compensation for directors and corporate executive officers



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

FY2020 Committee Members (Committee Attendance Status in FY2019)

<small>Outside Director</small> Hirotaka Takeuchi (Chairman)	(4 / 4)	<small>Outside Director</small> Ikuo Nishikawa	(4 / 4)
Takashi Hibino	(4 / 4)	<small>Outside Director</small> Toshio Iwamoto	Newly appointed
Seiji Nakata	(4 / 4)		

Executive Compensation

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

Policies for determination of remuneration of directors and corporate executive officers

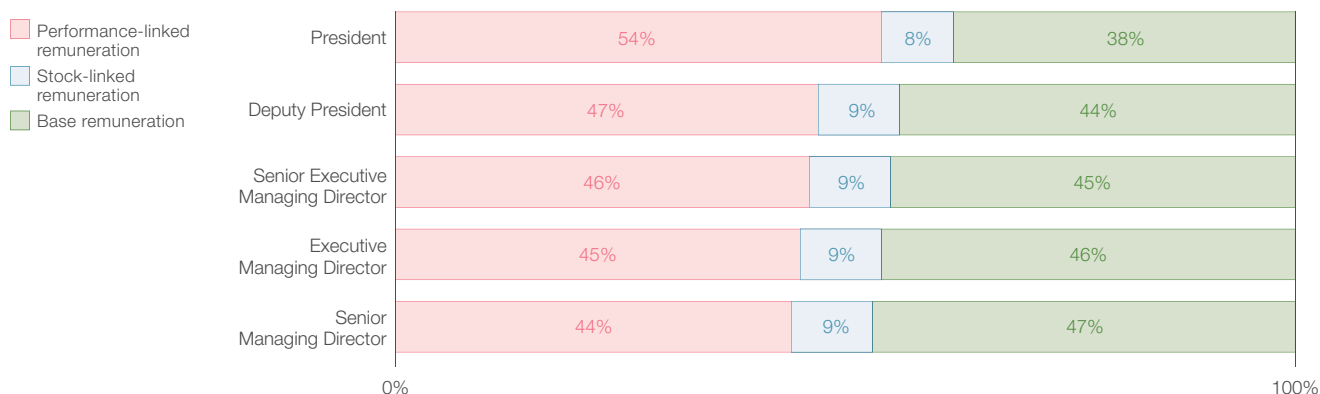
Compensation for directors and corporate executive officers is determined based on the following fundamental policies.

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

Compensation for directors and corporate executive officers is composed of base remuneration, performance-linked remuneration, and stock-linked remuneration. Specifically, these are as follows:

Base remuneration	▷ A fixed amount calculated based on his/her position, duties and role.
Performance-linked remuneration	<ul style="list-style-type: none"> ▷ Determined depending on the level of individual contribution, based on consolidated ROE and consolidated ordinary income, which are settled as Performance KPIs of the Medium-Term Management Plan, while also comprehensively taking into account achievement status of the managerial goals set in the Medium-Term Management Plan, and the like. ▷ Does not apply to directors who do not serve as corporate executive officers.
Stock-linked remuneration	<ul style="list-style-type: none"> ▷ To increase the link between remuneration and shareholders' value, granted by the Company as Restricted Stock, etc., the value of which corresponds to a certain percentage of base remuneration. ▷ Does not apply to outside directors.

Ratio of performance-linked remuneration and other



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

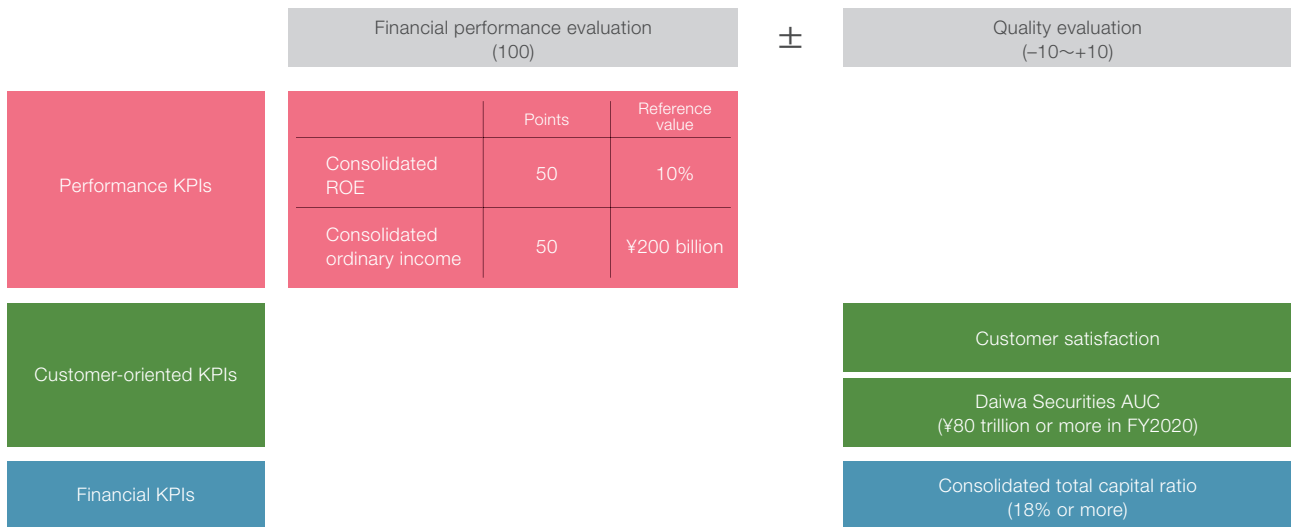
Executive Compensation

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

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

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

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



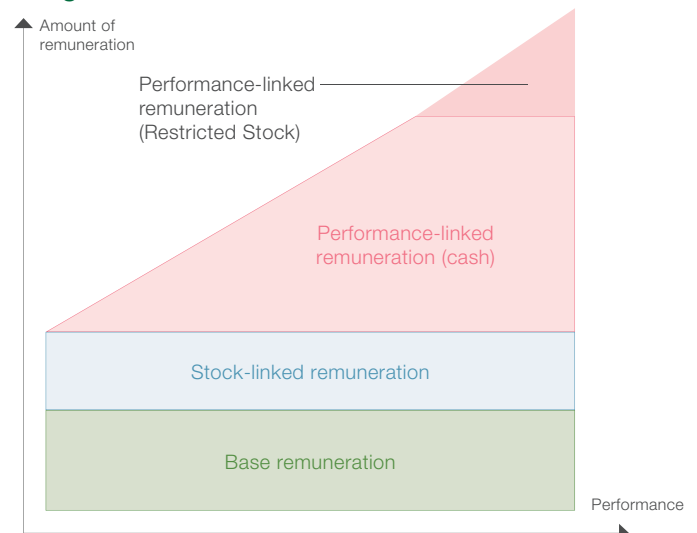
Reference value and results of indicators for performance-linked remuneration in FY2019

Financial performance evaluation for FY2019 year is as follows:

	Reference value	Results
Consolidated ROE	10%	4.9%
Consolidated ordinary income	¥200.0 billion	¥70.2 billion

Note: Reference Value is determined by the Compensation Committee based on the Medium-Term Management Plan.

Image of remuneration



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

Restricted Stock Compensation Plan

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

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

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

Type of officer	Total compensation, etc. (millions of yen)	Value of compensation, etc., by type (millions of yen)				Recipients (persons)
		Base remuneration	Restricted Stock	Performance-linked remuneration	Retirement bonus	
Directors	30	24	6	—	—	2
Corporate executive officers	1,023	530	190	302	—	15
Outside directors	125	125	—	—	—	7

Notes: 1 Seven directors also served as corporate executive officers; their total compensation is included in the corporate executive officers category.

2 Performance-linked remuneration does not include the amount granted as Restricted Stock.

Total Consolidated Compensation, etc., by Officer

Name	Total consolidated compensation, etc. (millions of yen)	Type of officer	Company name	Value of consolidated compensation, etc., by type (millions of yen)			
				Base remuneration	Restricted Stock	Performance-linked remuneration	Retirement bonus
Takashi Hibino	184	Corporate executive officer	The Company	67	23	47	—
			Daiwa Securities	45	—	—	—
Seiji Nakata	205	Corporate executive officer	The Company	67	23	68	—
			Daiwa Securities	45	—	—	—
Toshihiro Matsui	145	Corporate executive officer	The Company	60	17	42	—
			Daiwa Securities	25	—	—	—
Kazuo Takahashi	108	Corporate executive officer	The Company	20	13	—	—
			Daiwa Securities	46	—	28	—
Keiko Tashiro	109	Corporate executive officer	The Company	46	13	29	—
			Daiwa Securities	20	—	—	—

Notes: 1 The persons, each of whose total remuneration, etc., paid is equal to or more than 100 million yen, are listed above.

2 Type of officer refers to the officer categories used by the Company

3 Officers serving as both directors and corporate executive officers are listed as corporate executive officers in the type of officer column.

4 Performance-linked remuneration does not include the amount granted as Restricted Stock.

Corporate Governance System

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

Basic Stance on Corporate Governance

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

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

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

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

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

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

History of Daiwa's Corporate Governance

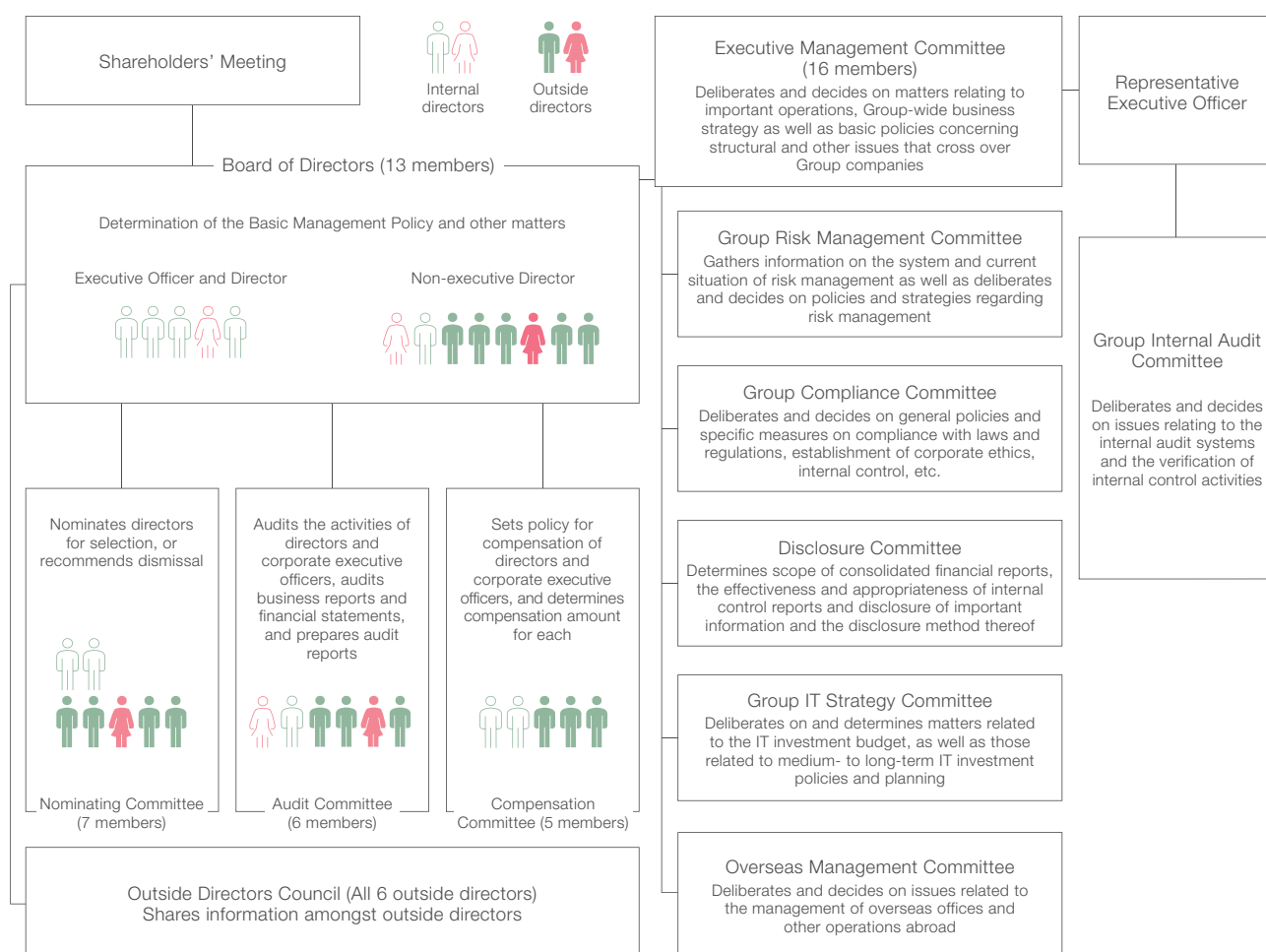
June	1998	Elected outside auditors
April	1999	Became the first listed Japanese company to adopt a holding company structure Established the Advisory Board Established the Group Management Committee
June	2000	Established the Compensation Committee
June	2002	Elected outside directors Shortened directors'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

Initiatives in FY2020

- Corporate Secretariat* newly established
- Review of board composition (Shall be composed so that no corporate executive officer who is head of a specific business division concurrently serves as a director)
- Increase in the number of Selected Committee Members of the Audit Committee

* The office supporting Board meetings and Outside Directors Council for its operation and communication

Corporate Governance System at Daiwa Securities Group



Status of Attendance of Board of Directors' Meetings in FY2019

Takashi Hibino	10 / 10	Sachiko Hanaoka	8 / 8*	Outside Director	Eriko Kawai	10 / 10
Seiji Nakata	10 / 10	Hiromasa Kawashima	Newly appointed	Outside Director	Katsuyuki Nishikawa	8 / 8*
Toshihiro Matsui	10 / 10	Outside Director Michiaki Ogasawara	10 / 10	Outside Director	Toshio Iwamoto	Newly appointed
Keiko Tashiro	10 / 10	Outside Director Hirotaka Takeuchi	10 / 10			
Akihiko Ogino	Newly appointed	Outside Director Ikuro Nishikawa	10 / 10			

* Attendance at the Board of Directors meetings since being appointed in June 2019

Evaluating the Effectiveness of the Board of Directors

Daiwa Securities Group Inc. aims to achieve a highly transparent and objective governance structure in international terms, and was one of the first companies in Japan to introduce a holding company structure and adopt a Three Committees System. Ongoing actions are being taken to pursue and evolve the governance structure so that it ideally suits the Company based not only on international standards, but also on the social environment surrounding the Company and the stage of its 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. All of the Directors were asked to answer a survey about the roles, duties, structure, management methods and the status of discussions of the Board of Directors. They were then interviewed by specialized agencies, 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.

Corporate Governance System

■ Addressing the opinions of the FY2018 evaluation

In response to the primary opinions from the FY2018 evaluations, many improvements were made and measures taken, including those listed below, in working to enhance effectiveness.

① Sharing of institutional investor requests

Requests from investors and analysts and the status of discussions were reported at Board of Directors' meetings. The status of external evaluations was shared every quarter and reporting opportunities expanded.

② Discussion on the SDGs

Reported to the Board of Directors were Daiwa Securities Group's SDGs promotion system, specific examples of initiatives (issue/underwriting of Impact Investment Bonds, Daiwa Next Bank "'Ouen' (Supporting) Term Deposits," etc.), and the progress of SDGs Action Plan.

③ Discussions on potential future risks

Having invited an outside lecturer to a meeting of the Outside Directors Council to give a lecture, opinions were exchanged and awareness shared on the role of the outside directors with regard to compliance.

④ Enhancement of governance system

In addition to discussing the functions and roles expected of outside directors with the chairman of the board and outside directors, regular reviews of future CEO successor candidates under Nominating Committee regulations were implemented, and reports from affiliated subsidiaries were expanded toward the realization of an integrated securities group with a hybrid business model.

■ Overview of the results of the effectiveness of the Board of Directors for FY2019

In the FY2019 evaluation, the Company confirmed that the roles, duties, structure, management methods and the status of discussion of the Board of Directors were sufficient for the Board of Directors to perform its function, and that the effectiveness of the Board of Directors had been ensured.

Each director pointed out the need to enhance support for outside directors, strengthen Group governance, and further promote customer-oriented business operations and SDG initiatives. Some also pointed out the need for debate and response regarding potential risks, including the progress of digitalization and the spread of COVID-19 infections.

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

Status on Stockholdings

■ Criteria and approach for the classification of investment shares

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

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

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

■ Investment stocks held for purposes other than purely investment purposes

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

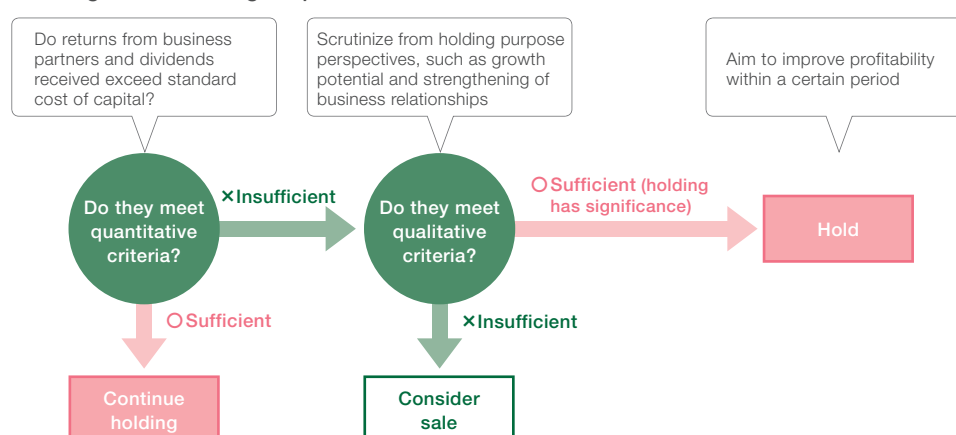
The Company has established qualitative and quantitative standards for the holding of listed shares for purposes other than pure investment purposes (strategic shareholdings). The Company will hold the strategic shareholding shares only when they determine that such shareholding is of significance. Furthermore,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

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

The results of the verification at the end of March 2020 are as follows:

Of the Company's strategic shareholdings of listed companies, excluding stocks that are held for the purpose of tie-up, around 80% exceeded the target value of the quantitative standards. For the other approximately 20% of strategic shareholdings, which were below the target value, the Company will verify qualitative aspects of the shareholding such as maintenance and enhancement of future business relationships with these companies and aim to improve the profitability of the shareholding. However, if the profitability of the shareholding does not improve in a certain period, the Company will consider selling such shares.

Monitoring of All Strategic Shareholdings Implemented



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

	Number of companies	Amount on the balance sheet (millions of yen)
Unlisted stocks	117	18,372
Stocks other than unlisted stocks	117	83,505

(Companies for which shares were added in FY2019)

	Number of companies	Total amount acquired as added shares (millions of yen)	Reasons for adding shares
Unlisted stocks	2	297	Focusing on expanding its securities business, the Company acquired shares in one new company with the goal of collaborating with and bolstering its relationship with new business partners. In addition, shares in one company changed due to the acquisition of preferred stock by the conversion of common stock.
Stocks other than unlisted stocks	2	15,095	Focusing on expanding its securities business, the Company acquired shares in one new company with the goal of collaborating with and bolstering its relationship with new business partners. The Company also acquired additional shares in an existing business partner with the goal of maintaining and strengthening its currently strong relations with a partner in the securities-related sector.

(Companies for which shares were reduced in FY2019)

	Number of companies	Total amount sold as decreased shares (millions of yen)
Unlisted stocks	4	321
Stocks other than unlisted stocks	12	3,989

Note: See the Company's Securities Report for the fiscal year ended March 31, 2020 for information regarding each specified investment stock issue.
https://ssl4.eir-parts.net/doc/8601/yuh0_pdf/S1001YG9/00.pdf (In Japanese only)

Response to the TCFD

Daiwa Securities Group Inc. recognizes the risks and opportunities related to climate change as one of its important management issues. In April 2018, the Company expressed its support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and, in May 2019, participated in the TCFD Consortium to further promote its efforts to tackle climate change.

Expression of Support for TCFD

Taking the opportunity presented by the adoption of the Paris Agreement in December 2015, efforts that include the mitigation of and adaptation to climate change are under way around the world to transition to a low-carbon society. In the finance industry, there are concerns that climate change will affect the business activities of investee/borrower companies, resulting in instability in the financial markets.

In December 2015, the Financial Stability Board (FSB) established the TCFD to consider climate-related information disclosure and financial institution response at the request of the G20 Finance Ministers and Central Bank Governors Meeting. This was followed by the TCFD releasing its final report in June 2017, which recommended that companies and financial institutions disclose the financial impact of climate change.

Under these circumstances, Daiwa Securities Group Inc. announced its support for TCFD in April 2018 to further promote environmental initiatives such as on climate change. In May 2019, the Company participated in the TCFD Consortium, which is a platform for dialogue among companies and financial institutions that support the TCFD and in which the Ministry of Economy, Trade and Industry, the Financial Services Agency, and the Ministry of the Environment also participate as observers.



Impact on Daiwa Securities Group in the Course of a Transition to a Lower-carbon Economy

Based on the TCFD recommendations, Daiwa Securities Group is disclosing information on climate change initiatives for each of the four core elements of disclosure, as shown in the table below. At the present time, the Group is currently undertaking analyses based on multiple climate-related scenarios, identifying risks and opportunities related to climate change for the Group while proceeding with quantitative evaluations of the major businesses that may be affected by climate change and expected financial impacts.

Going forward, the plan is to enhance the disclosure of the analysis results and the Group's countermeasures based on them. In addition to working to further enhance information disclosure and to strengthen communication with stakeholders, the Company will continue to position climate-related risks and opportunities as one of its most important management issues while advancing the building of a sustainable business structure.

Disclosures in Accordance with the TCFD Recommendations

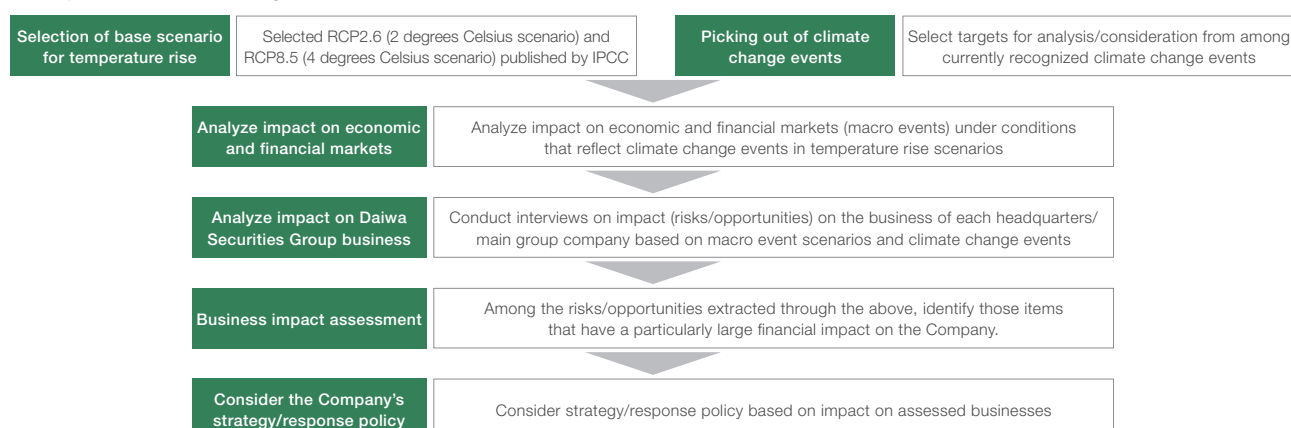
In conjunction, please refer to disclosures on the Company's website <https://www.daiwa-grp.jp/english/sdgs/environment/>

Items	Recommended disclosure	Initiatives
Governance	The organization's governance around climate-related risks and opportunities a) Oversight by the Board of Directors b) Management's role	<ul style="list-style-type: none"> ◆ Monitor climate-related risks and opportunities <ul style="list-style-type: none"> ① Formulation of Environmental Vision, Environmental Principles and Basic Environmental Policies ② Chaired by the president and CEO, the SDGs Promotion Committee considers various social issues, including those related to climate change, when examining and discussing materiality and business plans as well as when setting KPIs. ③ Reports on content discussed in ② to the Board of Directors and Executive Management Committee as appropriate ◆ SDG managers in place at each headquarters and Group company monitor the business environment from the perspective of the SDGs/ESG, including climate-related risks and opportunities

Items	Recommended disclosure	Initiatives
Strategy	Impacts of climate-related risks and opportunities on the organization's businesses, strategy and financial planning a) Climate-related risks and opportunities b) Impacts of climate-related risks and opportunities c) Potential impacts under different climate-related scenarios	<p>◆ Conduct scenario analyses* for climate-related risks and opportunities Identify the following risks and opportunities during the analysis process (Refer to diagram in lower half of page for process)</p> <p>Opportunities</p> <ol style="list-style-type: none"> ① Increase in demand for funds to prepare for a lower-carbon society (financing for the renewable energy business, issuance of Green Bonds, etc.) ② Increase in deals underwritten in association with ① ③ Increase in opportunities for investing in new industries and companies that contribute to the transition to a lower-carbon society ④ Increase in business opportunities for providing solutions to assist in the transition to a lower-carbon society (Infrastructure-related advisory services, including renewable energy) ⑤ Improvement of evaluations from stakeholders through appropriate disclosure of the aforementioned initiatives. <p>Risks</p> <ol style="list-style-type: none"> ① Decrease in business from companies and others significantly affected in the course of the transition ② Increase in reputational risk associated with investment and underwriting related to businesses with a heavy environmental load ③ Decrease in assets under management resulting from a decline in the value of assets held by funds ④ Increase in costs associated with the tightening of environmental regulations and countermeasures against disaster risk ⑤ Decline in the value of assets held by the Group and decrease in selling opportunities
Risk management	Methods for identifying, assessing and managing climate-related risks a) Processes for identifying and assessing climate-related risks b) Processes for managing climate-related risks c) Integration of processes for identifying, assessing and managing climate-related risks into overall risk management	<p>◆ Identify, assess and manage climate-related risks</p> <ol style="list-style-type: none"> ① Consideration of analysis of the impact of climate-related risks on financial and capital markets ② When promoting new products and new businesses, conduct appropriate screening from the perspective of the SDGs/ESG, including climate change response ③ In the case of IPO projects, underwriting examination is carried out as a priority item not only for business performance and financial aspects, but also for the issuer's business model, compliance system and corporate governance development status, etc., from the perspective of ESG. ④ The holding of dialogue on the environment and society by the Asset Management Division with investee companies. Discussions on environmental management policy, promotion systems, information disclosure, approach to external evaluations, etc., especially with companies with a large environmental load (References: Daiwa Asset Management's ESG Investment Policy, stewardship reports) ⑤ Collect risk information verified through the above processes and external environment analysis. The SDGs Promotion Committee considers systems to identify important risks ⑥ Participate in various initiatives, including UNEP-FI, to ascertain trends of regulations and policies <p>◆ Consider integrating climate-related risks into existing risk management</p>
Metrics and targets	Metrics and targets used to assess and manage climate-related risks and opportunities a) Metrics for assessing climate-related risks and opportunities b) Scope 1, Scope 2 and Scope 3 greenhouse gas (GHG) emissions c) Targets used to manage climate-related risks and opportunities and performance against targets	<p>◆ In-house monitoring of the following metrics</p> <ol style="list-style-type: none"> ① CO₂ emissions (reduction of own environmental load) ② Investment in SDG-related businesses (renewable energy business, etc.) ③ SDG bonds league table (Green Bonds, etc.) ④ Renewable energy M&A league table <p>◆ Disclose Scope 1, Scope 2 and Scope 3 greenhouse gas (GHG) emissions</p>

* The scenario analysis in the September 2020 disclosure is provisional with limited scope, and the scope will be expanded in the future.

Example of Scenario Analysis



Internal Audit

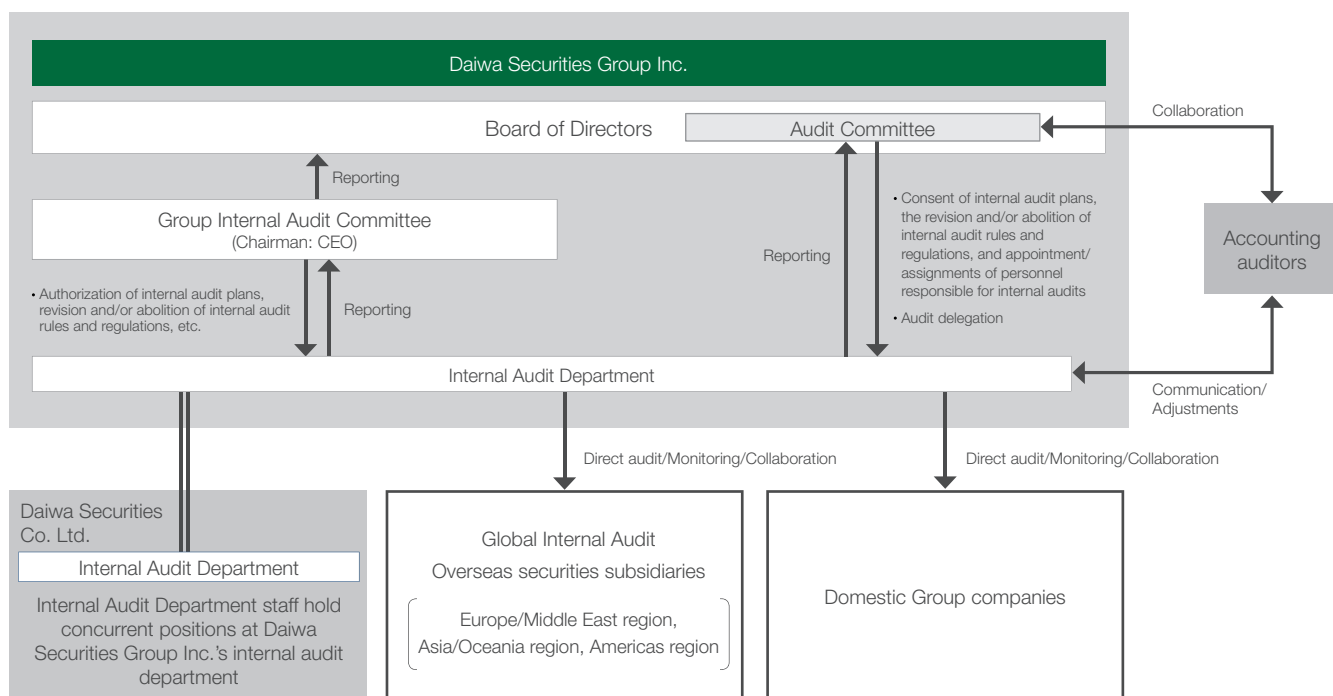
In recognition that management is responsible for maintaining an internal control system to ensure the sound and appropriate execution of business, the Group, under the main initiative of Daiwa Securities Group Inc., has established a system for managing the Group's major business risks. Through this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

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

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

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

Diagram of Daiwa Securities Group's Internal Auditing System



Authorization of Plans and Reporting of Results

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

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

Internal/External Group Cooperation and System Enhancements

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

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

Appropriate management of rapidly changing risks

The environment encompassing the Group is undergoing accelerated digital transformation, shifts to new behavioral patterns stemming from the spread of COVID-19, and other dramatic changes. In order to meet the varied expectations of its stakeholders, Daiwa Securities Group must therefore be more active than before in appropriately managing rapidly changing risks based on a solid corporate governance framework.

The Group's approach to risk management is based on the Three Lines of Defense framework adopted widely throughout the world. As part of this framework, internal auditing departments, which have been established at Daiwa Securities Group Inc. and other key domestic and overseas Group companies, serve as a Third Defensive Line that verifies and evaluates the risk management systems comprised of on-site business execution departments (First Defensive Line) and departments that oversee risk (Second Defensive Line).

Internal auditing departments play an indispensable role in enabling Group companies to contribute to society and achieve sustainable growth by verifying and evaluating risk management systems as well as offering proposals and advice for improving them.

Daiwa Securities Group situates the SDGs at the root of its business strategies and has stated its intention to balance economic value with social value. At the same time, the Group aims to provide new value as an integrated securities group with a hybrid business model. This model is based on the conventional securities business as the core for expanding and strengthening external networks and surrounding

businesses. In addition to supporting the promotion of this strategy, the Group both entrenches risk management within the conventional securities business and includes addressing risk in new business sectors as one of the top priorities. Likewise, the internal audit departments require the capacity to verify the management systems for a broader range of risk.

To meet the varied expectations of the Group's stakeholders in the years ahead, the internal audit departments aim to support the sustainable growth of the Group by continuing to transform themselves and by contributing to the building of appropriate risk management systems that address continuously changing business activities.



Yoshifumi Otsuka

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

Risk Appetite Framework

Daiwa Securities Group has employed a risk appetite framework (RAF) for the purpose of strengthening risk governance at the management level.

Risk Appetite Framework

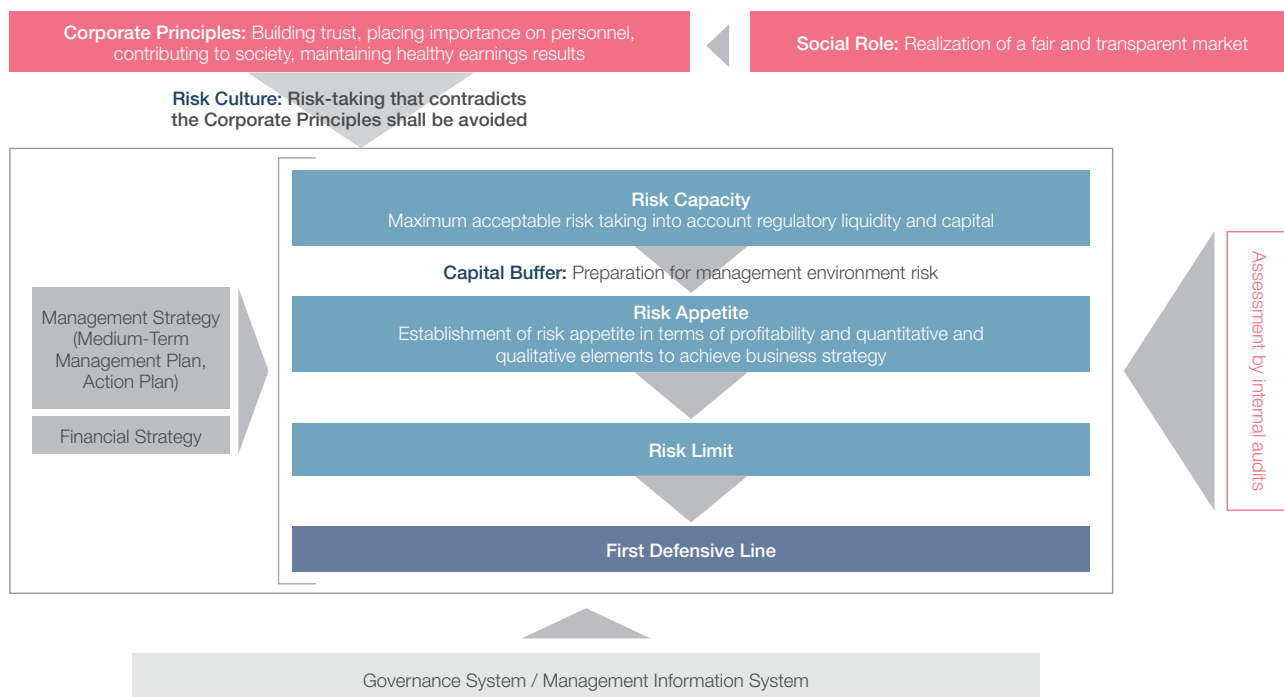
As financial regulations have tightened around the world since the global financial crisis of 2008, international financial institutions are increasingly required to exhibit sufficient soundness to operate their functions as financial intermediaries during times of stress in economies and markets. In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

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

Risk Appetite Framework Overview

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

RAF Concept Chart



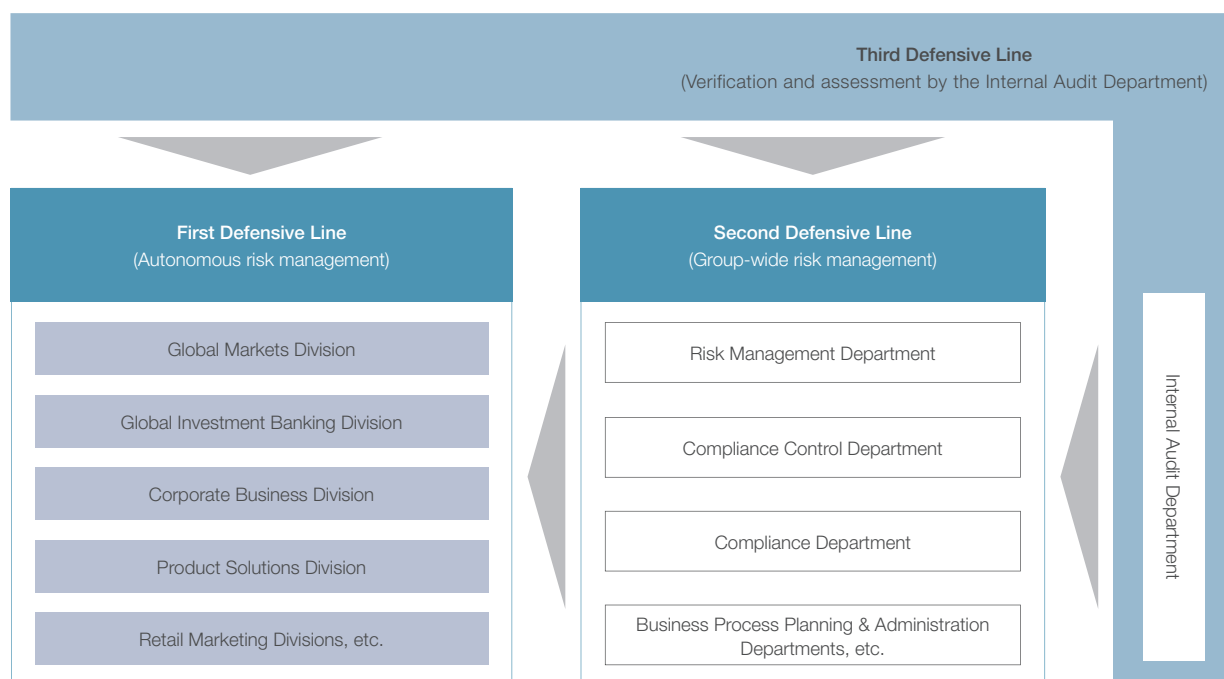
Risk Appetite Framework Management Structure

In the Risk Appetite Statement, the Board of Directors deliberates and makes decisions on such matters as the quantitative risk appetite index mainly related to liquidity and shareholders' equity. This statement is reviewed twice per year.

The RAF has been formulated in cooperation with top management, including the CEO, COO, CFO, CRO and CDO.

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

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

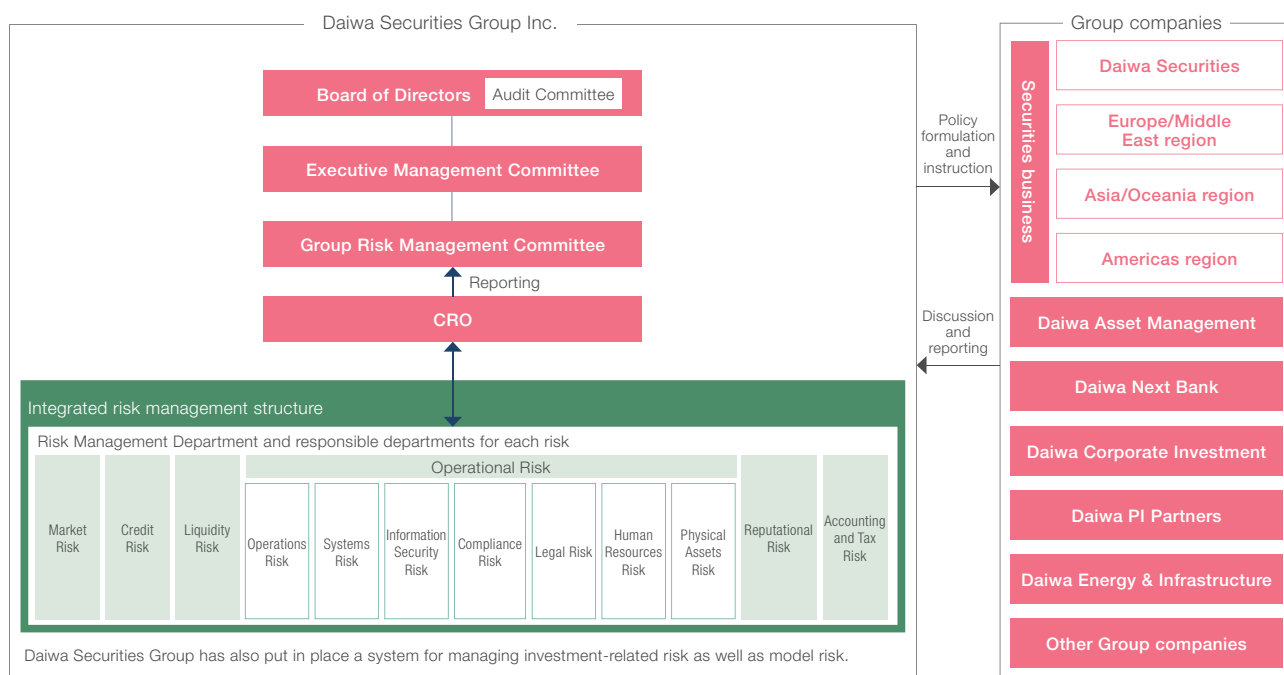


Risk Management

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

Risk Management System

Risk Management System



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

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

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

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

Types of Risks to Be Managed / Managing Major Risks

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

Risks that are particularly important for the Group are those that involve our key securities business. Because the Group utilizes its own accounts to temporarily hold product positions for sales purposes and to provide products to customers, the Group is subject to market risk due to market fluctuations, foreign currency and other liquidity risk, credit risk related to counterparties and issuers, and risk for which hedges do not function, as well as operational risk that naturally occurs through the execution of business. The Group utilizes stress tests^{*1} and top risk management^{*2} to manage risk on an integrated basis, including measuring the impact on capital and liquidity within the Group from a forward-looking perspective.



^{*1} Stress tests are used for the integrated evaluation of impacts on capital, liquidity, and business systems based on probable stress scenarios that may have a major impact on the Group

^{*2} Top risk management is used to select and manage those risk events that stand to have a significant impact on the Group, in the event that such risks should emerge, as top risks

1 Market risk management

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

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

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

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

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

2 Credit risk management

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

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

Counterparty risk

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

Issuer risk

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

Risk Management

The Daiwa Securities Group (Consolidated) Value at Risk

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

	(Billions of yen)							
	6/18	9/18	12/18	3/19	6/19	9/19	12/19	3/20
VaR (Month-end)	1.34	1.39	1.76	1.06	1.33	1.42	0.94	1.22
Quarterly								
High	1.80	1.67	1.87	2.29	1.68	1.55	1.61	1.77
Low	1.16	1.15	0.95	0.86	0.74	1.02	0.94	0.87
Average	1.40	1.36	1.34	1.45	1.18	1.27	1.28	1.18
By Risk Factor (Month-end)								
Equity	0.65	0.51	0.40	0.29	0.38	0.39	0.34	0.19
Interest	1.21	1.23	1.68	1.06	1.16	1.35	1.21	1.12
Currency	0.16	0.17	0.24	0.18	0.21	0.24	0.20	0.20
Commodities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

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

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

③ Liquidity risk management

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

Basic Policy on Fund Procurement

The Group conducts securities-related operations using a variety of financial assets and liabilities, and makes investments and loans that contribute to providing new value as an integrated securities group with a hybrid business model. In order to prevent market fluctuations from affecting the continuation of our business activities, the Group is constantly striving to secure the stability of fund procurement. Additionally, with the anticipation that financial crises may make it difficult to procure new funds and reacquire existing funds, the Group diversifies repayment periods and fund sources.

Liquidity Management System Using Liquidity Management Indicators

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

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. These efforts are made to ensure the Group can continue its business operations even when it becomes impossible to procure funds without collateral for a whole year.

Contingency Funding Plans

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

④ Operational risk management

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

Definitions of Principal Operational Risks

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

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

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

Note: RCSA

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

Risk Management

5 Reputational risk management

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

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

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

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

6 Accounting and tax risk management

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

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

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

Note: Tax policy

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

Daiwa Securities Group Tax Policy

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

Contributions to greater medium- to long-term value through more sophisticated risk management

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

As an unavoidable aspect of the securities business, the Group conducts business that is highly susceptible to economic conditions and that holds various risks. This fact makes appropriately managing these risks an extremely important part of management. The Group has defined our Risk Appetite Framework (RAF)—the managerial framework for administering management strategies, financial strategies, and risk management in an integrated fashion—as the core concept of risk governance, and has created a risk management system that includes Three Defensive Lines. Along

with controlling risk by setting the risk appetite according to the nature of each risk, we work to maintain a sufficient level of equity capital and capital liquidity to ensure business continuity in the event of any sudden changes in the business environment.

One of our current initiatives is increasing the sophistication of risk management systems and management methods to address the Basel rules and other international financial regulations. In addition, under the TCFD recommendations, for which Daiwa Securities Group expressed its support in April 2018, addressing climate-related risk has also become a key issue. In particular, appropriately identifying, evaluating, and managing climate-related risks that are likely to emerge over the medium- to long-term is important from the perspective of raising value over this period. Therefore, we also engage in advanced scenario analysis and risk quantification.

Risk management system for supporting appropriate decision-making

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

As part of the Medium-Term Management Plan, Daiwa Securities Group aims to be an integrated

securities group with a hybrid business model and foresees greater investments for growth in new business fields, which led us to strengthen investment-related risk management. Those of us involved in risk management will continue to evolve risk management systems and increase the sophistication of risk management methods in accordance with these changes in the business model.



Junichi Arihara

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

IT Strategy and the Management of Systems Risk

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

IT Governance Structure

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

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

IT Investment

The Group has been investing in IT in order to provide products and services responding to customer needs from the perspective of customer-oriented operations, promote a digital transformation which aims at improving the efficiency of existing business and advance business innovation and business process innovation in order to engage in high value-added business, establish basic infrastructure that is indispensable to the continuation of business, comply with legal requirements, and enhance the risk management system. In FY2019, the Group established an environment in which employees can focus more on further improvement of customer satisfaction, such as by introducing business terminals and communication tools that are premised on telecommuting in order to enable working efficiently regardless of location, and increase the frequency of contact with customers. In addition, the Group streamlined the business process, such as account opening, etc., by introducing paperless processes and automation, and launched a new accumulation investment service, which allows customers to set and manage funding conditions according to their purpose. The Group also worked on increasing the sophistication of risk management such as by strengthening measures against cyber-attacks and money laundering.

Systems Risk Management

Daiwa Securities Group has worked to maintain and enhance the management of systems risk in order to reliably provide high-quality services to customers while protecting information assets from various threats and risks originating from inside or outside the company. In light of the growing threat of cyber-attacks over the past few years, we recognize the importance of cybersecurity as a group management issue, and have accordingly established a cybersecurity management system centered on Group-wide Daiwa-CSIRT*. In recent years, new attack methods have been reported, including those that target terminals used for telecommuting and those that infiltrate networks through Group companies, business partners, and contractors. Therefore, the Group continues to collect and analyze the latest information on cyber-attack methods and vulnerability while coordinating with external organizations and companies, and continues to work toward improving its resistance and resilience to cyber-attacks.

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

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 FY2020

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

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

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. In April 2020, we established a new Group Compliance Committee intended to deliberate and decide general policies and specific measures related to legal and regulatory compliance, the establishment of corporate ethics, and internal control for the Group.

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. In particular, training activities related to information security, the prevention of insider trading and the elimination of relations with anti-social forces, and measures to prevent money laundering and the funding of terrorism, are conducted at all companies.

Daiwa Securities conducts Compliance Training for all employees as a means of improving their disposition as sales representatives. Moreover, the Group conducts a broad range of practical training corresponding to the affiliation of each employee, including compliance education, instruction and group training for new graduates and newly appointed managers.

Compliance

Customer Support Center Initiatives

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

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

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

In FY2019, the Center received 3,846 calls, down 590 from the previous fiscal year.



Other compliance-related initiatives are disclosed on the website.

<https://www.daiwa-grp.jp/english/about/governance/compliance.html>

Aiming for the customers' best interests through a unison of sales and compliance

As the CCO (Chief Customer Officer) through the end of FY2019, I cooperated with the compliance departments to verify the sales quality of and approach to service taken by Daiwa Securities from every angle, and made every effort to realize sales reforms and the formation of a corporate culture that stand on the true meaning of customer-oriented. As the Group undergoes a major shift to a principled-based sales approach, the sales branches, head office departments, and compliance departments must work in unison along the same vector with a focus on the customer's best interests in order to instill and firmly establish customer-oriented operations. Having served as CCO in the past, my most important mission as Head of Compliance will be to further accelerate this movement in FY2020.

Along with strengthening efforts to eliminate insider trading, money laundering and other relationships with anti-social forces in order to ensure the fairness of financial markets as a securities company and market gatekeeper, I am also taking the lead on building a rapid reporting network for overseas offices and tackling issues at these locations in order to strengthen the overseas office compliance framework. Moreover, in anticipation of new business expansion as an integrated securities group with a hybrid business model, I will support Group companies in a variety of business lines from the stance of compliance.

In a world that must live with COVID-19 and against the backdrop of diversifying customer needs and employee workstyles, the Group must conduct compliance management in a more flexible and appropriate manner. Within a dramatically changing business environment, however, the regulatory structure can be incomplete in some cases. I will therefore work harder than ever to instill in each employee the determination to make judgments and act in good faith in light of ethics and social norms, as well as based on a deep understanding of the intent or principles of all laws and regulations, when faced with such situations.



Atsushi Mochizuki

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

Dialogue and Communication with Stakeholders

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

Policy on Communication with Stakeholders

Basic Policy ①

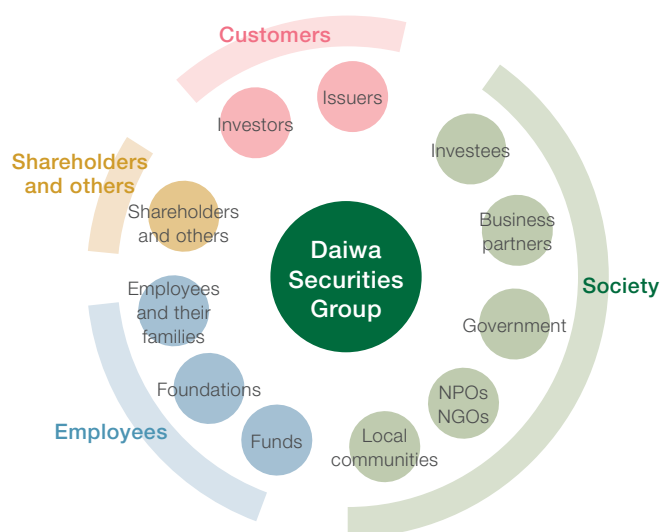
Daiwa Securities Group will strive to maintain two-way communication with a broad range of stakeholders based on ISO 26000 and the Charter of Corporate Behavior of the Nippon Keidanren.

Basic Policy ②

The Group will strive to deepen communication with stakeholders already known to us, including customers, shareholders and other investors, business partners, employees and local communities.

Basic Policy ③

The Group will strive to communicate actively with third-party institutions, organizations, and individuals, etc., with whom we have previously had no contact in order to identify other stakeholders.

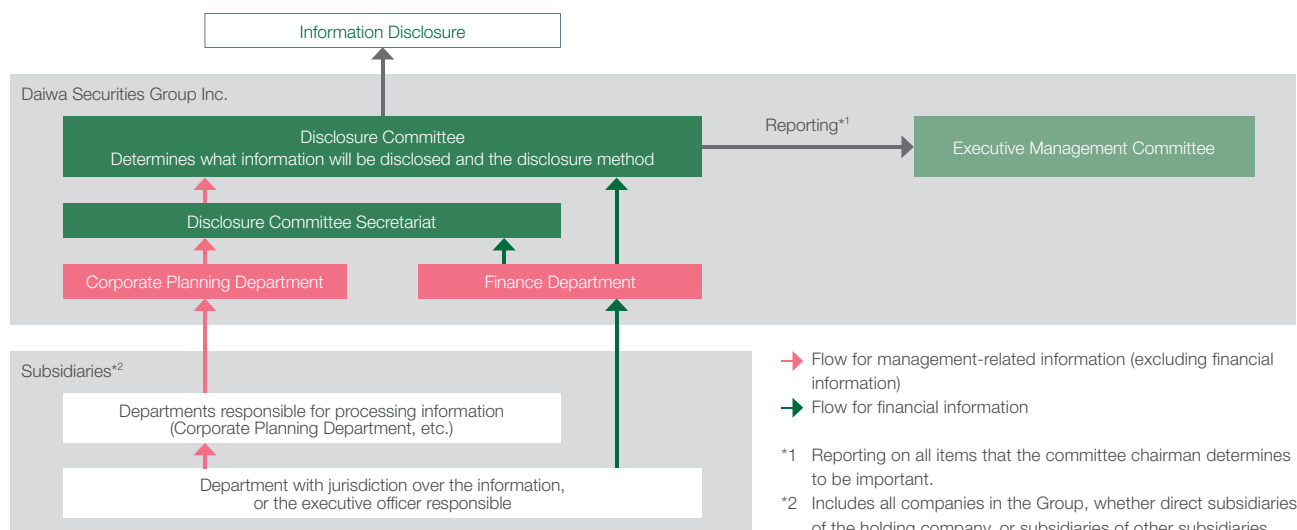


Disclosure System

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

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

Flowchart of the Daiwa Securities Group's Disclosure Activities



Dialogue and Communication with Stakeholders

Communication with Shareholders and Investors

The Group holds various IR (investor relations) activities, including the general meeting of shareholders, which serves as a location for us to interact directly with shareholders, telephone conferences on the days of earnings announcements, briefings about the Group for individual investors, the management strategy meeting, one-on-one meetings with analysts and investors and participation in the Daiwa Investment Conference* held in Tokyo, Hong Kong, London and New York. In December 2018, the Group held the ESG Meeting, at which an outside director took the stage, for institutional investors and analysts as a means of addressing the growing demand for ESG investments. In December 2019, the Group held one-on-one ESG meetings with institutional investors. The Group also exchanged opinions with investors on a broad range of ESG topics, including materiality (key issues for management), progress in addressing TCFD, NPS-based sales quality improvements, the Board of Directors' effectiveness, strategic shareholdings reductions, and policies for formulating the executive compensation system. Although the Group voluntarily canceled on-site briefings and one-on-one meetings from the perspective of preventing the spread of COVID-19 after February 2020, we made efforts to secure opportunities to communicate with shareholders by actively conducting dialogues using online meetings and teleconferencing.

In addition, we are expanding information disclosure on our IR website following the website renewal and publish the Integrated Report, SDGs Site, and Business Report for shareholders. We will continue to communicate information to shareholders in an accurate, easy to understand manner.

* Onsite events in FY2020 have been canceled due to the spread of COVID-19. (Some conferences were held online)

IR Activities in FY2019

Number of meetings with
institutional investors and analysts

196

This includes the following overseas IR activities: two IR events in North America (18 meetings), two IR events in the EU (24 meetings), and two IR events in Asia (18 meetings)

Number of briefings for individual investors
(total number of live participants and
on-demand viewers)

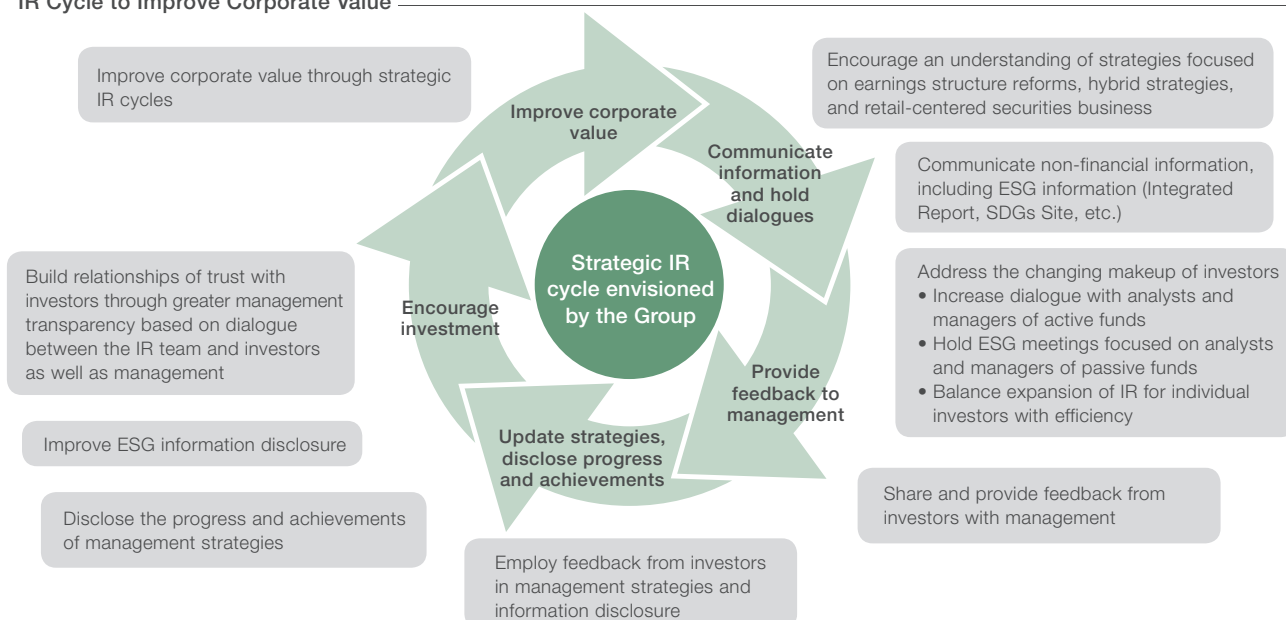
35
(approx. 9,200)

25 briefings at Daiwa Securities locations, six briefings organized by Daiwa Investor Relations, three briefings via the Internet, one seminar for female investors.

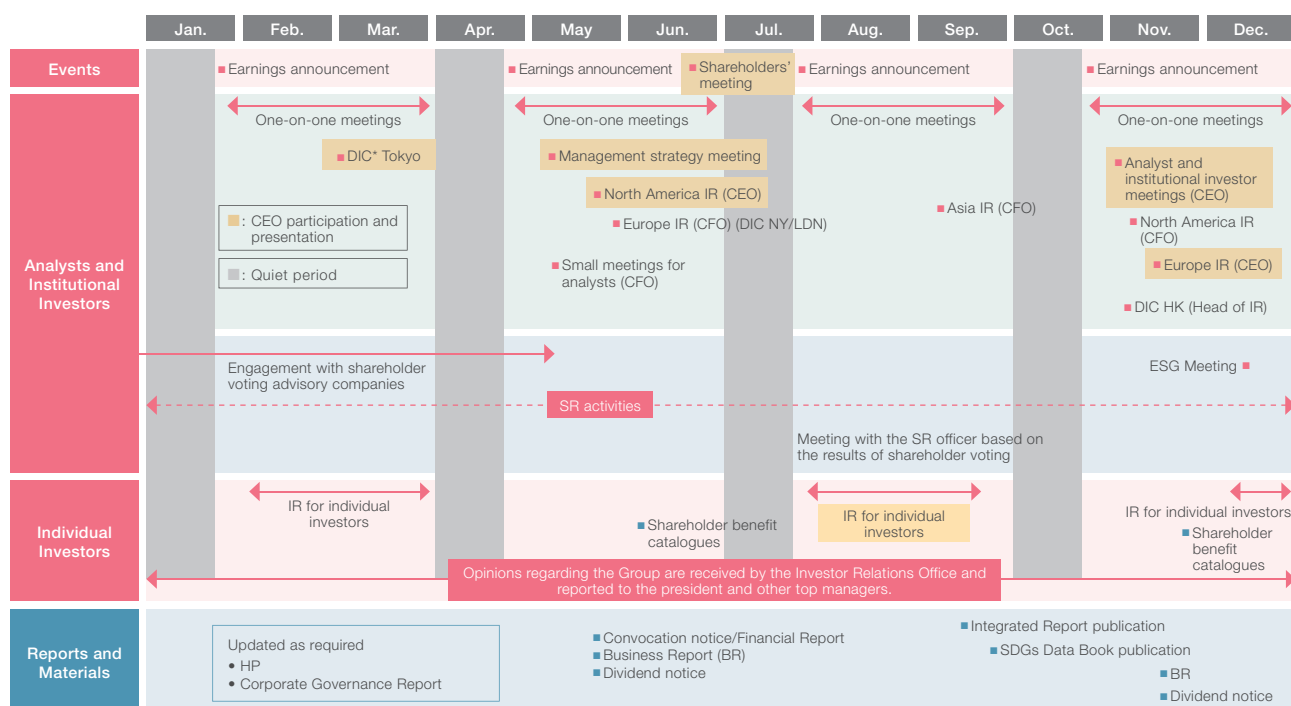
■ Approach to IR and SR Activities

The Group conducts IR and shareholder relations (SR) activities for the purpose of promoting a greater understanding of the Group among all stakeholders, including shareholders, investors and local communities, and to contribute to their ability to form realistic assessments of the Group. Any issues and opinions received through dialogue are provided as feedback to the Group through reports to the Board of Directors and are used to support the formulation of management strategies designed to increase corporate value.

IR Cycle to Improve Corporate Value



IR/SR Schedule (2019)



* Daiwa Investment Conference: An IR conference held by the Wholesale Division. Leveraging the networks maintained by Global Markets and Global Investment Banking, the conference provides a forum for institutional investors from around the world and many companies to meet face to face.

Communication with Business Partners and Investees

Daiwa Securities Group regularly checks documents disclosed by major business partners, including providers of IT equipment and services, as well as news reports about these companies and their reputation on the Internet in order to address issues in the Group's supply chain, including those related to the environment, society, human rights, information and cyber security. If any issues are found, we take steps such as urging business partners to make improvements.

We also collect information provided by public institutions within and outside Japan and exchange information with external parties to ensure we remain aware of human rights issues existing in the countries and regions where the Group conducts business operations. We then consider taking appropriate measures for important issues.

We carry out due diligence in deals underwritten, considering not only business performance and financial aspects, but also ESG issues. When we find issues regarding the business model of an issuer or its planned use of proceeds, we conduct more thorough due diligence through such means as field work and meetings, and sometimes make proposals for improvement to the issuer. If major concerns remain even after taking such measures, we report them to the Chief Risk Officer (CRO).

Similarly, we also carry out due diligence in self-investment deals.

Daiwa Securities Group's Supply Chain Management

Subject	Specific initiatives	Frequency
Major business partners including providers of IT equipment and services	Check documents disclosed by partner companies and external information	Regularly
Countries where the Group conducts business operations	Collect information on human rights issues	As needed
Deals underwritten	Due diligence taking into consideration ESG issues	As needed
Self-investment deals	Due diligence	As needed

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Retail Division

Main Companies

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

▶ Number of branches and sales offices in Japan* (as of the end of July 2020) **172**

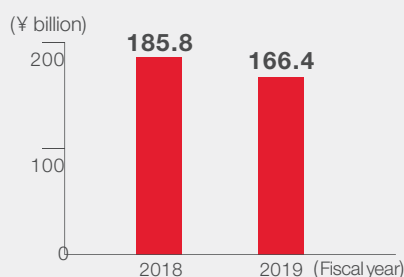
▶ Number of customer accounts with balance* **3,022 thousand**

* Figure for Daiwa Securities Co. Ltd.

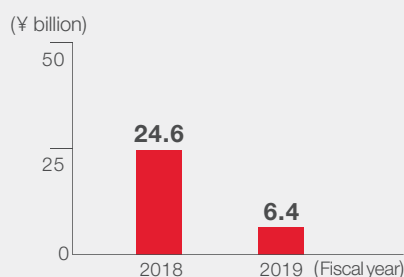
The Retail Division primarily assists individual investors with securities investments and asset management through a nationwide network of branch offices and via the Internet. The Group is striving for Quality No. 1 in terms of gaining even greater customer trust, by reforming the sales system through such measures as enhancing product and service quality, optimizing customer outreach, and expanding points of contact with customers.

The main sources of earnings in the Retail Division are commissions on products and services related to asset management for individual investors and unlisted companies in Japan. Factors that may have a major impact on operating results include changes in domestic and overseas financial markets and economic conditions that affect investment trends, as well as the development and underwriting status of products to address customer needs, as well as the type of sales strategies employed.

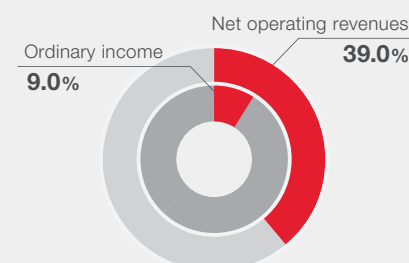
Net Operating Revenues



Ordinary Income



Breakdown of FY2019 Consolidated Results



Engagement with Stakeholders

Customer attributes

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

Channels

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

Main products and services

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

Social value

- ▷ Supporting asset formation in line with customers' life plans
- ▷ Providing optimal solutions for customers' total assets
- ▷ Improving customer satisfaction

Awareness of Environment

- ▷ Inflation being encouraged by domestic monetary policy ▷ Growing needs for asset preservation as people live longer
- ▷ The money shift to the digital native generation in the future, 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 172* sales branches/sales offices and a customer base built up over 118 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

*As of the end of July 2020

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 in FY2019

Action Plan for FY2019	Performance in FY2019
1. Build a sales structure grounded in customer satisfaction	Headquarters and branch offices established a PDCA cycle to instill the Daiwa version of NPS, rolled out operations and expanded sales support tools to better educate customers. The coaching and solution-provision capabilities of supervisors were reinforced to improve the sales system.
2. Provide service solutions for customer attributes that match the customer's various needs	Efforts to improve service quality included easier access to non-face-to-face channels for inquiries and consultations, and a stronger sales staff support system. New products and solutions were introduced, such as family trusts to expand the inheritance business, and improved Asia PB services for affluent clients.
3. Sustainable expansion of the revenue base	Efforts to build the revenue base with an eye to the medium and long term included leveraging various wrap account services to address diverse needs. Net asset inflow of wrap account services was firm.
4. Expand the business by utilizing external channels and resources	The Division made proposals for acquisitions of external partners and built up the support system for external partners.

In FY2019, seeking to foster a corporate culture and sales style that puts pursuing the best interests of customers at the center, Daiwa Securities took several measures including establishing the Daiwa version of NPS action guidelines, revitalizing the sales promotion system to raise customer satisfaction, and reassessing the evaluation system. As a result, Daiwa Securities ranked number one in the face-to-face securities section in an external NPS survey*.

Daiwa Securities is striving to offer appealing products and services that meet all kinds of customer needs. In November 2019, the company started sales of the Man AHL Smart Leverage Strategy Fund, which offers revenue opportunities and thorough risk management, backed by a state-of-the-art modelling system and 24-hour monitoring. Its balance has grown steadily, and now exceeds ¥100 billion.

In addition, to enable detailed support for customers of all ages, Daiwa Securities is strengthening its inheritance and gift-related consulting capabilities. Each branch has Inheritance Consultants who address individual customer needs as well as *Anshin* Planners, who deal mainly with elderly customers, supporting not only asset management but also a wide range of elderly lifestyles. Daiwa Fund Wrap Premium services, including the ability to designate an inheritance beneficiary and annual gifting, appeal to customers who want to leave their assets to family members. These services are leading to a higher balance of wrap accounts under management.

Increasing the network of low-cost, smaller sales offices is helping to expand points of contact with customers. The total number of branches and sales offices in Japan as of the end of September 2020 is 174 (of which 60 are sales offices).

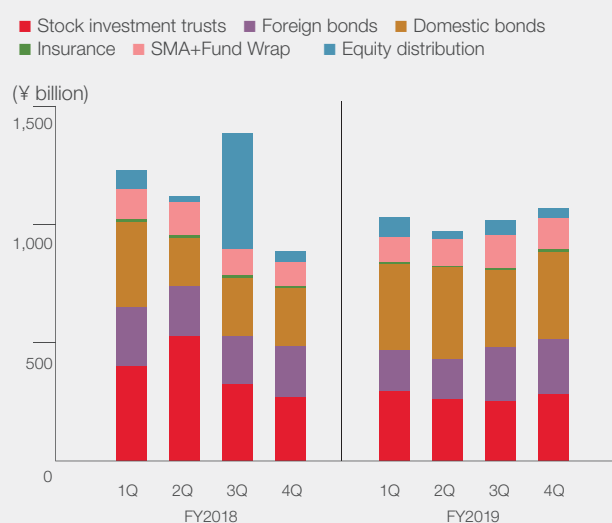
* NPS benchmark results of an industry-specific survey conducted on users, announced by NTTCom Online Marketing Solutions Corporation in October 2019.

FY2019 Results

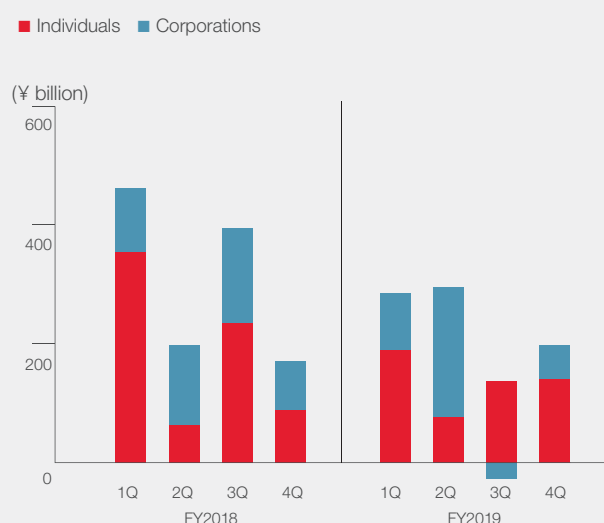
Against a backdrop of major stock market price fluctuations due to concerns over U.S.-China trade problems and the spread of COVID-19 infections, the earnings environment was such that private investor activity was sluggish throughout the year due to concerns about the sense of uncertainty. As a result, equity-related revenues and investment trust sales commissions declined due to decreases in stock trading and investment trust sales. When stock market prices plunged in March due to the impact of COVID-19 infections, openings of new accounts and an increase in asset introductions were temporarily seen, but the impact on business results for the consolidated fiscal year under review was limited.

In FY2019, net operating revenue in the Retail Division decreased by 10.5% to ¥166.4 billion, and ordinary income decreased by 74.0% to ¥6.4 billion compared with the previous fiscal year.

Sales and Distribution Amount by Product (Daiwa Securities)



Net Inflow of Assets (Daiwa Securities' Retail Division)



Operational Data

	Billions of yen (Except as otherwise specified)				
	FY2015	FY2016	FY2017	FY2018	FY2019
Daiwa Securities					
Customer assets*	51,000	53,678	68,100	66,325	59,838
Equities	30,119	32,971	46,310	43,814	38,011
Bonds	11,854	12,065	13,045	14,193	14,526
Investment trusts	7,764	7,500	7,573	7,206	6,205
Others	1,262	1,140	1,170	1,111	1,094
Sales of core products					
Stock investment trusts	2,317	1,811	2,215	1,513	1,085
Foreign bonds and others	1,243	922	982	885	805
Net inflow of retail assets	662	299	739	1,222	888
Individuals	335	145	347	740	541
Corporations, etc.	327	154	392	481	346
Accounts with balances* (thousands)	2,973	2,974	2,989	3,025	3,022
Online trading accounts* (thousands)	3,040	3,127	3,214	3,320	3,373

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

Wholesale Division

Main Companies

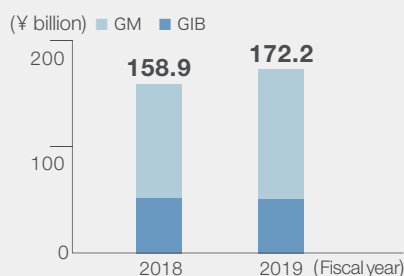
Daiwa Securities Co. Ltd.
Daiwa Capital Markets Europe Limited
Daiwa Capital Markets Hong Kong Limited
Daiwa Capital Markets Singapore Limited
Daiwa Capital Markets America Inc.

- ▶ Offices in..... **24** countries and regions
- ▶ Total value of underwriting and distribution **¥587.4** billion (equity)
¥13.3 trillion (bond)

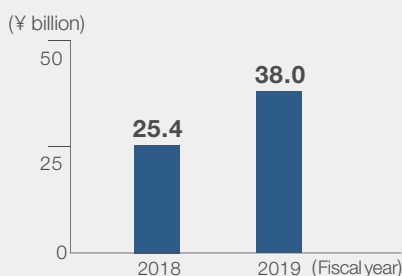
The Wholesale Division covers Global Markets (GM) and Global Investment Banking (GIB). GM provides sales and trading services of equities and bonds as well as of foreign exchange and derivative products, mainly for institutional investors and corporations, while providing financial products and sales support to the Retail Division. GIB conducts business in, for example, marketable securities underwriting and M&A advisory services.

Main sources of earnings of GM are trading commissions from the buying and selling of marketable securities for institutional investors and trading income. Those of GIB are underwriting commissions from underwriting business and M&A commissions from M&A advisory services.

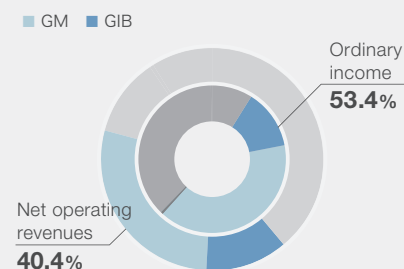
Net Operating Revenues



Ordinary Income



Breakdown of FY2019 Consolidated Results



Engagement with Stakeholders

Customer attributes

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

Channels

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

Main products and services

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

Social value

- ▷ Providing investment opportunities in global financial markets
- ▷ Supporting industrial development and restructuring, discovering and fostering new industries
- ▷ Supporting financing to address social issues

Awareness of Environment

- GM** ▷ Mounting uncertainties about the future of the global economy due to COVID-19 and various trends in national fiscal, monetary, and trade policy
 - ▷ Increase in geopolitical risk around the world
 - ▷ Increase in ESG investing and dialogue with issuers due to greater emphasis on responsible investing among institutional investors
 - ▷ Tighter regulations and changes in competitive landscape as companies enter from other sectors
- GIB** ▷ Post-COVID technological innovation and structural change in industries
 - ▷ Increase of support for development of venture companies
 - ▷ Changing corporate behavior in response to heightened awareness of climate change, energy, and environmental issues
 - ▷ Trade conflict, including the US and China

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
 - ▷ Top-ranked equity research
- GIB** ▷ Sales network in Japan and overseas ▷ Global M&A Advisory Network
 - ▷ Corporate client sales structure targeting a wide range of listed 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
- ▷ In failing to properly disclose the offer and sale of securities, the risk of a compensation claim for damages from investors as an underwriter under the Financial Instruments and Exchange Act

Initiatives in FY2019

Action Plan for FY2019	Performance in FY2019
1. Promote the company's shift to higher added value	In terms of M&A business initiatives, the Division sought to acquire mid-cap cross-border projects overseas. In IPO businesses, a Daiwa Innovation Network business-matching event was held to promote the discovery and development of startup ventures. It also worked to acquire large-scale financing projects.
2. Provide products and services that capture customer needs	
3. Support changes in business structure and in Japan's industrial structure	
4. Provide pan-Asian business support as a regional Asian broker	A focus on strengthening domestic and overseas research capabilities is bearing fruit. In addition to being No. 1 in the 2020 Nikkei Veritas Analyst Ranking by company for the second year in a row, Daiwa Securities also ranked No. 1 in Institutional Investor 2020 All-Japan Research Team survey. Also, providing more overseas stock information to retail customers led to an increase in the custody balance of foreign equities, while efforts to expand the line of products tailored to the needs of mid-cap corporate clients led to growth in new customers.

In FY2019, amid rapidly changing economic and market environments, the Retail Division and Wholesale Division collaborated to offer timely new products. This, together with a flexible trading approach in response to changes in market conditions, contributed to profits.

In the underwriting business, Daiwa Securities served as joint global coordinator for the global IPO*¹ of freee K.K. The company also served as lead underwriter for several POs carried out in conjunction with listing market transfers. As for bonds, Daiwa Securities was lead manager for several straight and subordinated bond offerings, including the corporate bonds of Mitsui O.S.K. Lines, Ltd., which became the first sustainability bonds*² for individual investors offered by a company in Japan, as well as other SDG bonds*³.

In the M&A advisory business, Group companies collaborated on many M&A projects, such as the acquisition of US-listed AVX Corporation by KYOCERA Corporation.

To promote greater collaboration between offices in Japan, Asia, Europe, and the Americas, from April 2019, all M&A advisory businesses were brought together under the DC Advisory brand name. Furthermore, in September 2019, a seventh European office, Daiwa Corporate Advisory S.r.l., opened in Milan, Italy. The following October, DC Advisory acquired a 50% stake in Green Giraffe Advisory B.V., a Dutch financial advisory firm with strengths in the field of renewable energy, such as wind power and solar power. This alliance will strengthen the Group's ability to provide high-quality M&A advisory services on a global basis.

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

*2 Bonds issued by companies and local governments to raise funds both for environmentally and socially beneficial projects in Japan or overseas

*3 A general term for bonds, including social bonds, green bonds, sustainability bonds, etc., advocated by the Japan Securities Dealers Association, in which funds raised are used for businesses that contribute to the SDGs

FY2019 Results

Equity revenues in GM declined due to the ongoing uncertainty about the global economy and lower customer flows. Fixed income increased due to an increase in customer flows for major products, partly due to the effects of the monetary market easing policy, particularly in the Americas. As a result, net operating revenues in the fiscal year under review increased by 13.1% compared with the previous fiscal year, to ¥121.3 billion, and ordinary income increased by 64.1% year on year, to ¥28.1 billion in FY2019.

In GIB, underwriting and secondary offering commissions in the fiscal year under review totaled ¥29.8 billion, a decrease of 28.7% compared with the previous year, when Daiwa Securities served as Joint Global Coordinator and book runner for multiple large-scale primary and secondary equity offering deals. In the M&A advisory business, efforts were made to further expand the global network and strengthen cooperation with each overseas base. As a result, M&A-related fees increased 26.8% year on year, to ¥28.9 billion. In the fourth quarter, there were cases where progress was affected by the spread of COVID-19 infections, but the impact on consolidated results was limited. Consequently, while net operating revenues of the Global Investment Banking business decreased by 1.3% compared with the previous fiscal year, to ¥50.9 billion, ordinary income increased by 28.0% year on year, to ¥9.3 billion in FY2019.

In FY2019, net operating revenues in the Wholesale Division increased by 8.4% to ¥172.2 billion, and ordinary income increased by 49.7% to ¥38.0 billion compared with the previous fiscal year.

FY2019 League Table Ranking & Market Share*1

	Rank	Share
IPO	2nd	24.6%
Primary and secondary equity offerings*2	2nd	15.3%
Straight bonds (excl. family bonds)	3rd	19.0%
Municipal bonds	3rd	17.6%

*1 Compiled by Daiwa Securities based on REFINITIV

*2 Public offering total (excluding domestic and foreign CBs and REITs)

Asset Management Division

Main Companies

Investment trusts/Investment advisory services

Daiwa Asset Management Co. Ltd.

Real estate asset management

Daiwa Real Estate Asset Management Co. Ltd.

Daiwa Office Investment Corporation

▶ Assets under management by Daiwa Asset Management

Management **¥16.4 trillion**

▶ Assets under management by two real estate asset management companies*1

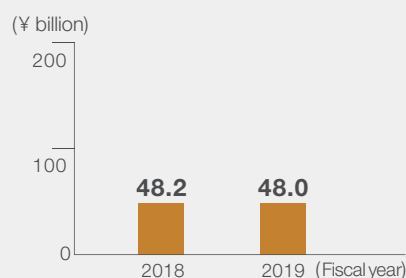
..... **¥1,069.3 billion**

*1 Daiwa Real Estate Asset Management and Samty Asset Management

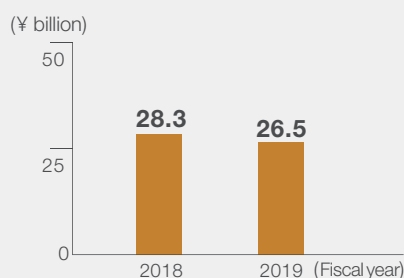
The Asset Management Division consists mainly of the operations of Daiwa Asset Management Co. Ltd., which sets up and manages investment trusts to address the needs of individual investors and financial institutions, and the J-REIT asset management business of Daiwa Real Estate Asset Management Co. Ltd. (Daiwa Real Estate AM) and its equity method affiliate, Daiwa Office Investment Corporation.

Revenues in the Asset Management Division consist mainly of commissions for structuring and managing investment trusts from Group consolidated subsidiary Daiwa Asset Management, and real estate investment income from Group consolidated subsidiary Daiwa Real Estate AM. In addition, income related to structuring and management of investment trusts and investment advisory services of Sumitomo Mitsui DS Asset Management Company, Limited, an equity method affiliate, as well as the real estate investment income of equity method affiliate Daiwa Office Investment, are recorded in ordinary income according to the Group's ownership ratio.

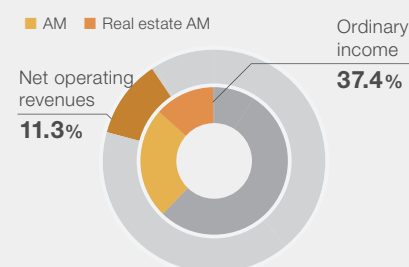
Net Operating Revenues



Ordinary Income



Breakdown of FY2019 Consolidated Results



Engagement with Stakeholders

Customer attributes

- ▷ Individual investors
- ▷ Institutional investors in Japan and overseas
- ▷ Financial institutions ▷ Government agencies

Channels

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

Main products and services

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

Social value

- ▷ Fulfillment of stewardship duties
- ▷ Supporting investor asset building activities
- ▷ Proactive use of ESG information in investment decisions
- ▷ Providing rental real estate to support social infrastructure (healthcare facilities for the aging population, etc.)

Awareness of Environment

- ▷ Mergers and restructuring among major asset management firms around the world
- ▷ Building interest in ESG investments amid growing awareness of Principles for Responsible Investment (PRI) and the SDGs
- ▷ 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 as a result of market fluctuations, or due to an increase in cancellations as a result of the change in asset management behavior of customers or as a result of the Group's investments underperforming in comparison to competitors

Real Estate AM ▷ Risk of weaker earnings due to valuation losses or inability to receive rental and 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 in FY2019

Action Plan for FY2019	Performance in FY2019
1. Pursue customer profits by strengthening and enhancing management capabilities	Daiwa Asset Management sought to improve its management structure, methods, and processes to boost management performance, while reinforcing customer engagement activities, and developing and strengthening human resources.
2. Strengthen development of products that capture a wide range of customer needs	Daiwa Asset Management strengthened the development and supply of products tailored to the needs of the clients of distribution companies.
3. Enhance product lineups contributing to the customers' financial asset management and strengthen the communication of information and support capabilities	In addition to providing customers with enhanced information content, the menu of seminars and sales materials were expanded to address customer needs. Steps to strengthen support capabilities including proposing joint marketing efforts with distribution companies.
4. Expand alternative investment products, centered around real estate	Daiwa Real Estate AM launched the Daiwa Securities Logistics Private Investment Corporation, a REIT specializing in distribution facilities. In addition, Samty Residential Investment was made a consolidated subsidiary. The balance of assets under management, including REITs managed by Daiwa Real Estate AM and assets of Samty Residential Investment and others, increased ¥68.2 billion year on year to ¥1,069.3 billion.

Daiwa Asset Management worked to increase the amount of assets under management by offering products through a broad range of sales channels and strengthening its management capabilities.

Sales of the Man AHL Smart Leverage Strategy Fund launched in November 2019 were favorable, resulting in a ¥113.9 billion increase in funds. The overall increase in funds for publicly offered equity investment trusts was ¥729.7 billion in FY2019, primarily reflecting the inflow of funds to ETFs, while the net asset balance at the end of FY2019 was ¥13,478.3 billion.

Daiwa Securities Group Inc. and Daiwa Asset Management are collaborating with US-based Global X Management Company Inc. in the asset management field. A joint venture, Global X Japan Co. Ltd., was established in September 2019, with the goal of offering theme-based, smart beta*, and other advanced ETF products.

In the real estate asset management field, in March 2020 Daiwa Real Estate AM launched Daiwa Securities Logistics Private Investment Corporation, a private placement REIT specializing in distribution facilities. In September 2019, the company increased its ownership in Samty Residential Investment Corporation, a listed REIT specializing in housing, making it a consolidated subsidiary. The group also worked to boost portfolio yields by acquiring new properties and replacing assets, and enhancing the value of existing properties. The scale of assets under management as of the end of FY2019 was ¥1,069.3 billion. On April 1, 2020, Japan Rental Housing Investments Inc. and Nippon Healthcare Investment Corporation, both managed by Daiwa Real Estate AM, were merged, changing the company name to Daiwa Securities Living Investment Corporation. At the time of the merger, the company sold some properties, acquired new properties, and increased capital by the allotment of new shares to third parties, to replace assets and expand the scale of assets under management.

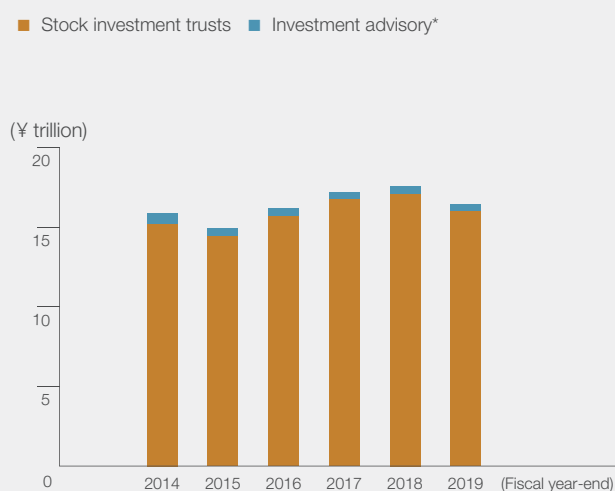
* Theme-based investment refers to investing according to a selected theme, such as a specific stock price index, the environment, or corporate responsibility. Smart beta is an index that aims to outperform the average returns for a market or industry, focusing on quantitative stock selection, looking to factors such as financial indicators or dividends.

FY2019 Results

The balance of assets under management of publicly offered equity investment trusts and bond investment trusts at Daiwa Asset Management decreased by ¥1.1 trillion from the end of the previous fiscal year to ¥16.4 trillion. Operating income decreased 8.6% year on year to ¥70.1 billion, and ordinary income decreased 7.9% year on year to ¥15.6 billion due to a decrease in management fees. The decline in stock market conditions in the fourth quarter resulted in a ¥600 million decrease of operating income as AUM of stock investment trusts dropped compared with the previous quarter, but the impact of COVID-19 infections during the consolidated fiscal year under review was limited.

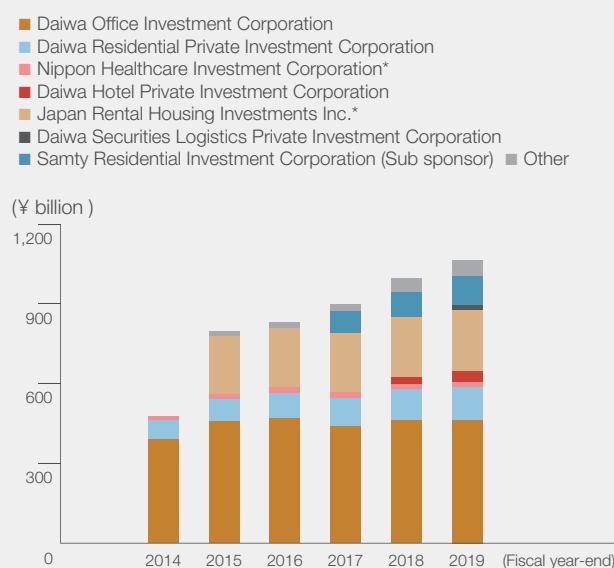
In FY2019, net operating revenues in the Asset Management Division edged down by 0.3% to ¥48.0 billion, and ordinary income decreased by 6.3% to ¥26.5 billion compared with the previous fiscal year.

Assets under Management of Daiwa Asset Management



* Investment advisory services is the sum of the advisory and discretionary investment management businesses.

Assets under Management of Real Estate AM Business



* On April 1, 2020, Japan Rental Housing Investments Inc. and Nippon Healthcare Investment Corporation were merged, changing the company name to Daiwa Securities Living Investment Corporation.

Investment Division

Main Companies

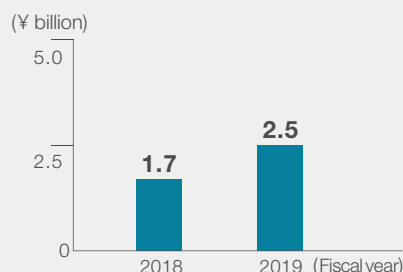
Daiwa Corporate Investment Co., Ltd. (DCI)
Daiwa PI Partners Co. Ltd. (PIP)
Daiwa Energy & Infrastructure Co. Ltd. (DEI)

- ▶ Number of investment companies (cumulative)*1 **2,298 companies**
 - ▶ Investment amount (cumulative)*1 **¥431.9 billion**
 - ▶ Outstanding principal investment balance*2 **¥235.0 billion**
- *1 DCI cumulative value
*2 Principal investment balance is total of PIP and DEI

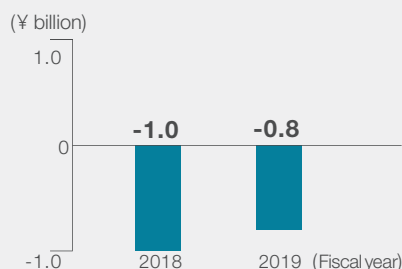
Investing in a wide range of assets, the Investment Division of the Daiwa Securities Group encompasses primarily three companies: Daiwa Corporate Investment, which invests in venture companies through funds; Daiwa PI Partners, which invests in loans, real estate and private equity; and Daiwa Energy &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

The main sources of earnings in the Investment Division are gains on sales from IPO and M&A transactions, capital gains from investment partnerships, and management fees and performance fees received from funds based on contracts.

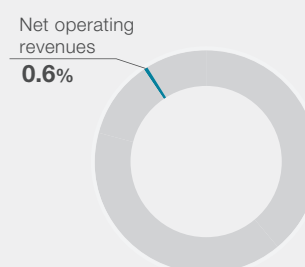
Net Operating Revenues



Ordinary Income



Breakdown of FY2019 Consolidated Results



Initiatives in FY2019

Action Plan for FY2019	Performance in FY2019
1. Contribute to the fund ecosystem by unearthing and nurturing new industries	In addition to new investments, DCI worked with the Group to maintain hands-on communication with investee companies.
2. Expand investments in Asia	DCI held ongoing discussions with local partners to establish succession funds and other new funds. PIP invested in companies in various Southeast Asian countries.
3. Develop socially responsible investments	The investment balance of DEI increased by ¥50 billion year on year to ¥81 billion.
4. Pursue investment returns through further evolution of investment capabilities	DCI worked with M&A-related companies to strengthen its exit strategy system. DEI exited some investment projects and took steps to build a capital recycling model.

Daiwa Corporate Investment

DCI invested in venture companies at various stages of growth in Japan and overseas, and pursued investment returns from existing projects through listing of the investee companies.

Daiwa PI Partners

PIP conducted real estate loans as well as corporate loans and investments in Japan and abroad. PIP pursued investment returns from existing projects, such as non-performing loan investments and corporate investments.

In addition, DCI and PIP announced in July 2019 the joint establishment of the DAIWA Myanmar Growth Fund, which primarily invests in unlisted companies in Myanmar.

Daiwa Energy & Infrastructure

DEI invested in renewable energy businesses such as solar power generation as well as power distribution businesses overseas and other infrastructure businesses. In December 2019, DEI formed a strategic alliance with Aquila Capital Holding GmbH in Germany, which develops and operates renewable energy businesses.

FY2019 Results

While revenues increased from the previous year due to revenues from monetary claims at Daiwa PI Partners and gains on sale of investments at Daiwa Energy & Infrastructure, a loss was recorded from revaluation of investments. COVID-19 made no significant impact on the performance of the Investment Division during the consolidated fiscal year under review, such as a decline in the stock price or deterioration in the business performance of investee companies. As a result, in the fiscal year under review, net operating revenues in the Investment Division increased by 41.7%, to ¥2.5 billion, and an ordinary loss of ¥800 million was recorded.

Other

Main Companies

Think tank/Information systems

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

Banking

Daiwa Next Bank, Ltd.

Daiwa Securities Business Center Co. Ltd.

Daiwa Property Co., Ltd.

Fintertech Co. Ltd.

CONNECT Co. Ltd. (services began in July 2020)

▶ Balance of deposits* ¥4.0 trillion

▶ Number of accounts* 1,405 thousand

* Figure for Daiwa Next Bank

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.

Initiatives in FY2019

Daiwa Institute of Research Group

Daiwa Institute of Research (DIR) and Daiwa Institute of Research Business Innovation advised various government commissions and committees on public policy proposals and provided information on the SDGs, as well as offering consulting services in a range of fields in Japan and Asia, and system solutions both within Daiwa Securities Group and to external financial institutions and companies.

Action Plan for FY2019	Performance in FY2019
1. Contribute to the strengthening of the business through collaboration with Daiwa Securities Group, as the think tank of the hybrid securities group	DIR Group supported the improvement of productivity and customer convenience for Daiwa Securities Group by providing digital transformation solutions.
2. Offer visionary economic and financial information which guides customers in the uncertain future led by accelerating digitalization	DIR Group drew on its insights into economic and social trends such as ESG and the SDGs to raise timely issues and actively deliver information through collaboration with the Royal Institute of International Affairs (Chatham House) and the Chinese Academy of Social Sciences, as well as at international conferences.
3. Contribute to clients' businesses by providing competitive solutions in a timely manner	DIR Group provided high value-added solutions, expanding its lineup of services by enhancing collaboration with external partners and external services such as cloud platforms.
4. Expand businesses through the creation of "new value" by utilizing advanced technology	To expand its provision of services in advanced technology fields, DIR Group reinforced its data science organization and expanded the application of advanced technology to business.

Daiwa Next Bank

Daiwa Next Bank provides a wide range of customers with attractive interest-bearing yen deposits, foreign currency deposits, and convenient services through the nationwide network of Daiwa Securities. In December 2019, the balance of foreign currency deposits surpassed ¥500 billion, while in February 2020, the cumulative amount of "Ouen" (Supporting) Term Deposits surpassed ¥100 billion. At the end of FY2019, the balance of total deposits (including CDs) stood at ¥4.0 trillion, a 10.4% increase year on year, while the number of accounts increased 3.0% year on year to 1.4 million.

Action Plan for FY2019	Performance in FY2019
1. Develop customer-oriented products and services by utilizing securities-banking business model	Daiwa Next Bank carried out a number of campaigns together with Daiwa Securities.
2. Construct mechanisms for building the future revenue base of the entire Group	Foreign exchange services for customers began on the online banking site.
3. Pursue portfolio management strategy that can adapt to changes in market environments in a timely manner	During periods of elevated interest rates and credit spreads, the Bank managed its funds flexibly while hedging risks.
4. Sustainable growth achieved by securing healthy earning results	The Bank established a system to fortify money laundering and terrorist financing countermeasures, further bolstering its risk management.

FY2019 Results

Net operating revenues in others/adjustments was ¥36.9 billion, compared to ¥46.4 billion in the previous year, while ordinary income amounted to ¥0.1 billion, down from ¥5.8 billion in the previous year.

11-Year Financial Summary*1

	FY2009	FY2010	FY2011	FY2012
Operating Performance				
Operating revenues	537,915	403,042	422,374	525,411
Commissions	252,863	218,630	220,845	229,522
Net gain on trading	110,955	92,476	79,416	123,537
Net gain (loss) on private equity and other investments	75,584	(17,259)	1,955	16,531
Interest and dividend income	54,729	71,915	79,761	93,276
Service fees and other revenues	43,783	37,278	40,395	62,544
Interest expense	47,659	58,061	59,689	70,130
Cost of service fees and other revenues	32,150	26,415	26,668	37,972
Net operating revenues	458,105	318,564	336,016	417,308
Selling, general and administrative expenses (SG&A)	362,844	363,919	359,729	333,496
Operating income (loss)	95,261	(45,355)	(23,713)	83,812
Ordinary income (loss)	102,917	(32,602)	(12,200)	95,176
Profit (loss) attributable to owners of parent	43,429	(37,331)	(39,434)	72,909
Segment Information*2				
Net operating revenues				
Retail	192,086	178,970	172,033	184,415
Wholesale	249,441	92,130	78,488	133,109
Asset Management	63,795	36,324	37,424	43,591
Investment	—	(15,277)	1,090	17,495
Others/adjustments	—	26,416	46,980	38,696
Total	458,105	318,564	336,016	417,308
Ordinary income (loss)				
Retail	40,454	41,866	38,839	49,251
Wholesale	68,754	(66,906)	(68,717)	12,034
Asset Management	9,929	15,948	14,615	19,089
Investment	(6,952)	(21,476)	(1,976)	14,161
Others/adjustments	7,901	(2,034)	5,039	639
Total	102,917	(32,602)	(12,200)	95,176
Ordinary Income (Loss) from Overseas Operations				
Europe	1,984	(8,954)	(5,039)	(2,873)
Asia & Oceania	60	(11,133)	(17,720)	(7,610)
Americas	1,707	(1,447)	(3,058)	(87)
Total	3,752	(21,536)	(25,818)	(10,571)
Financial Conditions (Fiscal year-end)				
Total assets	17,155,345	16,842,411	18,924,038	19,049,099
Net assets	1,017,528	921,398	951,702	1,082,567
Regulatory Indicators				
Consolidated Capital Adequacy Ratio				
Consolidated Common Equity Tier 1 Capital Ratio	—	—	—	19.0%
Consolidated Tier 1 Capital Ratio	—	—	—	19.0%
Consolidated Total Capital Ratio*3	—	27.2%	27.4%	20.0%
Consolidated Leverage Ratio	—	—	—	—
Consolidated Liquidity Coverage Ratio	—	—	—	—
Cash Flows				
Cash flows from operating activities	(3,259,900)	1,676,882	2,032,677	1,795,021
Cash flows from investing activities	(237,499)	(79,466)	(973,494)	(798,491)
Cash flows from financing activities	3,837,205	(1,301,657)	(1,063,022)	(909,461)
Cash and cash equivalents at end of year	753,982	1,043,463	1,038,981	1,136,053
Per Share Data (Yen)				
Net income (loss) per share (EPS)*4	26.41	(21.90)	(23.41)	43.00
Net assets per share (BPS)	530.27	496.76	463.04	536.72
Dividend per share (DPS)	13.00	6.00	6.00	15.00
Closing share price	492.0	382.0	327.0	656.0
Other Indicators				
Dividend payout ratio	49.2%	—	—	34.9%
Market capitalization (Period-end closing price, number of shares issued basis)	860,684	668,263	572,047	1,147,592
ROE	5.3%	—	—	8.6%

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

*2 Retail Division in 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 pages 103-113.

Millions of yen (Except as otherwise specified)

FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
642,829	659,396	653,711	616,497	712,601	720,586	672,287
301,937	291,115	288,418	273,335	313,625	283,027	266,574
156,499	157,220	131,324	128,120	109,005	92,218	93,802
17,454	7,415	18,502	14,846	26,912	(232)	14
107,974	125,934	149,451	143,241	190,444	291,005	258,122
58,963	77,710	66,014	56,953	72,613	54,567	53,772
60,333	80,070	89,530	98,725	148,348	242,468	209,916
40,545	47,105	49,366	45,022	58,901	36,876	36,110
541,951	532,220	514,815	472,750	505,350	441,240	426,259
357,358	361,380	364,517	353,687	370,292	373,914	371,970
184,593	170,839	150,297	119,062	135,058	67,326	54,288
197,045	184,578	165,148	135,623	155,676	83,159	70,283
169,457	148,490	116,848	104,067	110,579	63,813	60,346
253,093	232,033	217,922	188,051	214,247	185,865	166,430
175,338	180,568	178,014	182,875	171,192	158,903	172,289
48,714	55,140	50,528	46,438	49,390	48,232	48,091
19,989	8,351	19,730	15,736	27,401	1,766	2,502
44,815	56,126	48,618	39,647	43,118	46,473	36,943
541,951	532,220	514,815	472,750	505,350	441,240	426,259
102,120	77,756	61,080	29,375	51,331	24,674	6,405
47,428	52,888	48,878	65,437	45,373	25,400	38,034
25,328	32,142	29,990	26,572	29,119	28,359	26,580
17,171	6,506	17,397	13,041	24,499	(1,093)	(877)
4,996	15,284	7,801	1,196	5,353	5,817	140
197,045	184,578	165,148	135,623	155,676	83,159	70,283
(2,307)	(2,187)	(3,240)	2,759	4,227	(1,947)	(4,253)
(3,763)	(2,768)	(4,130)	1,480	4,433	2,946	2,601
916	1,050	2,686	9,254	2,742	2,766	17,644
(5,154)	(3,904)	(4,684)	13,493	11,403	3,765	15,992
19,480,863	23,001,585	20,420,818	19,827,296	21,135,041	21,126,706	23,822,099
1,253,462	1,434,680	1,313,005	1,343,433	1,370,520	1,256,430	1,257,766
20.6%	19.7%	20.7%	22.2%	21.78%	21.64%	18.69%
20.9%	20.4%	20.8%	22.2%	21.78%	21.64%	21.16%
21.8%	21.0%	20.9%	22.2%	21.78%	21.64%	21.16%
—	5.31%	5.97%	5.89%	5.57%	5.82%	5.80%
—	—	156.2%	145.3%	146.6%	141.5%	150.6%
1,123,594	725,966	221,746	44,543	(1,319,248)	304,857	167,190
(448,493)	(13,265)	415,647	307,713	777,872	108,243	(215,397)
25,584	343,385	(229,727)	143,231	432,813	55,741	(135,794)
1,846,617	2,920,509	3,273,640	3,766,145	3,653,464	4,122,102	3,933,149
99.63	87.07	68.25	61.53	66.88	39.95	39.11
633.53	725.27	720.86	745.80	786.56	794.54	796.33
34.00	30.00	29.00	26.00	28.00	21.00	20.00
898.0	946.0	692.3	677.9	678.7	539.0	419.2
34.1%	34.5%	42.5%	42.3%	41.9%	52.6%	51.1%
1,570,942	1,654,912	1,211,095	1,152,009	1,153,368	915,965	712,379
17.0%	12.8%	9.5%	8.4%	8.8%	5.1%	4.9%

*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

For more detailed SDG-related data, including management reports, social reports and environmental reports, and the status of independent assurance, please see our SDGs site. (<https://www.daiwa-grp.jp/english/sdgs/data/databook.html>)

Selected Range of Numerical Data

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

D : Daiwa Securities (non-consolidated)

9 : 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 Securities Business Center Co. Ltd., Daiwa Property Co., Ltd., Daiwa Corporate Investment Co., Ltd. (DCI)

7 : 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 Securities Business Center Co. Ltd., Daiwa Corporate Investment Co., Ltd. (DCI)

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

Personnel Related

		FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Consolidated Number of Staff* ¹	G	13,324	13,577	13,725	14,691	15,106	15,240
Male		7,526	7,600	7,552	8,077	8,092	8,025
Female		4,270	4,505	4,660	4,938	5,210	5,347
Overseas		1,528	1,472	1,513	1,676	1,804	1,868
Consolidated number of employees	G	13,466	13,701	13,836	14,791	15,196	15,320
Number of temporary employees	G	847	940	945	946	915	635
Number of New Graduates Recruited* ²	7	681	662	678	578	677	460
Male		345	332	345	289	337	244
Female		336	330	333	289	340	216
Average Age	D	38.0	37.9	38.0	38.0	38.3	38.4
Male		39.4	39.5	39.6	39.6	39.8	39.7
Female		35.9	35.6	35.7	35.7	36.2	36.6
Average Number of Years of Service	D	13.6	13.5	13.6	13.7	13.8	13.9
Male		15.0	15.1	15.2	15.3	15.4	15.5
Female		11.5	11.3	11.4	11.4	11.5	11.8
Employee Turnover Statistics (%)	D	3	3	3	3	3	4
Number of employee union members* ³	9	6,573	6,822	6,943	7,134	7,202	6,992
Ratio of employees who are employee union members (%)* ³	9	63.1	64.2	64.0	64.4	63.9	62.6
Work Motivation Survey* ⁴							
Work		—	—	—	—	3.2	3.3
Organization		—	—	—	—	3.2	3.2
Colleagues		—	—	—	—	3.2	3.2
Growth or career advancement opportunity		—	—	—	—	3.2	3.2
Compensation		—	—	—	—	3.1	3.0

*1 The number of employees stationed overseas is included in the "Overseas" category.

*2 April 1 of the next fiscal year; prior to FY2017, eight companies, including Sumitomo Mitsui DS Asset Management Company, Limited.

*3 Excluding Daiwa Asset Management Co. Ltd. and Daiwa Property Co., Ltd.; prior to FY2018, includes Sumitomo Mitsui DS Asset Management Company, Limited.

*4 Four-scale evaluation (maximum of four points)

Education Related

		FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Number of people who have completed	9						
Daiwa Management Academy selective management training program (cumulative total)		335	358	380	403	426	451
Daiwa Leadership Program selective management training program (cumulative total)		734	797	862	929	1,036	1,159
Number of people who have completed skill training (cumulative total)	7	4,591	6,073	7,507	9,362	13,488	17,853
Number of Persons Earning Credentials* ¹	9						
Affiliated Financial Planner (AFP)		5,279	5,333	5,626	6,811	7,064	7,296
Certified Financial Planner (CFP®)* ²		590	616	643	698	796	1,020
Chartered Member of the Securities Analysts Association of Japan (CMA)		1,504	1,525	1,542	1,613	1,644	1,470
Chartered Financial Analyst (USA credential)		50	57	59	59	63	49
TOEIC (730-990)		1,556	1,660	1,752	1,830	1,903	1,819
Overseas MBA program, etc.		160	168	173	177	176	152

*1 Prior to FY2018, 10 companies, including Sumitomo Mitsui DS Asset Management Company, Limited.

*2 This data covers Daiwa Securities.

Diversity Related

		FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Percentage of employees who are female	G	36.1	37.2	38.1	37.9	39.2	40.0
Percentage of managers who are female	G	6.3	7.5	8.8	9.4	10.5	11.9
	D	7.5	8.9	10.6	11.6	12.9	14.5
Number of women newly appointed to managerial positions	D	42	45	62	40	61	64
Percentage of newly appointed managers who are female (%)	D	26.9	27.1	32.3	24.4	26.2	26.8
Number of employees re-hired under the Daiwa Master System	D	56	68	67	73	88	110
Percentage of employees who are persons with disabilities	D	2.10	2.05	2.02	2.10	2.33	2.55

Work-Life Balance Related

		FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Annual regular working hours	2	1,845.0	1,837.5	1,837.5	1,837.5	1,837.5	1,837.5
Average monthly overtime hours	2	28.2	24.0	23.5	23.2	22.8	21.7
Paid vacation usage rate (%) (including special summer vacation)	2	56	63	66	68	68	72
Number of employees taking childcare leave	G						
Female		576	640	671	695	696	680
Male		134	250	327	437	420	378
Percentage of employees taking childcare leave	D						
Female		99.3	100.0	100.0	100.0	99.0	100.0
Male		41.9	73.1	96.8	100.0	100.0	100.0
Short working hour system usage (persons)	D	180	249	324	373	446	505
Daycare subsidy usage (persons)	D	437	505	625	702	759	583
Number of employees taking nursing care leave	G						
Female		6	4	0	2	5	10
Male		1	2	2	3	3	3

Social Contribution Related

		FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Social contribution activity expenses (thousands of yen)		606,279	583,758	497,457	719,523	1,015,796	867,162
Education and research in economics and finance		189,624	137,193	42,351	130,122	82,579	73,261
Assistance to communities inside and outside of Japan through foundations and NPOs		153,779	147,748	128,594	149,441	175,813	174,816
Support for culture and the arts		257,400	296,110	323,110	437,458	751,961	614,700
Corporate citizenship initiatives		5,476	2,706	3,400	2,501	5,441	4,385

Environment Related

		FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Domestic and Overseas CO ₂ Emissions (t-CO ₂)							
Scope 1		831	1,012	1,015	998	944	868
Scope 2		40,879	36,372	34,772	33,131	30,764	31,203
Scope 3		2,325	2,208	3,521	5,288	5,920	5,880
CO ₂ Emissions per Employee (Japan) (t-CO ₂)		3.3	2.9	2.9	2.7	2.5	2.5
Domestic Clean Water Consumption (thousand m ³)		118.9	117.7	117.1	119.1	125.3	127.4
Waste (paper waste) generated by certain locations in Japan							
Volume generated (t)		317.7	320.3	310.4	324.6	331.2	281.3
Recycling rate (%)		93.0	93.6	92.4	94.6	92.5	91.4
Waste (non-paper waste) generated by certain locations in Japan							
Volume generated (t)		221.2	210.6	211.5	237.1	271.3	247.1
Recycling rate (%)		51.7	53.8	48.4	44.8	44.1	43.4
Domestic and Overseas Paper Consumption (t)		—	—	—	589.3	534.9	500.4

Management's Discussion and Analysis

Macroeconomic Conditions in FY2019

Overseas Markets

In 2019, the global economy continued to exhibit moderate growth, despite a growing sense of slowdown due to factors such as U.S.-China trade friction. In 2020, however, the global economy suffered a rapid deterioration due to the spread of novel coronavirus (COVID-19) infections.

According to the International Monetary Fund (IMF), the rate of global economic growth in 2019 was 2.9%, the stagnation of international trade mainly brought about by the U.S.-China trade friction resulting in the lowest rate of growth since 2009, when the Lehman Brothers crisis had caused negative growth. In 2020, it is expected that both leading industrialized nations and emerging market countries will fall into negative growth due to the impact of the COVID-19 infections, and the rate of global economic growth will drop significantly to minus 3.0%, surpassing the decline at the time of the global financial crisis.

In the U.S. economy, the annual rate of real GDP growth for the April-June 2019 quarter was 2.0%, and as the steady growth continued over the next two consecutive quarters, up to and including December 2019, was 2.1%. Corporate capital investment declined for three consecutive quarters due to factors such as the slowdown in overseas economies and concerns over the trade friction, in contrast to a steady increase in consumer spending against the backdrop of improvements in the employment and income environment that underpinned the increase in GDP. In addition, housing investment, which had been soft due to low interest rates, strengthened in the second half of 2019. In 2020, the new risk factor of COVID-19 infections exerted downward pressure on the U.S. economy. Particularly from mid-March, when President Trump declared a state of emergency and requested that people refrain from going out due to the increase in the number of cases of infection in the United

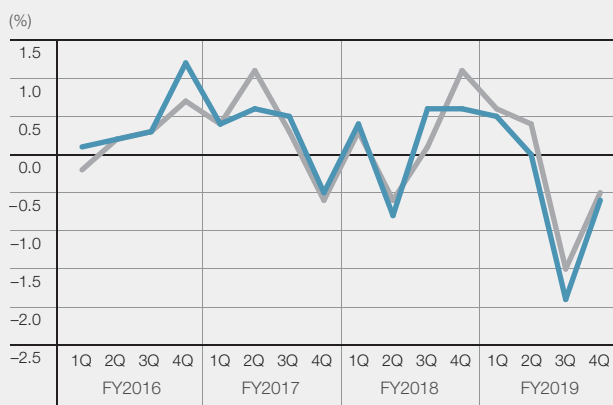
States, there was a sharp decrease in consumer spending centered on non-essential services, such as eating out and entertainment, and the rate of real GDP growth for the January-March 2020 period dropped significantly by the annual rate of 5.0%. In addition, unemployment increased at an unprecedented pace, centered on the service industry, which had been forced to refrain from activities.

In the wake of this sudden economic downturn, the Trump administration and Congress took swift steps to avoid a bottoming out of the economy. The largest-ever economic measure of more than \$2 trillion established on March 27 broadened cash and unemployment benefits to households and included loans and other measures for companies.

Turning to the financial aspects of the economy, the Federal Reserve Board (FRB) actively implemented monetary easing measures in response to the economic downturn. Even before the spread of COVID-19 infections, the Federal Open Market Committee (FOMC) had decided to cut interest rates three times, in July, September, and October 2019, in response to concerns about the economic slowdown. As the global economy slowed rapidly due to the impact of COVID-19 infections, the FRB also implemented two urgent cuts in the interest rate in March 2020 and reinstated the virtually zero interest rate policy of December 2015 onward. The FRB's balance sheet expanded rapidly as it also decided to extend unlimited quantitative easing.

The European economy (eurozone) had slowed but continued to grow moderately in 2019 but has rapidly deteriorated in 2020, like that of the United States. The uncertainties due to the intensifying U.S.-China trade friction and the protracted withdrawal of the UK from the EU having been among the underlying factors pushing down external demand, the annual rate of real GDP growth for the April-June 2019 quarter was a low 0.6%. The rate of real GDP growth for the July-September quarter picked up

GDP Growth Rate in Japan

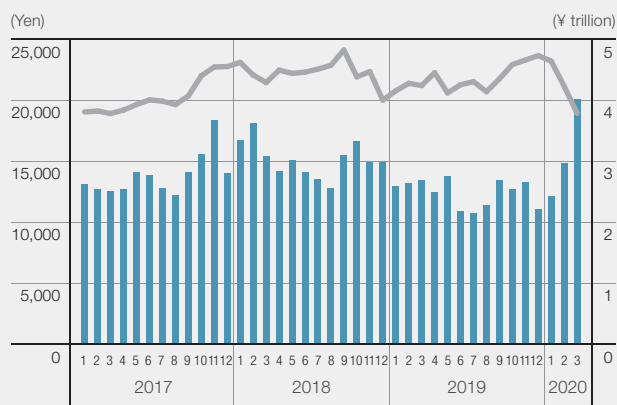


— Real GDP — Nominal GDP

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

slightly to the annual rate of 1.2%, but in the October-December quarter consumer spending, which had supported growth up to that point, also slowed down and the annual growth rate remained at a low 0.4% due to stagnant external demand and a slowdown in the pace of increasing the numbers of employees. Amid the spread of COVID-19 infections in the January-March 2020 quarter, movement restrictions were imposed in March over wide areas, such as in Italy, Spain, France, and Germany, where the number of infected people was particularly high. The rate of real GDP growth was a decrease of 14.2% on an annual basis, the largest decline since 1995, when the statistics were started.

Looking at the financial market, the European Central Bank (ECB) hardened its dovish tendencies as the uncertainties in the global economy mounted, and the economic slowdown in the eurozone became more apparent. The ECB decided to resume its quantitative easing policy in addition to making its first interest rate cut in three and a half years in September 2019. In March 2020, the ECB decided to expand its quantitative easing measures in response to the sudden economic deterioration caused by the spread of COVID-19 infections.

Referring to emerging market countries and developing nation economies, the rate of real GDP growth in 2019 was 3.7%, marking a slowdown for the second consecutive year and the lowest rate of growth since 2009. Moreover, according to the IMF, the rate of real GDP growth is expected to drop to minus 1.0% in 2020 due to the impact of COVID-19 infections. Among the emerging economies, the growth rate in China, the world's second largest economy, had been slowing down even before the effects of COVID-19 infections became apparent, mainly due to the trade friction with the United States. Looking at the rate of real GDP growth on a quarterly basis, the January-March 2019 quarter was 6.4% year on year, the April-June quarter 6.2%, and the July-September quarter 6.0%. In response to this situation, the Chinese government launched a broad range of large-scale fiscal and monetary policy measures designed to help deal with the economic slowdown, and the rate of real GDP growth for the October-December period was 6.0% compared with the same period of the previous year, the same level as the previous quarter and thus showing signs of bottoming out. In the January-March 2020 quarter, however, measures that included city closures were imposed in parts of China due to COVID-19 infections, forcing companies to suspend economic activities, and thus the rate of real GDP growth declined significantly by 6.8% year on year.

Turning to emerging countries other than China, these are generally in a difficult situation. In 2019, the global trade stagnation triggered by the U.S.-China trade conflict forced

emerging country economies into decline. Since the beginning of 2020, many emerging countries, as well as developed countries and China, have had no choice but to restrain their economic activities to prevent COVID-19 infections. In addition, the outflow of funds from emerging countries in the wake of the global economic downturn and the sharp decline in resource prices have also been factors contributing to significant declines in emerging country economies.

Japan

Having been on a recovery trend until the first half of FY2019, the Japanese economy deteriorated rapidly in the second half. In the first half of FY2019, the increases in GDP continued, mainly due to a steady increase in consumer spending. From October 2019 onward, however, a rebound decline from the last-minute spike in demand before a consumption tax rate hike became apparent, and the rate of real GDP growth for the October-December quarter fell sharply by the annual rate of minus 7.2%. Moreover, in the latter half of the January-March 2020 quarter, the economy deteriorated further due to people having been requested to exercise self-restraint in their activities due to the spread of COVID-19 infections and thus the rate of real GDP growth for the January-March 2020 quarter was minus 2.2% on an annual basis, marking the second consecutive quarter of negative growth. As a result, the rate of real GDP growth for FY2019 was low, at 0.0% compared with the previous fiscal year.

With an eye to the individual components of demand, consumer spending was strong until the first half of the fiscal year, but fell sharply over the second half. In addition to the steady improvement in the employment and income environments that underpin consumer spending, in the first half of the fiscal year the special demand generated by the 10 consecutive holidays of Golden Week and the demand to beat the consumption tax rate hike in October contributed added impetus. On the other hand, in the October-December quarter, consumer demand plummeted due to the rebound decline from the last-minute spike in demand. In the January-March 2020 quarter, consumer demand decreased for the second consecutive quarter, mainly due to a decrease in nonessential service consumption, including eating out, brought about by the widespread exercising of self-restraint because of the spread of COVID-19 infections. Similarly, housing investment increased in the July-September 2019 quarter due to the last-minute demand before the consumption tax rate hike but decreased for the second consecutive quarter.

Corporate capital investment increased for two consecutive quarters, the April-June and July-September quarters of 2019, against a backdrop of factors that included high levels of corporate profits, low interest rates, and tight

labor supply and demand. Despite having decreased in the October-December quarter, capital investment increased again in the January-March 2020 quarter and remained steady overall. According to the Bank of Japan Tankan (March 2020 survey), capital investment plans for FY2020 were expected to increase capital investment primarily by large companies. However, amid the global economy's rapid deterioration due to the impact of COVID-19 infections, business confidence at Japanese companies significantly worsened, and their attitude toward capital investment grew more cautious.

From a financial perspective, the Bank of Japan (BoJ) maintained a monetary policy that controls long-term as well as short-term interest rates. Amid growing concerns over a slowdown in the global economy, the BoJ announced at its monetary policy meeting in April 2019 that it would continue the monetary easing measures until at least the spring of 2020. In October, the BoJ revised its forward guidance on policy interest rates to clarify the possibility of future interest rate cuts.

In the first half of FY2019, long-term interest rates were low due to the FRB's interest rate cuts and the worldwide decline in interest rates brought about by the interest rate cuts in July and September, the downward trend was strengthened. Furthermore, amid growing risk aversion in September, following the widening of additional tariffs against China by the United States, there was increasing demand for Japanese government bonds, which are considered a safe asset, and the 10-year JGB yield temporarily fell to around minus 0.29%, the lowest level since July 2016. Due to the FRB's three interest rate cuts in 2019 having improved the outlook for the U.S. and global economies, U.S. long-term interest rates bottomed out in September, and the 10-year Japanese government bond yield, which had been trending downward, reverted to an upward direction after also having bottomed out in September. In 2020, Japan's long-term interest rates were once again on a downward trend following the deterioration of the global economy and the lowering of interest rates in the United States brought about by the spread of COVID-19 infections, but up to the end of the fiscal year there was a sharp rise due to increases in cash demand and other factors.

Casting an eye over the foreign exchange market, the value of the yen depreciated against the U.S. dollar from the start of 2019, temporarily depreciating to the ¥112 level in April. In May, however, the increased U.S. tariff rates imposed on China heightened the level of caution in the face of the intensifying trade friction between the two countries, and the risk-avoidance trend gained in prominence. Amid the growing sense of a slowdown in the global economy, the FRB's monetary easing and the expectations of further easing were a contributory factor in reducing the interest rate differential between Japan and the United States, and in August the yen temporarily appreciated to the ¥105 range. From September onward, when the risk aversion trend weakened, the yen also weakened again, but amid the spread of COVID-19 infections this time developed into a major swing, temporarily moving to the ¥102 level in March 2020. Against the euro, the yen tended to depreciate from early 2019 to April 2019, followed by the yen's appreciation from mid-April to early September and its depreciation trend from mid-September onward. In 2020, however, the yen is appreciating once again.

The stock market was heavily influenced by overseas economic and market trends causing considerable volatility. In the first half of FY2019, stock prices repeatedly increased and decreased following the trends in the U.S.-China trade friction. In the October-December quarter, stock prices rose globally due to the monetary easing measures implemented by the FRB and ECB, and amid ongoing record highs set by U.S. share prices, the Nikkei Stock Average temporarily recovered to the ¥24,000 level in January 2020. In the January-March 2020 quarter, however, amid a rapid deterioration in the global economy due to the spread of COVID-19 infections, stock prices fell sharply worldwide, and the Nikkei Stock Average also fell sharply from February 2020 onwards.

At the end of March 2020, the Nikkei Stock Average closed at ¥18,907.01, down by ¥2,288.80 compared with the end of March 2019. The yield on 10-year government bonds stood at 0.031%, an increase of 0.113 of a percentage point compared with the end of the previous fiscal year. The exchange rate was U.S.\$1.00 = ¥108.42, a ¥2.33 decrease compared with the end of March 2019.

Analysis of Consolidated Income Statements

Total Operating Revenues and Net Operating Revenues

Total consolidated operating revenues in FY2019 decreased by 6.7% compared with the previous fiscal year, to ¥672.2 billion, and net consolidated operating revenues decreased by 3.4% year on year, to ¥426.2 billion.

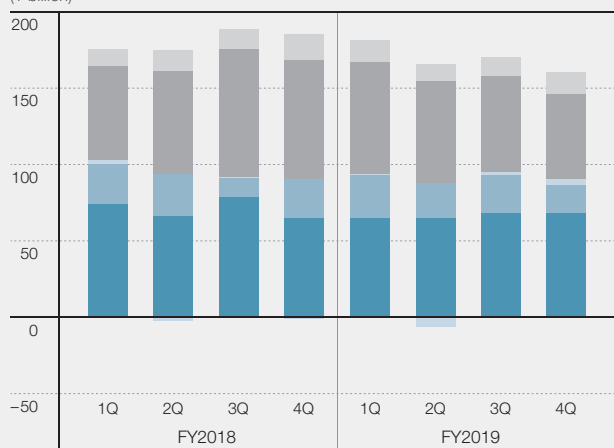
Commissions received were down by 5.8% compared with the previous fiscal year, to ¥266.5 billion. Brokerage commission also declined by 3.1% year on year, to ¥56.5 billion owing mainly to a downturn in the trading of Japanese stocks. Meanwhile, underwriting activity decreased from the previous year, when multiple large-scale equity underwriting deals had contributed. As a result, underwriting commission decreased 28.7% compared with the previous fiscal year, to ¥29.8 billion.

Breakdown of Net Operating Revenues

	Millions of yen		
	FY2018	FY2019	YoY
Operating revenues	¥720,586	¥672,287	-6.7%
Commissions	283,027	266,574	-5.8%
Brokerage commission	58,336	56,503	-3.1%
Underwriting commission	41,810	29,818	-28.7%
Distribution commission	26,047	23,254	-10.7%
Other commission	156,833	156,997	0.1%
Net gain on trading	92,218	93,802	1.7%
Net gain/loss on private equity and other investments	(232)	14	—
Interest and dividend income	291,005	258,122	-11.3%
Service fees and other revenues	54,567	53,772	-1.5%
Interest expenses	242,468	209,916	-13.4%
Cost of service fees and other revenues	36,876	36,110	-2.1%
Net operating revenues	¥441,240	¥426,259	-3.4%

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 increased 1.7% compared with the previous fiscal year, to ¥93.8 billion, due to strong bond income in the Americas and other factors.

Net trading gains and financial income, calculated on a managerial accounting basis, declined by 21.2% year on year, to ¥41.0 billion. Fixed income, currency and commodities (FICC) revenues increased by 22.9% compared with the previous fiscal year, to ¥86.0 billion.

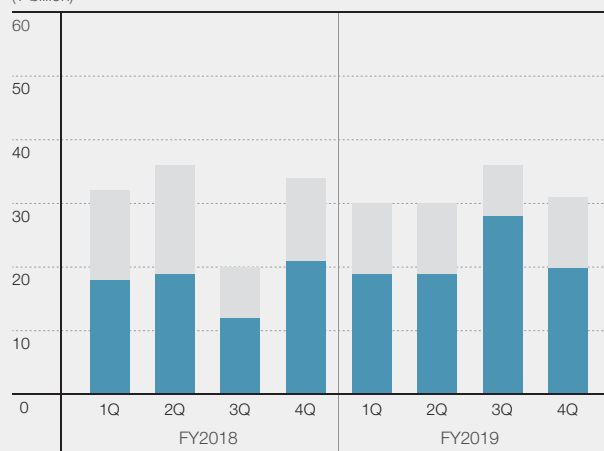
Revenues (Trading Gain/Loss) from Equity and FICC (Net Gain (Loss) on Trading + Net Financial Income, on Managerial Accounting Basis)

	Billions of yen		
	FY2018	FY2019	YoY
Equity	¥ 52.0	¥ 41.0	-21.2%
FICC	70.0	86.0	22.9%
Total	¥122.0	¥127.0	4.1%

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 edged down 0.5% compared with the previous fiscal year, to ¥371.9 billion. Trading-related expenses declined by 4.2% year on year, to ¥68.8 billion, due to a decrease in commissions paid to investment trust distribution companies. Personnel expenses decreased by 0.8% year on year, to ¥184.0 billion, owing to such factors as the downturn in domestic bonuses linked to performance. Depreciation increased 21.6% year on year, to ¥30.8 billion, due to a system renewal and the application of new lease standards at overseas subsidiaries.

Accounting for each of the aforementioned factors, ordinary income decreased 15.5% year on year, to ¥70.2 billion.

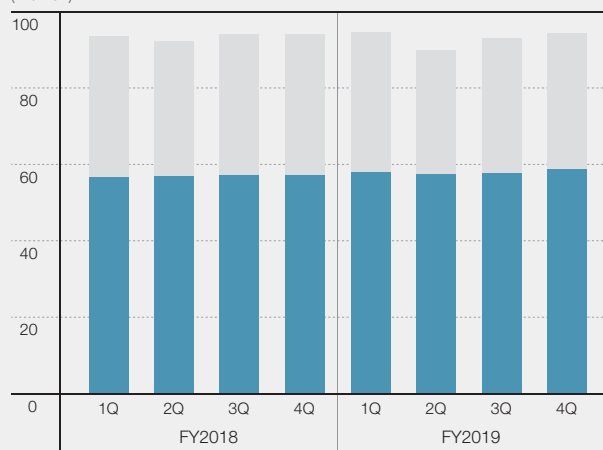
Extraordinary income totaled ¥37.4 billion (¥14.3 billion in the previous year) due to the recording of gain on change in equity and gain on sales of investment securities in accordance with the merger of Daiwa SB Investments Ltd. and Sumitomo Mitsui Asset Management Company, Limited. Extraordinary loss totaled ¥22.9 billion (¥2.3 billion in the previous fiscal year) due to the recording of loss on valuation of investment securities and structural reform-related expenses to improve the earnings structure and market price declines. After deducting corporate income taxes and profit attributable to non-controlling interests, profit attributable to owners of parent decreased by 5.4% compared with the previous fiscal year, to ¥60.3 billion.

Breakdown of SG&A and Income

	Millions of yen		
	FY2018	FY2019	YoY
SG&A	¥373,914	¥371,970	-0.5%
Trading-related expenses	71,933	68,891	-4.2%
Personnel expenses	185,436	184,032	-0.8%
Real estate expenses	37,394	36,647	-2.0%
Office cost	26,518	25,969	-2.1%
Depreciation	25,343	30,813	21.6%
Taxes and dues	10,740	10,529	-2.0%
Allowance for doubtful accounts	84	170	100.8%
Other	16,461	14,917	-9.4%
Operating income	67,326	54,288	-19.4%
Non-operating income/expenses	15,832	15,994	1.0%
Ordinary income	83,159	70,283	-15.5%
Extraordinary gains/losses	11,924	14,545	22.0%
Income before income taxes	95,083	84,828	-10.8%
Income taxes	31,251	23,563	-24.6%
Profit attributable to owners of parent	¥ 63,813	¥ 60,346	-5.4%

Cost Structure

(¥ billion)



■ Fixed costs ■ Variable costs

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

Segment Information

Retail Division

Against a backdrop of major stock market price fluctuations due to concerns over U.S.-China trade problems and the spread of COVID-19 infections, the earnings environment was such that private investor activity was sluggish throughout the year due to concerns about the sense of uncertainty. As a result, equity-related revenues and investment trust sales commissions declined due to decreases in stock trading and investment trust sales. When stock market prices plunged in March due to the impact of COVID-19 infections, openings of new accounts and an increase in asset introductions were temporarily seen, but the impact on business results for the consolidated fiscal year under review was limited.

In FY2019, net operating revenue in the Retail Division decreased by 10.5% to ¥166.4 billion, and ordinary income decreased by 74.0% to ¥6.4 billion compared with the previous fiscal year.

Wholesale Division

Equity revenues in Global Markets declined due to the ongoing uncertainty about the global economy and lower customer flows. Fixed income increased due to an increase in customer flows for major products, partly due to the effects of the monetary market easing policy, particularly in the Americas. As a result, net operating revenues in the fiscal year under review increased by 13.1% compared with the previous fiscal year, to ¥121.3 billion, and ordinary income increased by 64.1% year on year, to ¥28.1 billion in FY2019.

In Global Investment Banking, underwriting and secondary offering commissions in the fiscal year under review totaled ¥29.8 billion, a decrease of 28.7% compared with the previous year, when Daiwa Securities served as Joint Global Coordinator and book runner for multiple large-scale primary and secondary equity offering deals. In the M&A business, investments were made in Netherlands-based Green Giraffe, which has strengths in advisory services in the renewable energy field, while efforts were made to further expand the global network and strengthen cooperation with each overseas base. As a result, M&A-related fees increased 26.8% year on year, to ¥28.9 billion. In the fourth quarter, there were cases where progress was affected by the spread of COVID-19 infections,

but the impact on consolidated results was limited.

Consequently, while net operating revenues of the Global Investment Banking business decreased by 1.3% compared with the previous fiscal year, to ¥50.9 billion, ordinary income increased by 28.0% year on year, to ¥9.3 billion in FY2019.

In FY2019, net operating revenues in the Wholesale Division increased by 8.4% to ¥172.2 billion, and ordinary income increased by 49.7% to ¥38.0 billion compared with the previous fiscal year.

Asset Management Division

The balance of assets under management of publicly offered equity investment trusts and bond investment trusts at Daiwa Asset Management decreased by ¥1.1 trillion from the end of the previous fiscal year to ¥14.9 trillion. Operating income decreased 8.6% year on year to ¥70.1 billion, and ordinary income decreased 7.9% year on year to ¥15.6 billion due to a decrease in management fees. The decline in stock market conditions in the fourth quarter resulted in a ¥600 million decrease of operating income as AUM of stock investment trusts dropped compared with the previous quarter, but the impact of COVID-19 infections during the consolidated fiscal year under review was limited.

In FY2019, net operating revenues in the Asset Management Division edged down by 0.3% to ¥48.0 billion, and ordinary income decreased by 6.3% to ¥26.5 billion compared with the previous fiscal year.

Investment Division

While revenues increased from the previous year due to revenues from monetary claims at Daiwa PI Partners and gains on sale of investments at Daiwa Energy & Infrastructure, a loss was recorded from revaluation of investments. There was no significant impact on the performance of the Investment Division during the consolidated fiscal year under review, such as a decline in the stock price or deterioration in the business performance of an investee caused by COVID-19 infections. As a result, in the fiscal year under review, net operating revenues in the Investment Division increased by 41.7%, to ¥2.5 billion, and an ordinary loss of ¥800 million was recorded.

Segment Information

	Millions of yen					
	Net Operating Revenues			Ordinary Income		
	FY2018	FY2019	YoY	FY2018	FY2019	YoY
Retail	¥185,865	¥166,430	-10.5%	24,674	¥ 6,405	-74.0%
Wholesale	158,903	172,289	8.4%	25,400	38,034	49.7%
Asset Management	48,232	48,091	-0.3%	28,359	26,580	-6.3%
Investment	1,766	2,502	41.7%	(1,093)	(877)	—
Others/adjustments	46,473	36,943	—	5,817	140	—
Consolidated total	¥441,240	¥426,259	-3.4%	83,159	¥70,283	-15.5%

Note: Assets by segment are not aggregated.

Overseas Operations

Carrying on from the previous fiscal year, Daiwa Securities Group continued to strengthen its global M&A advisory services in FY2019. In October 2019, through DC Advisory Holdings Limited, which is under the umbrella of Daiwa International Holdings Ltd., a subsidiary of Daiwa Securities Group Inc., a 50% stake was taken in Green Giraffe Advisory B.V., a financial advisory business specializing in the renewable energy field. This investment will complement the infrastructure-related advisory business conducted by Daiwa Corporate Advisory in Europe and further strengthen the platform for infrastructure-related advisory services, including renewable energy.

As far as results in the Group's overseas operations are concerned, ordinary income came in at ¥15.9 billion in FY2019. This was a fourth consecutive full fiscal year of positive earnings.

By region, in Europe, revenues related to equity underwriting and FICC revenues decreased, resulting in an ordinary loss of ¥4.2 billion.

In Asia and Oceania, although the wealth management business contributed to profits, income decreased by 11.7% compared with the previous fiscal year, to ¥2.6 billion, due to a decline in income from the investment banking business.

Ordinary income in the Americas surged by 537.8% compared with the previous fiscal year, to ¥17.6 billion, due to a significant increase in FICC revenues.

Ordinary Income from Overseas Operations,
Broken Down by Region

	Millions of yen	
	FY2018	FY2019
Europe	¥(1,947)	¥ (4,253)
Asia & Oceania	2,946	2,601
Americas	2,766	17,644
Total	¥ 3,765	¥15,992

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

Progress in Achieving Target Management Indicators

Daiwa Securities Group identified Group numerical targets for customer satisfaction and Daiwa Securities assets under custody as customer-oriented key performance indicators (KPIs), return on equity (ROE) and ordinary income as performance KPIs and the consolidated total capital ratio as a financial KPI under its Medium-Term Management Plan “Passion for the Best” 2020, which covers the three-year period from FY2018 to FY2020. Focusing mainly on the use of the Daiwa version of NPS as a key measure of customer satisfaction, every effort is being made to build a sales structure based on the customer’s perspective.

Looking at performance KPIs in FY2019, the second year of the Plan, the Group’s ROE came in at 4.9% compared with the FY2020 target of 10% or higher, and ordinary income amounted to ¥70.2 billion compared with the FY2020 target of ¥200.0 billion or higher. Turning to the Group’s financial KPI, the consolidated total capital ratio came in at 21.16% in the fiscal year under review. This exceeded the target of 18% or higher. As far as the customer satisfaction component of the Group’s customer-oriented KPIs is concerned, an external NPS survey has shown some positive effects, such as being ranked first in the face-to-face securities section. Daiwa Securities’ assets under custody remained at ¥59.8 trillion due to the fall in stock prices and other factors, but the net inflow of assets was much higher than expected at the time of the Medium-Term Management Plan’s formulation.

The domestic stock market prices in FY2019 were extremely volatile due to concerns over the U.S.-China trade problems and the spread of COVID-19 infections. Under such circumstances, as an example of efforts toward providing high value-added solutions through the use of “Quality No.1” consulting capabilities, which is a basic policy under the Medium-Term Management Plan, the Retail Division worked to improve sales quality as well as products and services based on customer feedback. To provide new value as an integrated securities group with a hybrid business model, investments were also made that took into consideration business portfolio diversification and synergies with existing businesses as well as the SDGs.

Analysis of Consolidated Balance Sheets and Cash Flow Statements

Assets

Total assets as of the end of FY2019 stood at ¥23,822.0 billion, an increase of ¥2,695.3 billion, or 12.8%, compared with the end of the previous fiscal year. Current assets increased by ¥2,441.0 billion, or 12.0%, year on year, to ¥22,846.6 billion. While cash and cash deposits decreased by ¥188.7 billion, or 4.5%, to ¥3,964.5 billion, trading products increased by ¥1,311.2 billion, or 19.5%, to ¥8,027.2 billion; operating loans increased by ¥203.6 billion, or 13.0%, to ¥1,768.4 billion; and loans secured by securities increased ¥711.9 billion, or 11.9%, to ¥6,685.7 billion compared with the end of the previous fiscal year. Meanwhile, the balance of fixed assets increased by ¥254.3 billion, or 35.3%, year on year, to ¥975.4 billion.

Liabilities and Net Assets

Total liabilities as of the end of FY2019 stood at ¥22,564.3 billion, an increase of ¥2,694.0 billion, or 13.6%, compared with the end of the previous fiscal year. Current liabilities increased by ¥2,836.7 billion, or 16.6%, compared with the end of the previous fiscal year, to ¥19,918.7 billion. Breaking down current liabilities by category, trading liabilities increased by ¥614.4 billion, or 12.9% year on year, to ¥5,362.2 billion; trade date accrual increased ¥288.8 billion, or 112.9% year on year, to ¥544.6 billion; borrowings secured by securities increased ¥1,250.7 billion, or 21.0% year on year, to ¥7,198.7 billion; and deposits from banking business increased ¥404.6 billion, or 11.1% year on year, to ¥4,037.2 billion, all compared with the end of the previous fiscal year. Long-term liabilities stood at ¥2,641.6 billion, down ¥142.6 billion, or 5.1% year on year. Specifically, bonds increased by ¥17.3 billion, or 1.3%, compared with the end of the previous fiscal year, to ¥1,379.2 billion, and long-term debt decreased by ¥153.5 billion, or 11.5% year on year, to ¥1,183.2 billion.

Net assets as of the end of FY2019 stood at ¥1,257.7 billion, edging up of ¥1.3 billion, or 0.1%, compared with the end of the previous fiscal year. The sum of capital stock issues and capital surplus came to ¥478.2 billion. After adding profit attributable to owners of parent in FY2019 of ¥60.3 billion, and accounting for such factors as the payment of cash dividends applicable to the year of ¥31.1 billion, retained earnings amounted to ¥834.4 billion, an increase of ¥28.6 billion, or 3.6% year on year. For the fiscal year under review, the amount of treasury stock at cost deduction was ¥110.3 billion, an increase of ¥23.0 billion, or 26.4%, compared with the end of the previous fiscal year.

Valuation difference on available-for-sale securities fell by ¥20.8 billion, or 43.7% year on year, to ¥26.8 billion, and foreign currency translation adjustment decreased by ¥11.4 billion compared with the end of the previous fiscal year, to minus ¥5.5 billion. Non-controlling interests increased 12 times year on year, to ¥38.8 billion.

Analysis of Cash Flows

In FY2019, net cash flows from operating activities totaled ¥167.1 billion, compared with ¥304.8 billion in the previous fiscal year. This mainly reflected increase in trading products, increase in operating loans receivable, decrease in loans secured by securities, and an increase in deposits from banking business. Net cash flows used in investing activities totaled ¥215.3 billion, compared with net cash flows provided by investing activities of ¥108.2 billion in FY2018, mainly due to purchase of securities and purchase of investment securities. Net cash flows used in financing activities totaled ¥135.7 billion yen, compared with net cash flows provided by financing activities of ¥55.7 billion in FY2018, mainly due to repayments of long-term loans payable. After adjusting for the effect of exchange rate changes and other factors, the balance of cash and cash equivalents as of the end of FY2019 stood at ¥3,933.1 billion, a decrease of ¥188.9 billion compared with the end of the previous fiscal year.

Liquidity

Maintaining Financial Efficiency and Stability

Daiwa Securities Group operates securities-related businesses as well as investment and lending businesses that require it to maintain very large balances of both assets and liabilities. Therefore, it is essential that the Group develops a policy for obtaining the funds needed to maintain the necessary liquidity to support operations in the most efficient way possible.

Methods used by the Group to obtain unsecured funds include corporate bonds, medium-term notes, borrowing from financial institutions, commercial paper, call money, banking deposits, as well as secured gensaki transactions (repurchase agreements) and repo operations. The Group seeks an appropriate balance of these diverse methods to maintain an effective and stable supply of operating funds.

To ensure financial stability and business continuity, even in the case of sudden changes in the business environment, the Group takes care to maintain an ample reserve of liquidity at all times. The Group also strives to diversify the maturities and sources of its borrowing, to limit the difficulties it might face should market turmoil prevent it from raising new capital or refinancing existing debt.

The Group is required to observe the minimum consolidated liquidity coverage ratio (LCR) standard stipulated under Financial Services Agency Public Notice 61 of 2014. The Group's daily average LCR in the fourth quarter of the fiscal year under review was 150.6%, 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, therefore, 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, 2020 to March 31, 2020)		
High-Quality Liquid Assets	(A)	23,510
Cash Outflows	(B)	34,336
Cash Inflows	(C)	18,748
Consolidated Liquidity Coverage Ratio (LCR)		
Total High-Quality Liquid Assets	(D)	23,510
Total Net Cash Outflows	(E)	15,606
Consolidated Liquidity Coverage Ratio (LCR)	(D)/(E)	150.6%

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, 2020, the credit ratings assigned were as follows:

Daiwa Securities Group Inc.

Credit ratings agencies	Long-term	Short-term
Moody's Japan	Baa1	—
S&P Global Ratings Japan Inc.	BBB+	A-2
Rating and Investment Information (R&I)	A	a-1
Japan Credit Rating Agency (JCR)	A+	—

Daiwa Securities

Credit ratings agencies	Long-term	Short-term
Moody's Japan	A3	P-2
S&P Global Ratings Japan Inc.	A-	A-2
Fitch Ratings	A-	F1
Rating and Investment Information (R&I)	A	a-1
Japan Credit Rating Agency (JCR)	A+	—

Consolidated Balance Sheets

DAIWA SECURITIES GROUP INC.
March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
ASSETS			
Cash and cash deposits:			
Cash and cash equivalents (Note 5)	¥ 3,933,150	¥ 4,122,102	\$ 36,418,056
Cash segregated as deposits for regulatory purposes (Note 5)	415,953	324,560	3,851,417
Time deposits (Notes 5 and 9)	31,363	32,169	290,398
	4,380,466	4,478,831	40,559,871
Receivables:			
Loans receivable from customers (Note 5)	1,768,471	1,564,857	16,374,731
Loans receivable from other than customers	9,003	5,856	83,361
Receivables related to margin transactions (Notes 3 and 5)	114,384	175,034	1,059,111
Other (Note 23)	735,292	515,506	6,808,260
Less: Allowance for doubtful accounts (Note 5)	(416)	(317)	(3,852)
	2,626,734	2,260,936	24,321,611
Collateralized short-term financing agreements (Notes 4, 5 and 23)	6,685,756	5,973,772	61,905,148
Trading assets (Notes 5, 6 and 9)	8,027,290	6,716,066	74,326,759
Securities (Notes 5, 7 and 9)	873,064	811,342	8,083,926
Private equity investments			
Private equity and other investments (Notes 5 and 7)	202,558	110,035	1,875,537
Less: Allowance for possible investment losses (Note 5)	(1,161)	(156)	(10,750)
	201,397	109,879	1,864,787
Other assets:			
Property and equipment, at cost	435,815	283,940	4,035,324
Less: Accumulated depreciation	(126,648)	(115,851)	(1,172,667)
	309,167	168,089	2,862,657
Goodwill	13,629	10,606	126,194
Other intangible fixed assets	110,487	105,331	1,023,028
Investment securities (Notes 5, 7 and 9)	491,660	374,485	4,552,407
Deferred tax assets (Note 14)	17,125	6,916	158,565
Other	85,766	111,116	794,130
Less: Allowance for doubtful accounts	(441)	(662)	(4,083)
	1,027,393	775,881	9,512,898
	¥23,822,100	¥21,126,707	\$220,575,000

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
LIABILITIES AND NET ASSETS			
Debt:			
Short-term borrowings (Notes 5, 9 and 12)	¥ 990,869	¥ 1,020,264	\$ 9,174,713
Commercial paper (Note 5)	178,000	100,000	1,648,148
Long-term debt (Notes 5, 9 and 12)	3,146,286	3,213,412	29,132,278
	4,315,155	4,333,676	39,955,139
Payables:			
Payables to customers and counterparties (Notes 5 and 11)	789,269	650,088	7,308,046
Payables related to margin transactions (Notes 3, 5 and 9)	59,256	69,982	548,667
Deposits for banking business (Note 5)	4,037,201	3,632,576	37,381,491
Other (Note 5)	44,415	35,921	411,250
	4,930,141	4,388,567	45,649,454
Collateralized short-term financing agreements (Notes 4, 5 and 23)	7,198,731	5,947,969	66,654,917
Trading liabilities (Notes 5 and 6)	5,362,261	4,747,777	49,650,565
Trade account payables, net (Note 5)	544,690	255,804	5,043,426
Accrued and other liabilities:			
Income taxes payable	7,404	5,978	68,556
Deferred tax liabilities (Note 14)	4,369	6,072	40,454
Accrued bonuses	26,748	28,437	247,667
Retirement benefits (Note 13)	45,037	44,108	417,009
Other (Note 23)	125,879	107,949	1,165,545
	209,437	192,544	1,939,231
Statutory reserves (Note 15)	3,919	3,939	36,287
Total liabilities	22,564,334	19,870,276	208,929,019
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	2,290,713
Capital surplus	230,809	230,633	2,137,120
Retained earnings	834,443	805,761	7,726,324
Treasury stock at cost	(110,351)	(87,319)	(1,021,769)
Deposit for subscriptions to treasury stock	13	5	120
	1,202,311	1,196,477	11,132,508
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	26,853	47,669	248,639
Deferred gains or losses on hedges	(13,593)	(5,611)	(125,861)
Translation adjustment	(5,556)	5,943	(51,444)
	7,704	48,001	71,334
Stock subscription rights (Note 18)	8,902	8,742	82,426
Non-controlling interests	38,849	3,211	359,713
Total net assets	1,257,766	1,256,431	11,645,981
	¥23,822,100	¥21,126,707	\$220,575,000

See accompanying notes.

Consolidated Statements of Income

DAIWA SECURITIES GROUP INC.

Years ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Operating revenues:			
Commissions	¥266,574	¥283,027	\$2,468,278
Net gain on trading (Note 25)	93,803	92,218	868,546
Net gain on private equity and other investments	15	(232)	139
Interest and dividend income (Note 23)	258,123	291,005	2,390,028
Service fees and other revenues	53,773	54,568	497,898
	672,288	720,586	6,224,889
Interest expense (Note 23)	209,917	242,469	1,943,676
Cost of service fees and other revenues	36,111	36,877	334,361
Net operating revenues (Note 22)	426,260	441,240	3,946,852
Selling, general and administrative expenses (Notes 13 and 26)	371,971	373,914	3,444,176
Operating income	54,289	67,326	502,676
Other income (expenses):			
Provision for statutory reserves, net (Note 15)	20	7	185
Other, net (Note 27)	30,520	27,750	282,593
	30,540	27,757	282,778
Income before income taxes	84,829	95,083	785,454
Income taxes (Note 14):			
Current	26,089	27,664	241,565
Deferred	(2,525)	3,587	(23,380)
	23,564	31,251	218,185
Profit	61,265	63,832	567,269
Profit attributable to non-controlling interests	918	18	8,500
Profit attributable to owners of parent	¥ 60,347	¥ 63,814	\$ 558,769
	Yen		U.S. dollars (Note 1)
Per share amounts:			
Net income	¥39.11	¥39.95	\$0.36
Diluted net income	38.92	39.72	0.36
Cash dividends applicable to the year	20.00	21.00	0.19

See accompanying notes.

See accompanying notes.

Consolidated Statements of Changes in Net Assets

DAIWA SECURITIES GROUP INC.

Years ended March 31, 2020 and 2019

Millions of yen

	Number of shares of common stock (thousands)	Owners' equity					Accumulated other comprehensive income				
		Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Deposit for subscriptions to treasury stock	Valuation difference on available-for- sale securities	Deferred gains or losses on hedges	Translation adjustment	Stock subscription rights	Non- controlling interests
Balance at March 31, 2018	1,699,379	¥247,397	¥230,714	¥785,731	¥ (54,310)	¥ 4	¥ 61,177	¥ (130)	¥ 2,550	¥8,791	¥ 88,597
Cash dividends paid				(43,575)							
Profit attributable to owners of parent				63,813							
Purchase of treasury shares					(34,819)						
Disposal of treasury shares				(208)	1,810						
Retirement of treasury shares											
Change of scope of consolidation											
Other			(81)			1					
Net changes of items other than owners' equity							(13,508)	(5,481)	3,393	(49)	(85,386)
Balance at March 31, 2019	1,699,379	247,397	230,633	805,761	(87,319)	5	47,669	(5,611)	5,943	8,742	3,211
Cash dividends paid				(31,164)							
Profit attributable to owners of parent				60,347							
Purchase of treasury shares					(25,103)						
Disposal of treasury shares				(501)	2,071						
Retirement of treasury shares											
Change of scope of consolidation											
Other			176			8					
Net changes of items other than owners' equity							(20,816)	(7,982)	(11,499)	160	35,638
Balance at March 31, 2020	1,699,379	¥247,397	¥230,809	¥834,443	¥(110,351)	¥13	¥ 26,853	¥(13,593)	¥ (5,556)	¥8,902	¥ 38,849

Thousands of U.S. dollars (Note 1)

	Owners' equity					Accumulated other comprehensive income				
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Deposit for subscriptions to treasury stock	Valuation difference on available-for- sale securities	Deferred gains or losses on hedges	Translation adjustment	Stock subscription rights	Non- controlling interests
Balance at April 1, 2019	\$2,290,713	\$2,135,491	\$7,460,750	\$ (808,509)	\$ 46	\$ 441,380	\$ (51,954)	\$ 55,028	\$80,944	\$ 29,731
Cash dividends paid			(288,556)							
Profit attributable to owners of parent			558,769							
Purchase of treasury shares				(232,436)						
Disposal of treasury shares			(4,639)	19,176						
Retirement of treasury shares										
Change of scope of consolidation										
Other		1,629			74					
Net changes of items other than owners' equity						(192,741)	(73,907)	(106,472)	1,482	329,982
Balance at March 31, 2020	\$2,290,713	\$2,137,120	\$7,726,324	\$ (1,021,769)	\$120	\$ 248,639	\$ (125,861)	\$ (51,444)	\$82,426	\$359,713

See accompanying notes.

Consolidated Statements of Cash Flows

DAIWA SECURITIES GROUP INC.

Years ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Cash flows from operating activities:			
Profit	¥ 61,265	¥ 63,832	\$ 567,269
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	38,507	32,002	356,546
Allowance for doubtful accounts, net	34	80	315
Statutory reserves, net	(20)	(7)	(185)
Losses (gains) related to fixed assets	(6,856)	281	(63,481)
Losses (gains) related to investment securities	(4,328)	(12,602)	(40,074)
Losses (gains) on step acquisitions	(4,642)	—	(42,981)
Losses (gains) on change in equity	(11,414)	178	(105,685)
Deferred income taxes	(2,525)	3,587	(23,380)
Structural reform cost	12,500	—	115,741
Changes in operating assets and liabilities:			
Receivables and payables related to margin transactions	49,925	86,566	462,269
Other receivables and other payables	(71,814)	(124,796)	(664,944)
Collateralized short-term financing agreements	534,755	694,017	4,951,435
Trading assets and liabilities	(440,089)	(580,698)	(4,074,898)
Private equity and other investments	(101,486)	7,200	(939,685)
Deposits for banking business	404,626	244,131	3,746,537
Other, net	(291,248)	(108,914)	(2,696,743)
Total adjustments	105,925	241,025	980,787
Net cash flows provided by (used in) operating activities	167,190	304,857	1,548,056
Cash flows from investing activities:			
Increase in time deposits	(44,579)	(51,478)	(412,769)
Decrease in time deposits	43,883	64,157	406,324
Purchase of securities	(517,971)	(861,315)	(4,796,028)
Proceeds from sales and redemption of securities	489,804	1,067,277	4,535,222
Payments for purchases of property and equipment	(21,800)	(49,969)	(201,852)
Proceeds from sales of property and equipment	13,173	873	121,972
Payments for purchases of intangible fixed assets	(36,174)	(36,762)	(334,944)
Payments for purchases of investment securities	(182,633)	(65,065)	(1,691,046)
Proceeds from sales and redemption of investment securities	35,489	42,018	328,602
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	7,367	—	68,213
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(991)	—
Payments of loans receivable	(438)	(592)	(4,056)
Collection of loans receivable	34	26	315
Other, net	(1,553)	64	(14,379)
Net cash flows provided by (used in) investing activities	(215,398)	108,243	(1,994,426)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Cash flows from financing activities:			
Increase in short-term borrowings and commercial paper	51,079	30,828	472,954
Increase in long-term debt	568,825	620,162	5,266,898
Decrease in long-term debt	(697,970)	(434,836)	(6,462,685)
Payments of cash dividends	(31,164)	(43,575)	(288,556)
Repayments to non-controlling shareholders	—	(82,697)	—
Other, net	(26,564)	(34,140)	(245,963)
Net cash flows provided by (used in) financing activities	(135,794)	55,742	(1,257,352)
Effect of exchange rate changes on cash and cash equivalents	(4,950)	4,426	(45,833)
Net increase or decrease in cash and cash equivalents	(188,952)	473,268	(1,749,555)
Cash and cash equivalents at beginning of year	4,122,102	3,653,464	38,167,611
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	—	(4,630)	—
Cash and cash equivalents at end of year	¥3,933,150	¥4,122,102	\$36,418,056

See accompanying notes.

Notes to Consolidated Financial Statements

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2020 and 2019

1. Basis of financial statements

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

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

Daiwa Securities operates a retail and a wholesale business in Japan. The retail business operates through a network of 168 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 the Japanese language, but not considered as necessary for the fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the yen amounts into U.S. dollars are presented solely for the convenience of the readers, using the exchange rate as of March 31, 2020, which was ¥108 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, Daiwa therefore does not intend to operate its business with the investee as a part of the group.

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

rights of the entity, or 15% or more of the voting rights coupled with certain facts and circumstances which indicate that Daiwa can exercise significant influence over the entity's operating and financial policies. As with the policy and considerations for consolidation, investee entities are excluded from the scope of the equity method even though Daiwa holds significant influence when the investee entity is held as part of the principal investment or for venture capital investment business purposes.

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

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

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

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

Securities other than trading assets and trading liabilities—

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

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

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

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

Derivatives used for non-trading purposes—Daiwa records derivative financial instruments at fair value except for certain cases as described below, and recognizes changes in the fair value as gains or losses unless the derivative financial instruments are used for hedging purposes. Valuation gains or losses on hedging instruments are deferred in a separate component within the net assets until the gains or losses on

the underlying hedged instruments are realized. Plain vanilla hedging interest swap agreements satisfying the required conditions under Japanese GAAP are not required to be marked-to-market. Interest received or paid on such exempt interest rate swap agreements for hedging purposes are accrued without being marked-to-market under special treatment. Also, certain forward foreign exchange contracts are exempted from marked-to-market valuation. The premium or discount on such exempt forward foreign exchange contracts used for hedging purposes is allocated to each fiscal term without being marked-to-market under special treatment.

Collateralized short-term financing agreements—

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

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

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

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

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

asset or the related asset group.

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

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

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

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

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

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

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

reference to certain set requirements under Japanese GAAP.

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

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

Other significant items associated with the preparation of the consolidated financial statements

- Application of tax effect accounting for the transition from the consolidated taxation system to the group relief system
The Company and some domestic consolidated subsidiaries do not apply the provisions of Paragraph 44 of “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28, February 16, 2018) to the transition to the group relief system established in “Law to Partially Revise Income Tax Law” (Law No. 8 of Reiwa 2) and to the revision of the single tax payment system accompanying such transition, in accordance with Paragraph 3 of “Practical Solution on the Tax Effect Accounting for Transition from the Consolidated Taxation System to the Group Relief System” (PITF No. 39, March 31, 2020). Therefore, the amount of deferred tax assets and deferred tax liabilities are based on the provisions of the tax law prior to the revision.

Unapplied accounting standard

- Accounting Standard for Revenue Recognition (ASBJ Statement No. 29 revised on March 31, 2020)

- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30 revised on March 31, 2020)

(a) Overview

A comprehensive accounting standard for revenue recognition. Revenue should be recognized by applying the following five steps:

Step 1: Identify the contract with a customer;

Step 2: Identify the performance obligations under the contract;

Step 3: Determine the transaction price;

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

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

(b) Application date

The Company will apply the standards from the beginning of the fiscal year ending March 31, 2022.

(c) Impact of application

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

- Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30 issued on July 4, 2019)
- Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31 issued on July 4, 2019)
- Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9 revised on July 4, 2019)
- Accounting Standard for Financial Instruments (ASBJ Statement No. 10 revised on July 4, 2019)
- Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19 revised on March 31, 2020)

(a) Overview

In order to enhance comparability with internationally recognized accounting standards, “Accounting Standard for Fair Value Measurement” and “Implementation Guidance on Accounting Standard for Fair Value Measurement” (together, hereinafter referred to as “Fair Value Accounting Standards”) were developed and guidance on methods for measuring fair value were issued. Fair Value Accounting Standards are applicable to the fair value measurement of the following items:

- Financial instruments in “Accounting Standard for Financial Instruments”; and

- Inventories held for trading purposes in “Accounting Standard for Measurement of Inventories.”

(b) Application date

The Company will apply the standards from the beginning of the fiscal year ending March 31, 2021.

(c) Impact of application

No significant impact is anticipated.

- Accounting standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections (ASBJ Statement No.24 revised on March 31, 2020)

(a) Overview

To provide the users of the financial statements with an overview of the accounting principles and procedures adopted when the relevant accounting standards are not clear.

(b) Application date

The Company will apply the standard from the end of the fiscal year ending March 31, 2021.

- Accounting standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31 issued on March 31, 2020)

(a) Overview

To provide the users of the financial statements with more useful information to understand accounting estimates for items which are recorded in the financial statements in the current year based on accounting estimates, and would have significant impacts on the financial statements in the following year.

(b) Application date

The Company will apply the standard from the end of the fiscal year ending March 31, 2021.

Additional information—In accounting estimates of some loans and fixed assets of some consolidated subsidiaries, it is assumed the effects of the spread of the novel coronavirus infection and the accompanying global economic downturn are temporary and will recover in about a year.

These loans and fixed assets are mainly aircraft related infrastructure investments.

At March 31, 2020, no allowance for loan losses or impairment loss was recorded due to the direct impact of the novel coronavirus infection. However in case the assumptions regarding the infection situation and its impact on the economic environment differ from the actual situation, it is possible allowance for loan losses or impairment loss will be recorded in the consolidated financial statements for the following year.

3. Margin transactions

Margin transactions at March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Assets:			
Loans on margin transactions	¥105,204	¥157,310	\$ 974,111
Cash collateral pledged for securities borrowing on margin transactions	9,180	17,724	85,000
	¥114,384	¥175,034	\$1,059,111
Liabilities:			
Borrowings on margin transactions	¥ 3,995	¥ 3,675	\$ 36,991
Cash received for securities lending on margin transactions	55,261	66,307	511,676
	¥ 59,256	¥ 69,982	\$ 548,667

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, 2020 and 2019 consisted of the following:

		Millions of yen	Thousands of U.S. dollars
	2020	2019	2020
Assets:			
Securities purchased under agreements to resell	¥1,872,395	¥ 854,136	\$17,336,991
Securities borrowed	4,813,361	5,119,636	44,568,157
	¥6,685,756	¥5,973,772	\$61,905,148
Liabilities:			
Securities sold under agreements to repurchase	¥2,359,635	¥1,013,854	\$21,848,472
Securities loaned	4,839,096	4,934,115	44,806,445
	¥7,198,731	¥5,947,969	\$66,654,917

5. Financial instruments

Concerning the situation of financial instruments

(1) Policy for dealing with financial instruments

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

Daiwa holds financial assets and liabilities such as "trading securities and other," "derivatives," "operational investment securities," "loans" and "investment securities," etc., in its businesses and raises funds with corporate bonds, medium-term notes, borrowing from financial institutions, commercial paper, call money, deposit acceptance, repurchase agreements, etc. In fundraising, under the basic policy for financing such that enough liquidity for continuing business should be effectively secured, Daiwa tries to realize efficient and stable financing by diversifying financial measures and maturity dates and maintaining an appropriate balance between assets and liabilities. Also, Daiwa utilizes interest rate swaps and foreign currency swaps, etc., for the purpose of hedging fluctuations in interest rates and foreign currencies in terms of financial assets and liabilities.

Daiwa tries to secure financial soundness by managing entirely and efficiently the variety of risks incurred by holding financial assets and liabilities in accordance with the characteristics of such risks.

(2) Contents and risks of financial instruments

Daiwa holds financial instruments in the trading business as follows: (a) trading securities and other (stocks and warrants, bonds and units of investment trusts, etc.), loans

secured by securities and loans payable secured by securities, margin transaction assets and liabilities, etc.; (b) derivatives traded on exchanges, such as stock index futures, bond futures, interest rate futures and options for such derivatives; and (c) derivatives (OTC derivatives) not traded on exchanges, such as interest rate swaps, foreign exchange swaps, foreign currency futures, bond options, currency options, FRA and OTC securities derivatives, etc. Daiwa also holds operational investment securities, etc., in the investments business, loans and securities, etc., in banking business and investment securities for business relationships, etc.

Among the various risks associated with these financial instruments, the major risks are market risk and credit risk. Market risk means the risks of suffering losses from fluctuations in the value of holding financial instruments and transactions in accordance with changes of market prices or rate of stock prices, interest rates, foreign exchange rates and commodities prices, etc., and from the market environment in which no transaction can be executed because of an excessive decrease of liquidity or one in which market participants are forced to trade in extremely unfavorable conditions. Credit risk means the risk of suffering losses from defaults or creditworthiness changes, etc., of counterparts or issuers of financial instruments which Daiwa holds.

In the trading business, Daiwa conducts derivative transactions as single transactions or as transactions embedded in structured notes, in order to meet customers' needs. These include transactions which are highly volatile in comparison to the fluctuation of stock prices, interest rates, foreign exchange rates and commodities prices of reference assets and the correlation between them, or transactions which tend to move in a complicated manner. Therefore, these carry higher risk than the reference assets.

These derivative transactions are categorized as “Trading assets” in the consolidated balance sheets and the realized and unrealized profit/loss by fluctuation of fair values are recorded as “Net gain on trading.”

Daiwa, holding the financial instruments as above, also raises funds utilizing corporate bonds, medium-term notes, borrowing from financial institutions, commercial paper, call money, deposits acceptance, repurchase agreements, etc., and is exposed to liquidity risk. Liquidity risk means the risk of suffering losses such that cash management may be impossible or require remarkably higher financing costs than usual as a result of abrupt change of the market environment or deterioration of financial conditions of Daiwa, etc.

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

(3) Risk management system concerning financial instruments

The Company adopted the “Risk Management Rule” at the meeting of the Board of Directors, which states the basic policy of risk management, types of risks that should be managed and responsible executive officers and departments for each major risk, and conducted risk management of the entire group in accordance with the Risk Appetite Framework. Furthermore, the Company also prepared a risk management framework through the establishment of guidelines regarding “the Three Lines of Defense” in order to develop an effective risk governance system.

Each subsidiary conducts risk management suitable for its business profile and size in accordance with the basic policy of risk management. The Company also monitors the system and process of subsidiaries’ risk management. Further, the Group Risk Management Committee as a sub-committee of the Executive Committee of the Company receives reports on and discusses matters such as risk exposure and issues concerning the risk management system of each subsidiary discovered by monitoring subsidiaries. Major subsidiaries regularly hold risk

management committee meetings, etc., and strengthen their risk management.

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

(a) Management of market risk

Daiwa manages its trading business by establishing the limit for Value at Risk (which indicates the estimate of the maximum loss amount under a certain confidence level, hereinafter “VaR”), position and sensitivity, etc., considering the financial situation, the business plan and budget of each division. The risk management department of the Company monitors and reports the market risk to the management of the Company on a daily basis. In order to cover the capacity limit of VaR calculated by the statistical hypothesis based on the data obtained for a certain period, the Company applies the stress test with a scenario assuming the impact of abrupt change in the market and hypothetical stress events.

(Quantitative information concerning market risk)

Major subsidiaries engaged in securities business utilize the historical simulation method (holding period: 1 day, confidence interval: 99%, observation period: 520 business days) for calculating VaR of trading products.

The VaR as of March 31, 2020 (fiscal year-end) was ¥1.2 billion (\$11.1 million) in total.

In the meantime, Daiwa verifies the model by executing back tests which compare calculated VaR and the actual profit/loss. Please note that as the VaR statistically estimates the risk based on historical market fluctuation, it may be unable to completely grasp the risk in an environment in which the market unexpectedly changes beyond the estimation.

(b) Management of credit risk

The credit risks generated in the trading business of Daiwa consist of counterparty risk and issuer risk. In regard to counterparty risk, Daiwa has established the upper limit on the credit-equivalent exposure that can be tolerated for each counterparty and periodically monitors such credit-equivalent exposure. In addition, Daiwa measures total counterparty risk. Daiwa monitors risk amount related to the issuer risk of financial instruments held for market-making.

Because Daiwa provides financial instruments, manages assets and invests, Daiwa is exposed to the risk that various instrument and transaction exposures collect on a specific counterparty. If the counterparty's

credit situation worsens, Daiwa may incur significant losses. Therefore, Daiwa has established the upper limit on total exposure to any counterparty and periodically monitors such limit.

Because margin transactions generate credit to customers, Daiwa requires customers to set deposits as collateral. In connection with securities loan transactions, Daiwa has tried to reduce credit risk by establishing credit limits for counterparties, charging necessary collateral, and daily mark-to-market.

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

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

The subsidiaries in the investment business make an investment decision after investigating each investment thoroughly in an investment committee, etc. After investments, the subsidiaries regularly monitor and report the situation of invested companies to the risk management committee, etc.

The subsidiary offering banking business specifies risks which need management and establishes a management policy and management system for each risk. Furthermore, it establishes the ALM committee, a body under the Board of Directors, to discuss and decide the way to manage the risks (the ALM committee discusses the important matters relating to the management and control of credit risk, market risk and liquidity risk, etc.). The subsidiary controls the risks by conducting its business within the various limits set by the Board of Directors, the ALM committee, etc.

In connection with investment securities for business relationships, etc., Daiwa decides to acquire or sell the securities in accordance with the policy defined by the relevant company's rules. Also, Daiwa regularly monitors and reports the situation of risk to the management of the Company.

(Quantitative information concerning market risk)

(a) Financial assets and liabilities (excluding those held by the subsidiary offering banking business)

The main financial assets that are influenced by market

risk are "operational investment securities" in the investment business and "investment securities" for business relationships. As of March 31, 2020, if the index, such as TOPIX, were to change by 10%, market prices of the listed equities in "operational investment securities" and "investment securities" would fluctuate by ¥9.2 billion (\$85.2 million).

Also, the main financial liabilities in Daiwa that are influenced by market risk are "bonds and notes" and "long-term borrowings." As of March 31, 2020, if all other risk variables were assumed to be unchanged and the interest rate supposed to change by 10 basis points (0.1%), the market prices of "bonds and notes" and "long-term borrowings" would fluctuate by ¥2.3 billion (\$21.3 million) and ¥0.2 billion (\$1.9 million), respectively.

(b) Financial assets and liabilities held by the subsidiary offering banking business

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

When measuring VaR, Daiwa utilizes the historical simulation method (holding period: 20 days, confidence interval: 99%, observation period: 750 business days) and converts the number calculated in 20 days of the holding period to the number in 125 days of the holding period. Such number as of March 31, 2020 is ¥5.7 billion (\$52.8 million).

The subsidiary, in order to verify the effectiveness of the model, periodically conducts the back-tests by comparing the VaR calculated in the risk measuring model with the virtual profits and losses. By the back-tests in fiscal year 2019, Daiwa estimates that the risk measurement model grasps the market risk. However, as the VaR statistically estimates the risk based on historical market fluctuation, it may be unable to completely grasp the risk in an environment in which the market unexpectedly changes beyond the estimation.

In order to complement the limitation of management utilizing VaR, Daiwa measures loss calculated by a wide variety of scenarios (stress test).

(iii) Management of liquidity

As Daiwa conducts its business with a core focus on the securities-related business by utilizing a variety of assets and liabilities, it has the basic policy of fundraising

to efficiently and stably secure enough liquidity for continuing its business.

Methods of raising funds of Daiwa include unsecured fundraising such as corporate bonds, medium-term notes, borrowing from financial institutions, commercial paper, call money and deposits acceptance, etc., and secured fundraising such as repurchase agreements, etc. Daiwa intends to realize effective and stable fundraising by combining these various methods.

In terms of financial stability, Daiwa, preparing for the case that the environment vastly changes, endeavors even in ordinary times to secure a stable reserve to prevent the business from suffering difficulties. Also, Daiwa tries to diversify the maturity and sources of funds in preparation for the event where it becomes difficult to raise new funds and to reschedule the existing funds due to a financial crisis.

The Company is required to comply with the minimum standard of consolidated liquidity coverage ratio (hereinafter “LCR”) based on 2014 Financial Services Agency Notification No.61. The Company has organized its liquidity management system other than LCR based on the notification of such Financial Services Agency, which is based on original indices for liquidity management. Namely, concerning unsecured fundraising, the repayment date of which arrives within a year and the prospective outflows in the case where some stress events occur in such period, Daiwa verifies every day that enough liquidity is secured for such repayment and outflows even in various stress scenarios. Daiwa undertakes to make it possible to continue business even if unsecured fundraising is not available for one year.

Daiwa collectively manages and monitors the liquidity of the entire Group under the basic policy of securing the appropriate liquidity of Daiwa as a whole. The Company always monitors whether the liquidity portfolio is sufficiently secured against short-term raised funds without collateral in preparation for the case where it becomes difficult to raise new funds and to reschedule the existing funds due to the occurrence of some stress, which is specific to the Company or influences the entire

market. Also, Daiwa raises and manages funds efficiently as a group by establishing a system that enables the Company to flexibly distribute and supply funds to its group companies and also enables companies in Daiwa to finance each other.

Daiwa has also established a contingency funding plan as one of the measures of dealing with liquidity risk. This plan states the basic policy concerning the reporting lines and the method of fundraising, etc., depending upon the urgency of stress by internal factors such as decrease in creditworthiness and external factors such as abrupt change of the market environment. The contingency funding plan enables Daiwa to prepare a system for securing liquidity through a swift response.

Daiwa has established the contingency funding plan of Daiwa considering the stress that the entire Group may face and also revised it periodically to quickly respond to changing financial environments.

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

In addition, the Company periodically monitors the development status of its subsidiaries' contingency funding plans. The Company revises, if necessary, its subsidiaries' fundraising plans or contingency funding plans itself considering crises scenarios to be assumed and also tries to preliminarily execute countermeasures, both increasing liquidity and reducing assets at the same time.

(4) Supplementary explanation for fair value, etc., of financial instruments

Fair value of financial instruments includes the price based on market value and the theoretical price reasonably calculated in the case of no market value. As such, theoretical prices are calculated based on certain assumptions, etc., and may be changed under different assumptions, etc.

Fair values of financial instruments

The figures stated in the consolidated balance sheets as of March 31, 2020 and 2019, fair value and the difference of the two are as below. Any items for which it is extremely difficult to obtain fair value are not included in the table below (see Note 2).

	Millions of yen					
	2020			2019		
	Amounts on consolidated balance sheets	Fair value	Difference	Amounts on consolidated balance sheets	Fair value	Difference
Assets						
(1) Cash and cash equivalents	¥ 3,933,150	¥ 3,933,150	¥ —	¥ 4,122,102	¥ 4,122,102	¥ —
(2) Cash segregated as deposits for regulatory purposes	415,953	415,953	—	324,560	324,560	—
(3) Time deposits	31,363	31,363	—	32,169	32,169	—
(4) Loans receivable from customers	1,768,471			1,564,857		
Allowance for doubtful accounts	(108)			(54)		
	1,768,363	1,747,321	(21,042)	1,564,803	1,565,715	912
(5) Receivables related to margin transactions	114,384	114,384	—	175,034	175,034	—
(6) Collateralized short-term financing agreements	6,685,756	6,685,756	—	5,973,772	5,973,772	—
(7) Trading assets	8,027,290	8,027,290	—	6,716,066	6,716,066	—
(8) Securities, private equity and other investments and investment securities						
(a) Held-to-maturity debt securities	141,697	142,552	855	132,125	133,965	1,840
(b) Subsidiaries companies' stocks and related companies' stocks	117,314			122,585		
Allowance for possible investment loss	—			—		
	117,314	131,349	14,035	122,585	184,423	61,838
(c) Available-for-sale securities	910,396	910,396	—	853,485	853,485	—
Total assets	¥22,145,666	¥22,139,514	¥ (6,152)	¥20,016,701	¥20,081,291	¥64,590
Liabilities						
(9) Short-term borrowings	¥ 990,869	¥ 990,869	¥ —	¥ 1,020,264	¥ 1,020,264	¥ —
(10) Commercial paper	178,000	178,000	—	100,000	100,000	—
(11) Long-term debt	3,146,286	3,141,337	4,949	3,213,412	3,220,320	(6,908)
(12) Deposits for banking business	4,037,201	4,038,440	(1,239)	3,632,576	3,632,410	166
(13) Payables to customers and counterparties	789,269	789,269	—	650,088	650,088	—
(14) Payables related to margin transactions	59,256	59,256	—	69,982	69,982	—
(15) Payables—other	44,415	44,415	—	35,921	35,921	—
(16) Collateralized short-term financing agreements	7,198,731	7,198,731	—	5,947,969	5,947,969	—
(17) Trading liabilities	5,362,261	5,362,261	—	4,747,777	4,747,777	—
(18) Trade account payables, net	544,690	544,690	—	255,804	255,804	—
Total liabilities	¥22,350,978	¥22,347,268	¥ 3,710	¥19,673,793	¥19,680,535	¥ (6,742)
Derivatives used for non-trading						
Derivatives to which hedge accounting is not applied	¥ (4,074)	¥ (4,074)	¥ —	¥ (3,501)	¥ (3,501)	¥ —
Derivatives to which hedge accounting is applied	(22,097)	(22,062)	35	(6,814)	(8,308)	(1,494)
Total derivatives related to non-trading	¥ (26,171)	¥ (26,136)	¥ 35	¥ (10,315)	¥ (11,809)	¥ (1,494)

* 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			
2020			
	Amounts on consolidated balance sheets	Fair value	Difference
Assets			
(1) Cash and cash equivalents	\$ 36,418,056	\$ 36,418,056	\$ —
(2) Cash segregated as deposits for regulatory purposes	3,851,417	3,851,417	—
(3) Time deposits	290,398	290,398	—
(4) Loans receivable from customers	16,374,731		
Allowance for doubtful accounts	(1,000)		
	16,373,731	16,178,898	(194,833)
(5) Receivables related to margin transactions	1,059,111	1,059,111	—
(6) Collateralized short-term financing agreements	61,905,148	61,905,148	—
(7) Trading assets	74,326,759	74,326,759	—
(8) Securities, private equity and other investments and investment securities			
(a) Held-to-maturity debt securities	1,312,009	1,319,926	7,917
(b) Subsidiaries companies' stocks and related companies' stocks	1,086,241		
Allowance for possible investment loss	—		
	1,086,241	1,216,194	129,953
(c) Available-for-sale securities	8,429,593	8,429,593	—
Total assets	\$205,052,463	\$204,995,500	\$ (56,963)
Liabilities			
(9) Short-term borrowings	\$ 9,174,713	\$ 9,174,713	\$ —
(10) Commercial paper	1,648,148	1,648,148	—
(11) Long-term debt	29,132,277	29,086,453	45,824
(12) Deposits for banking business	37,381,491	37,392,963	(11,472)
(13) Payables to customers and counterparties	7,308,046	7,308,046	—
(14) Payables related to margin transactions	548,667	548,667	—
(15) Payables—other	411,250	411,250	—
(16) Collateralized short-term financing agreements	66,654,917	66,654,917	—
(17) Trading liabilities	49,650,565	49,650,565	—
(18) Trade account payables, net	5,043,426	5,043,426	—
Total liabilities	\$206,953,500	\$206,919,148	\$ 34,352
Derivatives related to non-trading			
Derivatives to which hedge accounting is not applied	\$ (37,722)	\$ (37,722)	\$ —
Derivatives to which hedge accounting is applied	(204,602)	(204,278)	324
Total derivatives related to non-trading	\$ (242,324)	\$ (242,000)	\$ 324

* 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 value of financial instruments

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

(2) Cash segregated as deposits for regulatory purposes
Cash segregated as deposits for regulatory purposes mainly consists of the trust of cash segregated for customers. The price of those which are invested in securities like government bonds are calculated based on reasonably calculated prices utilizing yield spread with index interest rates for each term which are defined by immediately previous traded prices including those of similar bonds. Other

investment products are recorded as their book value because the fair value closely resembles the book value and they are settled in the short term.

(4) Loans receivable from customers
Loans receivable from customers mainly consist of lending in banking business and loans secured by customers' safekeeping securities.

The fair value of loans for banking business is calculated by discounting the total amount of principal and interest at the rate assumed when a similar new loan is issued based on the loan type and duration, etc. Loans with a floating rate are recorded at their book value because their fair value is similar to the book value, as such floating rate loans reflect money market rates in the short term as far as the

credit condition of borrowers does not greatly change provided, however, that some loans are calculated based on the prices offered by financial institutions. Certain collateralized loan obligations are recorded at the market value obtained from third parties.

Loans secured by securities are recorded at their book value because the fair value is close to the book value in consideration of the prospective repayment period and interest rate conditions, etc.

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

Payables related to margin transactions

Receivables related to margin transactions consist of lending money to customers accompanied by margin transactions and cash collateral to securities finance companies. These are recorded at their book value as deemed to be settled in the short term because the former is settled by reversing trades by customers' decisions and the latter is collateral marked-to-market on lending and borrowing transactions.

Payables related to margin transactions consist of borrowing money from securities finance companies accompanied by customers' margin transactions and the amount equivalent to the sales price of securities as to customers' margin transactions. These are recorded at their book value as deemed to be settled in the short term because the former is marked-to-market and the latter is settled by reversing trades by customers' decisions.

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

These are recorded at their book value because fair values are similar to book value as those are almost settled in the short term.

(7) Trading assets and (17) Trading liabilities

(a) Trading securities and other

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

(b) Derivatives

Derivatives traded on exchange	mainly settlement price on exchange or standard price for margin calculation
Interest rate swaps	prices calculated by price valuation models (models generally acknowledged in the market or a model expanding such models), based on expected cash flow calculated from yield curve, price and coupon rate of underlying bond, interest rates, discount rates, volatility, correlation, etc.
OTC equity derivatives	prices calculated by price valuation models (models generally acknowledged in the market or a model expanding such models), based on price of equities or equities indices, interest rates, dividends, volatility, discount rates, correlation, etc.
Credit derivatives	prices calculated by price valuation models (models generally acknowledged in the market or a model expanding such models), based on interest rates, credit spread of referents, etc.

Concerning OTC derivatives, the amount equivalent to credit risk to the counterparty, etc., and liquidity risk are added to the fair value as necessary.

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

Equities, etc.	closing price or closing quotation on the main stock exchange
Bonds	price reasonably calculated by utilizing spread with index interest rate based on immediately previous traded price including similar bonds (OTC and broker screen, etc.) or market value information (trading price statistics, etc.), or reasonably calculated price based on the value of collateralized assets
Units of investment trusts	closing price or closing quotation on exchange, or standard price
Investment in partnership	Concerning the investments in partnership whose possible investment losses are calculated based on the estimated amount recoverable from real estate, the fair value resembles the amount calculated by deducting an allowance for possible investment losses at present from the amount recorded in the balance sheets as of the fiscal year-end. Therefore, Daiwa deemed such calculated amount as fair value.

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

These are recorded at their book value because fair value is similar to book value as they are settled in the short term.

(11) Long-term debt

The fair values of bonds and notes due within one year are recorded at their book value because fair value is similar to book value as they are settled in the short term.

Concerning the fair value of bonds whose maturity is longer than one year, in the case that market price (trading price statistics, etc.) is available in the market, fair value is calculated from the market price. If the market price is not available, fair value is calculated from book value which is adjusted based on the amount equivalent to the fluctuation of interest rate and credit spread of the Company since the issuance. As to the credit spread of the Company, the Company refers to the interest rate of the most recent fundraising, market prices of similar bonds issued by the Company, etc.

Concerning fair values of long-term borrowings, fair value is calculated from book value which is adjusted based on the amount equivalent to the fluctuation of interest rate and credit spread of the Company from initial lending. As to the credit spread of the Company, the Company refers to the interest rate of the most recent fundraising, market prices of similar bonds issued by the Company, etc.

(12) Deposits for banking business

Concerning demand deposits, Daiwa deems the amount payable demanded at the end of the fiscal year (which

means their book value) as their fair value.

The fair value of fixed deposits is calculated by discounting the estimated relevant future cash flow at a fixed discount rate.

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

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

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

Deposits received are mainly deposits received from customers. The payment amount when settled at the end of this fiscal year (book value) is deemed as fair value. Other deposits are recorded at their book value because the fair value closely resembles the book value as they are settled in the short term.

Guarantee deposits received are mainly guarantee deposits relating to derivative transactions. They are recorded at their book value as they can be deemed to be settled in the short term because of those characteristics which are marked-to-market for each transaction. Concerning other guarantee deposits received from customers, the payment amount when settled at the end of this fiscal year (book value) is deemed as fair value.

(18) Trade account payables, net

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

(Note 2) Any financial instruments for which it is deemed extremely difficult to obtain fair value at March 31, 2020 and 2019 are listed below and are not included in the “Assets (8)(b) Subsidiaries companies’ stocks and related companies’ stocks and (c) Available-for-sale securities” of fair value information of financial instruments.

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Subsidiaries’ stocks and related companies’ stocks			
Unlisted equities	¥ 99,655	¥ 46,618	\$ 922,731
Other securities			
Unlisted equities	32,181	33,139	297,972
Investments in limited partnership and other similar partnerships	237,285	103,935	2,197,083
Others	28,754	3,975	266,241

The instruments above are extremely difficult to obtain fair value because no readily available market price exists and it is extremely difficult to estimate their future cash flow. Therefore, their fair value is not disclosed.

(Note 3) Scheduled redemption amount of financial receivables and securities with a maturity date after March 31, 2020:

	Millions of yen			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and cash equivalents	¥ 3,933,150	¥ —	¥ —	¥ —
Cash segregated as deposits for regulatory purposes	415,953	—	—	—
Time deposits	31,363	—	—	—
Loans receivable from customers	1,245,883	137,413	345,535	39,640
Receivables related to margin transactions	114,384	—	—	—
Collateralized short-term financing agreements	6,685,756	—	—	—
Securities, private equity and other investments and investment securities				
Held-to-maturity securities	—	8,298	—	133,399
Government bonds, municipal bonds, etc.	—	—	—	—
Corporate bonds	—	8,298	—	133,399
Other securities with a maturity date	38,853	142,221	112,283	301,129
Bonds	29,721	142,221	112,283	301,129
Government bonds, municipal bonds, etc.	—	10,195	—	197,806
Corporate bonds	—	4,000	17,362	48,686
Other bonds	29,721	128,026	94,921	54,637
Other securities	9,132	—	—	—
Total	¥12,465,342	¥287,932	¥457,818	¥474,168

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

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

	Thousands of U.S. dollars			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and cash equivalents	\$ 36,418,056	\$ —	\$ —	\$ —
Cash segregated as deposits for regulatory purposes	3,851,417	—	—	—
Time deposits	290,398	—	—	—
Loans receivable from customers	11,535,953	1,272,343	3,199,398	367,037
Receivables related to margin transactions	1,059,111	—	—	—
Collateralized short-term financing agreements	61,905,148	—	—	—
Securities, private equity and other investments and investment securities				
Held-to-maturity securities	—	76,833	—	1,235,176
Government bonds, municipal bonds, etc.	—	—	—	—
Corporate bonds	—	76,833	—	1,235,176
Other securities with a maturity date	359,750	1,316,861	1,039,658	2,788,231
Bonds	275,194	1,316,861	1,039,658	2,788,231
Government bonds, municipal bonds, etc.	—	94,398	—	1,831,537
Corporate bonds	—	37,037	160,759	450,796
Other bonds	275,194	1,185,426	878,899	505,898
Other securities	84,556	—	—	—
Total	\$115,419,833	\$2,666,037	\$4,239,056	\$4,390,444

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

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

(Note 4) Scheduled redemption amount of payable to securities finance companies, deposits for banking business, commercial paper and long-term debts after March 31, 2020:

	Millions of yen			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Payable to securities finance companies	¥ 3,995	¥ —	¥ —	¥ —
Deposits for banking business	3,993,066	44,135	—	—
Commercial paper	178,000	—	—	—
Long-term debts	567,251	1,338,057	764,524	476,454
Total	¥4,742,312	¥1,382,192	¥764,524	¥476,454

* 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	\$ 36,991	\$ —	\$ —	\$ —
Deposits for banking business	36,972,833	408,658	—	—
Commercial paper	1,648,148	—	—	—
Long-term debts	5,252,324	12,389,417	7,078,926	4,411,611
Total	\$43,910,296	\$12,798,075	\$7,078,926	\$4,411,611

* 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, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Trading assets:			
Trading securities:			
Equities	¥ 227,543	¥ 132,362	\$ 2,106,880
Government, corporate and other bonds	2,814,152	2,826,953	26,056,963
Investment trusts	97,774	89,256	905,315
Commercial paper, certificates of deposits and others	1,161,132	736,680	10,751,222
Derivatives:			
Option transactions	294,209	376,666	2,724,157
Futures and forward transactions	154,632	47,489	1,431,778
Swap agreements	3,246,133	2,491,173	30,056,787
Other derivatives	34,669	19,358	321,009
Risk reserves	(2,954)	(3,871)	(27,352)
	¥8,027,290	¥6,716,066	\$74,326,759
Trading liabilities:			
Trading securities:			
Equities	¥ 112,800	¥ 196,361	\$ 1,044,444
Government, corporate and other bonds	1,654,053	1,768,632	15,315,306
Investment trusts	3,466	169	32,093
Commercial paper, certificates of deposits and others	35,592	75,035	329,556
Derivatives:			
Option transactions	310,523	352,231	2,875,213
Futures and forward transactions	187,823	49,202	1,739,102
Swap agreements	3,022,725	2,283,698	27,988,194
Other derivatives	35,279	22,449	326,657
	¥5,362,261	¥4,747,777	\$49,650,565

* 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, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
	¥—	¥370	\$—

Amortized cost of held-to-maturity debt securities as of March 31, 2020 and 2019 consisted of the following:

	Millions of yen		
	Cost	Fair value	Difference
March 31, 2020:			
Government, municipal and other bonds	¥ —	¥ —	¥ —
Corporate bonds	141,697	142,552	855
Other	—	—	—
	¥141,697	¥142,552	¥855

	Millions of yen		
	Cost	Fair value	Difference
March 31, 2019:			
Government, municipal and other bonds	¥ —	¥ —	¥ —
Corporate bonds	132,125	133,965	1,840
Other	—	—	—
	¥132,125	¥133,965	¥1,840

	Thousands of U.S. dollars		
	Cost	Fair value	Difference
March 31, 2020:			
Government, municipal and other bonds	\$ —	\$ —	\$ —
Corporate bonds	1,312,009	1,319,926	7,917
Other	—	—	—
	\$1,312,009	\$1,319,926	\$7,917

Cost and fair value of marketable available-for-sale securities as of March 31, 2020 and 2019 consisted of the following:

	Millions of yen		
	Cost	Fair value	Difference
March 31, 2020:			
Equities	¥ 95,718	¥112,715	¥16,997
Government, corporate and other bonds	570,165	584,748	14,583
Other	206,062	212,933	6,871
	¥871,945	¥910,396	¥38,451

	Millions of yen		
	Cost	Fair value	Difference
March 31, 2019:			
Equities	¥ 82,771	¥132,653	¥49,882
Government, corporate and other bonds	456,764	467,616	10,852
Other	247,511	253,216	5,705
	¥787,046	¥853,485	¥66,439

	Thousands of U.S. dollars		
	Cost	Fair value	Difference
March 31, 2020:			
Equities	\$ 886,278	\$1,043,658	\$157,380
Government, corporate and other bonds	5,279,305	5,414,333	135,028
Other	1,907,982	1,971,602	63,620
	\$8,073,565	\$8,429,593	\$356,028

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, 2020 and 2019 are as follows:

	Millions of yen		
	Contract amount	Fair value	Unrealized gains (losses)
March 31, 2020:			
Foreign exchange forward	¥171,064	¥(4,325)	¥(4,325)
Credit derivative	40,000	61	61
Interest swap	10,439	(326)	(326)
Currency swap	91,109	517	517

	Millions of yen		
	Contract amount	Fair value	Unrealized gains (losses)
March 31, 2019:			
Foreign exchange forward	¥102,872	¥(2,208)	¥(2,208)
Credit derivative	60,000	(407)	(407)
Interest swap	10,375	(415)	(415)
Currency swap	180,867	(470)	(470)

	Thousands of U.S. dollars		
	Contract amount	Fair value	Unrealized gains (losses)
March 31, 2020:			
Foreign exchange forward	\$1,583,926	\$(40,046)	\$(40,046)
Credit derivative	370,370	565	565
Interest swap	96,657	(3,019)	(3,019)
Currency swap	843,602	4,787	4,787

B. Derivatives to which hedge accounting is applied

Main hedged items, contract amount and fair value of these derivatives at March 31, 2020 and 2019 are as follows:

			Millions of yen	
Hedging instrument	Hedge accounting treatment	Main hedged item	Contract amount	Fair value
Foreign exchange forward	Fundamental method	Foreign currency loans, securities, and cash	¥370,341	¥ 3,415
Interest swap	Fundamental method	Debt and securities	408,340	(24,733)
	Special treatment	Debt	—	—
Currency swap	Allocation method	Debt	5,442	(491)
	Fundamental method	Foreign currency loans and securities	145,304	(780)
Interest and currency swap	Integration of special treatment and allocation method	Corporate bond	5,768	526

March 31, 2019				Millions of yen
Hedging instrument	Hedge accounting treatment	Main hedged item	Contract amount	Fair value
Foreign exchange forward	Fundamental method	Foreign currency loans, securities, and cash	¥202,754	¥ 4,175
Interest swap	Fundamental method	Debt and securities	295,407	(9,234)
	Special treatment	Debt	—	—
Currency swap	Allocation method	Debt	33,300	(2,115)
	Fundamental method	Foreign currency loans and securities	196,829	(1,755)
Interest and currency swap	Integration of special treatment and allocation method	Corporate bond	5,289	621

March 31, 2020				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	\$3,429,083	\$ 31,620
Interest swap	Fundamental method	Debt and securities	3,780,926	(229,009)
	Special treatment	Debt	—	—
Currency swap	Allocation method	Debt	50,389	(4,546)
	Fundamental method	Foreign currency loans and securities	1,345,407	(7,222)
Interest and currency swap	Integration of special treatment and allocation method	Corporate bond	53,407	4,870

9. Pledged assets

Secured obligations at March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Short-term borrowings	¥279,439	¥250,000	\$2,587,398
Long-term debt	457,800	630,400	4,238,889
Payables related to margin transactions	3,995	3,675	36,991
	¥741,234	¥884,075	\$6,863,278

All above obligations at March 31, 2020 and 2019 were secured by the following assets:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Loans receivable from customers	¥ 845,230	¥ 685,367	\$ 7,826,204
Trading assets	531,871	558,045	4,924,731
Securities	92,385	43,628	855,417
Investment securities	18,095	12,514	167,546
	¥1,487,581	¥1,299,554	\$13,773,898

In addition to the above, securities borrowed amounting to ¥185,873 million (\$1,721,046 thousand) and ¥181,124 million were pledged as guarantees at March 31, 2020 and 2019, respectively.

Total fair value of the securities pledged as collateral at March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Securities loaned	¥5,853,262	¥5,379,208	\$54,196,870
Securities sold under agreements to repurchase	2,064,787	1,019,601	19,118,398
Other	461,925	474,590	4,277,084
	¥8,379,974	¥6,873,399	\$77,592,352

Total fair value of the securities received as collateral at March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Securities borrowed	¥5,888,917	¥5,692,767	\$54,527,009
Securities purchased under agreements to resell	1,565,431	854,994	14,494,731
Other	242,713	296,294	2,247,343
	¥7,697,061	¥6,844,055	\$71,269,083

10. Lease transactions

The information concerning operating leases at March 31, 2020 and 2019 are as follows:

Lessee:	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Operating leases:			
Future lease payments in respect of operating leases	¥68,596	¥87,280	\$635,148
Due within one year	11,780	12,715	109,074
Lessor:			
	2020	2019	Thousands of U.S. dollars
Operating leases:			
Future lease receipts in respect of operating leases	¥4,206	¥2,512	\$38,944
Due within one year	620	387	5,741

11. Payables to customers and counterparties

Payables to customers and counterparties at March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Deposits from customers	¥318,467	¥247,896	\$2,948,769
Guarantee deposits received	414,642	372,592	3,839,278
Other	56,160	29,600	519,999
	¥789,269	¥650,088	\$7,308,046

12. Long-term debt

Customary to 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, 2020 and 2019 was 0.17% and 0.25%, respectively.

Long-term debt at March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Bond payable in yen: 1.25% due CY2020	¥ 30,000	¥ 30,000	\$ 277,778
Bond payable in yen: 0.69% due CY2021	30,000	30,000	277,778
Bond payable in yen: 0.40% due CY2019	—	20,000	—
Bond payable in yen: 0.87% due CY2024	12,000	12,000	111,111
Bond payable in yen: 0.41% due CY2020	—	25,000	—

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Bond payable in yen: 0.89% due CY2025	20,000	20,000	185,185
Bond payable in yen: 0.40% due CY2020	20,000	20,000	185,185
Bond payable in yen: 0.40% due CY2020	45,000	45,000	416,667
Bond payable in yen: 0.91% due CY2025	25,000	25,000	231,481
Bond payable in yen: 0.67% due CY2022	30,000	30,000	277,778
Bond payable in yen: 0.40% due CY2023	13,000	13,000	120,370
Bond payable in yen: 0.56% due CY2026	11,000	11,000	101,852
Bond payable in yen: 0.40% due CY2023	50,000	50,000	462,963
Bond payable in yen: 0.40% due CY2026	30,000	30,000	277,778
Bond payable in yen: 0.35% due CY2023	22,000	22,000	203,704
Bond payable in yen: 0.22% due CY2022	25,000	25,000	231,481
Bond payable in yen: 0.41% due CY2027	15,000	15,000	138,889
Bond payable in yen: 0.23% due CY2023	10,000	10,000	92,593
Bond payable in yen: 0.48% due CY2028	12,000	12,000	111,111
Bond payable in yen: 0.27% due CY2022	20,000	20,000	185,185
Bond payable in yen: 0.30% due CY2026	30,000	30,000	277,778
Bond payable in yen: 0.22% due CY2022	30,000	30,000	277,778
Bond payable in yen: 0.30% due CY2027	20,000	20,000	185,185
Bond payable in yen: 0.24% due CY2024	15,000	15,000	138,889
Bond payable in yen: 0.23% due CY2024	20,000	20,000	185,185
Bond payable in yen: 0.24% due CY2024	20,000	20,000	185,185
Bond payable in yen: 0.24% due CY2025	20,000	20,000	185,185
Bond payable in yen: 0.24% due CY2026	17,000	—	157,407
Bond payable in yen: 0.26% due CY2026	10,000	—	92,593
Bond payable in U.S. dollars: 3.19% due CY2019	—	16,649	—
Bond payable in U.S. dollars: 2.66% due CY2020	27,208	27,748	251,926
Bond payable in U.S. dollars: 2.33% due CY2021	16,325	16,649	151,157
Bond payable in U.S. dollars: 3.13% due CY2022	108,830	110,990	1,007,685
Bond payable in yen: 1.20%	125,000	—	1,157,408
Bond payable in yen: 1.39%	25,000	—	231,481
Bond payable in yen: 1.72% due CY2020	18,400	18,400	170,370
Bond payable in yen: 2.16% due CY2025	7,800	7,800	72,222
Bond payable in yen: 2.41% due CY2026	3,000	3,000	27,778
Bond payable in yen: 2.24% due CY2026	5,000	5,000	46,297
Bond payable in yen: 0.14% due CY2034	—	5,000	—
Bond payable in yen: 0.09% due CY2038	2,000	2,000	18,519
Bond payable in yen: 0.77% due CY2020	1,000	—	9,259
Bond payable in yen: 1.05% due CY2023	1,000	—	9,259
Euro medium-term notes issued by the Company and a domestic consolidated subsidiary, maturing through CY2049	558,617	713,031	5,172,380
Subordinated bond payable in yen: maturing through CY2021	155,900	6,425	1,443,519
Long-term borrowings principally from banks in yen, maturing through CY2049	1,469,352	1,657,939	13,605,111
Lease obligation	1,876	2,781	17,370
Other	17,978	—	166,463
	¥3,146,286	¥3,213,412	\$29,132,278

* Bond payable in yen:1.20% and Bond payable in yen:1.39% are unsecured and subordinated bonds. They do not have fixed redemption date.

The amount for euro medium-term notes issued by the Company and a domestic consolidated subsidiary as of March 31, 2020 includes US\$406,651 thousand.

Interest rates of euro medium-term notes range from (0.32)% to 3.48% at March 31, 2020 and from (0.23)% to 4.03% at March 31, 2019. The weighted average interest rate on total outstanding yen subordinated borrowings and

borrowings principally from banks at March 31, 2020 and 2019 was 0.31% and 0.38%, respectively. The weighted average interest rate on total outstanding lease obligations at March 31, 2020 was 1.03%.

Daiwa has an unused commitment line amounting to ¥10,833 million (\$100,769 thousand) under agreements with several banks at March 31, 2020.

13. Retirement benefits

Retirement benefits for employees

(1) Defined benefit plans

Retirement benefits in the consolidated balance sheets as of March 31, 2020 and 2019 are ¥44,359 million (\$410,731 thousand) and ¥43,441 million, respectively. Benefit expenses stated in the consolidated statements of income for the years ended March 31, 2020 and 2019 were ¥3,749 million (\$34,713 thousand) and ¥3,802 million, respectively.

Movement in retirement benefit obligations consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
At beginning of period	¥43,441	¥41,759	\$402,231
Service cost	3,749	3,802	34,713
Benefits paid	(2,936)	(2,260)	(27,185)
Other	105	140	972
At end of period	¥44,359	¥43,441	\$410,731

(2) Defined contribution plan

Benefit expenses to "Defined contribution" for the years ended March 31, 2020 and 2019 were ¥4,915 million (\$45,509 thousand) and ¥4,787 million, respectively.

Retirement benefits for directors

Directors' retirement benefits in consolidated subsidiaries of ¥678 million (\$6,278 thousand) and ¥667 million are included in "Retirement benefits" in the accompanying consolidated balance sheets as of March 31, 2020 and 2019, respectively. Benefit expenses stated in the consolidated statements of income for the years ended March 31, 2020 and 2019 were ¥203 million (\$1,880 thousand) and ¥204 million, respectively.

14. Income taxes

The Company and its domestic consolidated subsidiaries are subject to a number of taxes levied on income. The effective statutory tax rates in Japan were approximately 30.6% for the years ended March 31, 2020 and 2019. 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, 2020 and 2019 is as follows:

	2020	2019
Statutory tax rate	30.6%	30.6%
Valuation allowance	5.7	6.1
Permanent difference (expense)	2.5	2.7
Permanent difference (income)	(1.3)	(3.6)
Lower tax rate applicable to income of overseas consolidated subsidiaries	(2.0)	(0.4)
Adjustment of unrealized inter-company profit	(0.3)	(0.0)
Amortization of goodwill	0.4	0.4
Share of profit and loss of entities accounted for using equity method	(2.9)	(2.7)
Tax credits	(0.0)	(0.5)
Losses (gains) on step acquisitions	(1.7)	—
Losses (gains) on change in equity	(4.1)	0.1
Other	0.9	0.2
Effective tax rate	27.8%	32.9%

Details of deferred tax assets and liabilities at March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Deferred tax assets:			
Net operating losses carry-forward	¥ 35,198	¥ 40,589	\$ 325,907
Retirement benefits	13,640	13,374	126,296
Write-down of investment securities	8,729	6,275	80,824
Loss on private equity and other investments	8,278	5,584	76,648
Deferred gains (losses) on hedges	5,949	2,414	55,083
Elimination of unrealized gain	5,501	5,050	50,935
Impairment losses on fixed assets	4,664	6,080	43,185
Compensation and bonuses	4,499	5,615	41,657
Depreciation	4,057	3,887	37,565
Asset retirement obligations	2,586	1,752	23,944
Loss on trading	1,824	2,105	16,889
Other	15,445	14,202	143,012
Gross deferred tax assets	110,370	106,927	1,021,945
Valuation allowance for net operating losses carry-forward	(34,152)	(39,623)	(316,222)
Valuation allowance for future deductible temporary differences	(44,760)	(41,526)	(414,445)
Less: Valuation allowance	(78,912)	(81,149)	(730,667)
Total deferred tax assets	31,458	25,778	291,278
Deferred tax liabilities	18,702	24,934	173,167
Net deferred tax assets (liabilities)	¥ 12,756	¥ 844	\$ 118,111

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

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

Net operating losses ("NOL") carry-forward and deferred tax assets by each expiring date at March 31, 2020 and 2019 are as follows:

March 31, 2020							Millions of yen
	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	over 5 years	Total
NOL carry-forward	¥ 2,002	¥ 1,684	¥ 1,721	¥ 1,279	¥ 2,051	¥ 26,461	¥ 35,198
Valuation allowance	(2,002)	(1,684)	(1,670)	(1,279)	(2,051)	(25,466)	(34,152)
Deferred tax assets	¥ —	¥ —	¥ 51	¥ —	¥ —	¥ 995	¥ 1,046

March 31, 2019							Millions of yen
	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	over 5 years	Total
NOL carry-forward	¥ 6,588	¥ 2,067	¥ 1,694	¥ 1,870	¥ 1,274	¥ 27,096	¥ 40,589
Valuation allowance	(6,588)	(2,067)	(1,694)	(1,815)	(1,274)	(26,185)	(39,623)
Deferred tax assets	¥ —	¥ —	¥ —	¥ 55	¥ —	¥ 911	¥ 966

March 31, 2020							Thousands of U.S. dollars
	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	over 5 years	Total
NOL carry-forward	\$ 18,537	\$ 15,593	\$ 15,935	\$ 11,843	\$ 18,991	\$ 245,008	\$ 325,907
Valuation allowance	(18,537)	(15,593)	(15,463)	(11,843)	(18,991)	(235,795)	(316,222)
Deferred tax assets	\$ —	\$ —	\$ 472	\$ —	\$ —	\$ 9,213	\$ 9,685

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 ¥12,161 million (\$112,602 thousand) and ¥58 million at March 31, 2020 and 2019, respectively, mainly arising as guarantors of Good Time Living Co. Ltd.

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, 2020 amounted to ¥354,597 million (\$3,283,306 thousand).

Under Article 459-1 of the Act, the articles of incorporation of the Company stipulate that the Board of Directors is to determine dividends. Cash dividends of ¥9 (\$0.08) per share amounting to ¥13,675 million (\$126,620 thousand) and ¥11 (\$0.10) per share amounting to ¥17,068 million (\$158,037 thousand) were approved by the Board of Directors on May 8, 2020 and October 30, 2019, respectively.

18. Stock options

Daiwa has various stock option plans.

Stock options were approved to be granted on June 24, 2005, June 24, 2006, June 23, 2007, June 21, 2008, June 20, 2009, June 26, 2010, June 25, 2011, June 27, 2012, June 26, 2013, June 26, 2014, June 25, 2015, June 28, 2016, June 28, 2017 and June 27, 2018 and August 9, 2019. 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, the balance of the exercisable options, exercise price and exercise period for the stock options of the Company at March 31, 2020 are as follows:

Date of approval	Balance of the exercisable options (The number of shares)	Exercise price (Yen/share (U.S. dollars/share))		Exercise period
June 24, 2005	133,000	¥ 1	(\$0.01)	from July 1, 2005 to June 30, 2025
June 24, 2006	96,000	¥ 1	(\$0.01)	from July 1, 2006 to June 30, 2026
June 23, 2007	134,000	¥ 1	(\$0.01)	from July 1, 2007 to June 30, 2027
June 21, 2008	167,000	¥ 1	(\$0.01)	from July 1, 2008 to June 30, 2028
June 20, 2009	396,000	¥ 1	(\$0.01)	from July 1, 2009 to June 30, 2029
	—	¥ 496	(\$4.59)	from July 1, 2014 to June 19, 2019
June 26, 2010	728,000	¥ 1	(\$0.01)	from July 1, 2010 to June 30, 2030
	2,063,000	¥ 380	(\$3.52)	from July 1, 2015 to June 25, 2020
June 25, 2011	997,000	¥ 1	(\$0.01)	from July 1, 2011 to June 30, 2031
	2,155,000	¥ 326	(\$3.02)	from July 1, 2016 to June 24, 2021
June 27, 2012	722,000	¥ 1	(\$0.01)	from February 12, 2013 to June 30, 2032
	4,921,000	¥ 598	(\$5.54)	from July 1, 2017 to June 26, 2022
June 26, 2013	360,000	¥ 1	(\$0.01)	from February 10, 2014 to June 30, 2033
	3,597,000	¥1,062	(\$9.83)	from July 1, 2018 to June 25, 2023
June 26, 2014	438,000	¥ 1	(\$0.01)	from February 9, 2015 to June 30, 2034
	4,936,000	¥ 931	(\$8.62)	from July 1, 2019 to June 25, 2024
June 25, 2015	559,000	¥ 1	(\$0.01)	from February 16, 2016 to June 30, 2035
	—	¥ 733	(\$6.79)	from July 1, 2020 to June 24, 2025
June 28, 2016	563,000	¥ 1	(\$0.01)	from February 8, 2017 to June 30, 2036
	—	¥ 767	(\$7.10)	from July 1, 2021 to June 27, 2026
June 28, 2017	595,000	¥ 1	(\$0.01)	from February 8, 2018 to June 30, 2037
	—	¥ 815	(\$7.55)	from July 1, 2022 to June 27, 2027
June 27, 2018	—	¥ 686	(\$6.35)	from July 1, 2023 to June 26, 2028
August 9, 2019	—	¥ 502	(\$4.65)	from July 1, 2024 to July 30, 2029

19. Business combinations and related matters

Details of business combinations and related matters for the year ended March 31, 2020 are as follows:

Outline of the business combination

- (i) Name of the acquired company and its business
Samty Residential Investment Corporation ("SRR")
(Investment management business to the specified assets)
- (ii) Main reasons for the business combination
The company acquired additional investment equities in SRR through a subscription for a third-party allotment to make SRR a consolidated subsidiary of DSGI, with the aim to further expand and to strengthen the asset management business, and to expand balance of assets under management of the business. The Company will be actively involved in improving the value of investment equities by providing property information, supplying funds to bridge funds, and reducing the financial expenses of SRR, and will cooperate to increase the value of SRR. The Company believes that it will be able to enhance the value of the entire Group by supporting

and realizing the growth of SRR by making available the corporate resources of the Group.

- (iii) Date of business combination
July 31, 2019 (Deemed acquisition date)
- (iv) Legal form of business combination
Acquisition of investment units of SRR.
- (v) Corporate name after business combination
Unchanged
- (vi) Ratio of voting rights the Group has acquired
Ratio of voting rights owned before business acquisition: 35.89%
Ratio of voting rights additionally acquired at the date of business combination: 4.26%
Ratio of voting rights after acquisition: 40.15%
- (vii) Reason for deciding the acquisition company
The voting rights ratio of the Group became 40.15%, and combined with Samty Co., Ltd., a close person, became more than 50%.

Period of the acquired company's financial results included in the consolidated financial statements

The business before the date of business combination (July 31, 2019 is considered to be the acquisition date) is reflected in the investment profit under the equity method.

Acquisition cost of the acquired company

Fair value of investment units of SRR owned before business combination: ¥21,133 million (\$195,676 thousand)

Fair value of investment units of SRR additionally acquired at the date of business combination: ¥6,661 million (\$61,676 thousand)

Acquisition cost of the acquired company: ¥27,794 million (\$257,352 thousand)

Difference between acquisition cost of the acquired corporation and total acquisition cost of individual transactions leading to acquisition

Gains on step acquisitions: ¥4,642 million (\$42,981 thousand)

Amount of Goodwill and reason for recognizing Goodwill, amortization method and period

(i) Amount of goodwill: ¥4,607 million (\$42,657 thousand)

(ii) Reason for recognizing goodwill
Due to the future excess profitability expected from future business development.

(iii) Amortization method and period
Straight-line depreciation over 20 years.

Amount of assets and liabilities acquired on the day of the business combination

	Millions of yen	Thousands of U.S. dollars
	2020	2020
Current assets	¥ 14,264	\$ 132,074
Fixed assets	98,541	912,417
Total assets	112,805	1,044,491
Current liabilities	12,262	113,537
Fixed liabilities	42,789	396,194
Total liabilities	55,051	509,731

Approximate amounts of the impact on the consolidated statements of income for fiscal year 2019 is based on the assumption that the business combination was completed on the first day of fiscal year 2019.

The approximate amounts have not been disclosed since they are immaterial.

20. Investment and rental properties

Daiwa owns rental housing and real estate in Tokyo and other areas, in addition to owning assets for a redevelopment project in Tokyo. Net rental profit from these properties is ¥2,189 million (\$20,264 thousand) and gain on sale from them is ¥112 million (\$1,037 thousand) as of March 31, 2020.

The book value, net changes in the book value and the fair value of the rental housing and real estate are as follows:

				Millions of yen
		Book value	Fair value	
As of March 31, 2019	Change during the period	As of March 31, 2020	As of March 31, 2020	
¥—	¥116,602	¥116,602	¥117,580	

				Thousands of U.S. dollars
		Book value	Fair value	
As of March 31, 2019	Change during the period	As of March 31, 2020	As of March 31, 2020	
\$—	\$1,079,648	\$1,079,648	\$1,088,704	

(Note 1) The amounts stated in the balance sheets are the numbers after deducting depreciation from the acquisition cost.

(Note 2) The fair value is the appraised value or surveyed value estimated by an outside real estate appraiser.

(Note 3) The fair value of the asset for the redevelopment

project is not included in the above table, because such asset is part of a large-scale complex development project, and it is very difficult to calculate its fair value.

The amounts of such assets in the consolidated balance sheets as of March 31, 2020 and 2019 are ¥37,756 million (\$349,593 thousand) and ¥31,544 million respectively.

21. 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 326.9% (unaudited) for March 31, 2020. Daiwa also announced that it has calculated the consolidated capital adequacy ratio as of March 31, 2020

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, 2020 was 21.12%* (unaudited).

* The consolidated capital adequacy ratio shows the value calculated as of the date of the audit report, and the final value will be announced on Daiwa's website as soon as the calculation is completed.

22. Segment information

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

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

(Net operating revenues by reportable segment)

Millions of yen							
	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Total
Year ended March 31, 2020:							
Net operating revenues:							
Sales to customers	¥144,824	¥170,777	¥ 64,734	¥ 4,154	¥384,489	¥26,128	¥410,617
Intersegment sales and transfers	21,607	1,513	(16,642)	(1,651)	4,827	17,777	22,604
Total	¥166,431	¥172,290	¥ 48,092	¥ 2,503	¥389,316	¥43,905	¥433,221

Millions of yen							
	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Total
Year ended March 31, 2019:							
Net operating revenues:							
Sales to customers	¥160,686	¥158,222	¥ 67,969	¥2,445	¥389,322	¥34,866	¥424,188
Intersegment sales and transfers	25,179	681	(19,736)	(679)	5,445	13,603	19,048
Total	¥185,865	¥158,903	¥ 48,233	¥1,766	¥394,767	¥48,469	¥443,236

Thousands of U.S. dollars							
	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Total
Year ended March 31, 2020:							
Net operating revenues:							
Sales to customers	\$1,340,963	\$1,581,269	\$ 599,389	\$ 38,463	\$3,560,084	\$241,926	\$3,802,010
Intersegment sales and transfers	200,065	14,009	(154,093)	(15,287)	44,694	164,602	209,296
Total	\$1,541,028	\$1,595,278	\$ 445,296	\$ 23,176	\$3,604,778	\$406,528	\$4,011,306

* "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
	2020	2019	2020
Net operating revenues			
Reportable segment total	¥389,316	¥394,767	\$3,604,778
Net operating revenues from "Others"	43,905	48,469	406,528
Elimination between segments	(22,603)	(19,048)	(209,287)
Commission fee deducted from net operating revenues	17,089	19,631	158,231
Other adjustments	(1,447)	(2,578)	(13,398)
Net operating revenues of financial statements	¥426,260	¥441,241	\$3,946,852

(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, 2020:								
Loss on impairment	¥34	¥165	¥—	¥—	¥199	¥3,126	¥—	¥3,325

	Millions of yen							
	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Corporate/ Elimination	Total
Year ended March 31, 2019:								
Loss on impairment	¥—	¥—	¥—	¥—	¥—	¥—	¥—	¥—

	Thousands of U.S. dollars							
	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Corporate/ Elimination	Total
Year ended March 31, 2020:								
Loss on impairment	\$315	\$1,528	\$—	\$—	\$1,843	\$28,944	\$—	\$30,787

(Gains on negative goodwill by reportable segment)

Not applicable.

23. Transactions with related parties

The information on subsidiaries' material transactions with related parties and individuals for the years ended March 31, 2020 and 2019, 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			2020
Tokyo Tanshi Co., Ltd.	¥10,300	Recurring transactions of collateralized short-term financing agreements	Collateralized short-term financing agreements (liabilities)	¥ 40,582
		Interest and dividend expense	Collateralized short-term financing agreements (assets)	235,772
		Interest income	Receivables—Other	7
		Interest and dividend income	Accrued and other liabilities—Other	5
		Interest expense		1,107
				Millions of yen
Name of related company	Paid-in Capital Millions of yen			2019
Tokyo Tanshi Co., Ltd.	¥10,300	Recurring transactions of collateralized short-term financing agreements	Collateralized short-term financing agreements (liabilities)	¥106,320
		Interest and dividend expense	Collateralized short-term financing agreements (assets)	320,213
		Interest income	Receivables—Other	7
		Interest and dividend income	Accrued and other liabilities—Other	12
		Interest expense		1,556

		Thousands of U.S. dollars	
		2020	
Recurring transactions of collateralized short-term financing agreements		Collateralized short-term financing agreements (liabilities)	\$ 375,759
		Collateralized short-term financing agreements (assets)	2,183,074
Interest and dividend expense	\$ 2,898	Receivables—Other	65
Interest income	5,602	Accrued and other liabilities—Other	46
Interest and dividend income	4,185		
Interest expense	10,250		

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

24. Special purpose entities subject to disclosure

A consolidated subsidiary utilized six special purpose entities for the year ended March 31, 2020 (eight for the year ended March 31, 2019) principally for the securitization of structured notes in order to support securitization of monetary assets of customers. The consolidated subsidiary acquires and transfers bonds to those special purpose entities (incorporated in the Cayman Islands) and issues structured notes collateralized by those bonds. The

Company and the consolidated company do not own any shares with voting rights in any of these special purpose entities and have not dispatched any director or employee to them. Notes issued by those special purpose entities subject to disclosure as of the fiscal years ended March 31, 2020 and 2019 are ¥677,459 million (\$6,272,769 thousand) and ¥621,348 million, respectively.

25. Net gain on trading

Net gain on trading for the years ended March 31, 2020 and 2019 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Equities and others	¥42,613	¥38,594	\$394,565
Bonds, forex and others	51,190	53,624	473,981
	¥93,803	¥92,218	\$868,546

26. Selling, general and administrative expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2020 and 2019 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Employees' compensation and benefits	¥184,032	¥185,436	\$1,704,000
Commissions and brokerage	30,374	32,153	281,241
Communications	21,994	22,425	203,648
Occupancy and rental	36,647	37,395	339,324
Data processing and office supplies	25,969	26,519	240,454
Taxes other than income taxes	10,530	10,740	97,500
Depreciation	30,813	25,344	285,306
Other	31,612	33,902	292,703
	¥371,971	¥373,914	\$3,444,176

27. Other income (expenses)

Details of "Other, net" in the accompanying consolidated statements of income for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Gain on sales of non-current assets	¥ 8,749	¥ 149	\$ 81,012
Gain on sales of investment securities	12,442	13,129	115,208
Gain on step acquisitions	4,642	—	42,983
Gain on change in equity	11,414	—	105,682
Gain on reversal of subscription rights to shares	—	688	—
Gain on compensation for transfer	—	347	—
Other income	17,674	16,562	163,647
Loss on sales and retirement of non-current assets	(610)	(430)	(5,648)
Impairment loss	(1,283)	—	(11,884)
Loss on valuation of investment securities	(8,115)	(527)	(75,136)
Loss on change in equity	—	(178)	—
Office transfer expenses	—	(592)	—
Cost of product compensation related	—	(631)	—
Structural reform cost	(12,500)	—	(115,743)
Other expenses	(1,893)	(767)	(17,528)
	¥ 30,520	¥27,750	\$ 282,593

Impairment loss

(Fiscal year ended March 31, 2020)

Daiwa recognized the impairment losses for the following asset group.

			Millions of yen	Thousands of U.S. dollars
	Condition	Location	Impairment loss	Impairment loss
Assets to be held and used	Low profit-earning assets	Kanto region Europe	¥1,047	\$ 9,698
Assets to be disposed	Low operating assets	Kanto region	2,278	21,091
Total			¥3,325	\$30,789

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, which are included in "structural reform cost" for the year ended March 31, 2020.

The breakdown of the amounts is ¥1,047 million (\$9,698 thousand) for assets to be held and used, comprising ¥883 million (\$8,175 thousand) for software and ¥164 million (\$1,523 thousand) for goodwill. The breakdown of the

amounts is ¥2,278 million (\$21,091 thousand) for assets to be disposed, comprising ¥1,594 million (\$14,755 thousand) for software, ¥398 million (\$3,689 thousand) for land, ¥220 million (\$2,039 thousand) for buildings, and ¥66 million (\$608 thousand) for furniture and fixtures.

The recoverable amount of goodwill is measured by re-evaluated company value. The recoverable amount of software is measured by value in use, which is equal to zero. The recoverable amount of other assets is calculated using net realizable value which is basically determined by the appraisal value less the expected disposal cost.

28. Subsequent events

None

Independent Auditor's Report



To the Board of Directors of Daiwa Securities Group Inc.:

Opinion

We have audited the accompanying consolidated financial statements of Daiwa Securities Group Inc. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2020 and 2019, the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in net assets, and consolidated statements of cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020 and 2019, and its consolidated financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

The audit committee is responsible for overseeing the executive officers and the directors' performance of their duties including the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 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.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Kanako Ogura
Designated Engagement Partner
Certified Public Accountant

Tomomi Mase
Designated Engagement Partner
Certified Public Accountant

Koji Fukai
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC

Tokyo Office, Japan
July 10, 2020

Notes to the Reader of Independent Auditor's Report:

This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.

Report Regarding Consolidated Capital Adequacy Ratio and Consolidated Leverage Ratio Situation of Soundness in Management as of March 31, 2020

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, 2020.

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Key Metrics (at consolidated group level)

Basel III template number	Millions of yen, %				
	March 2020	December 2019	September 2019	June 2019	March 2019
Available capital (amounts)					
1 Common Equity Tier 1 (CET1)	¥ 1,035,250	¥ 1,088,942	¥ 1,061,011	¥ 1,074,541	¥ 1,086,889
2 Tier 1	1,171,864	1,088,942	1,061,011	1,074,541	1,086,889
3 Total capital	1,171,864	1,088,942	1,061,011	1,074,541	1,086,889
Risk-weighted assets (amounts)					
4 Total risk-weighted assets (RWA)	5,536,310	5,593,840	5,572,157	5,089,921	5,020,849
Capital ratio					
5 CET1 ratio (%)	18.69%	19.46%	19.04%	21.11%	21.64%
6 Tier 1 ratio (%)	21.16%	19.46%	19.04%	21.11%	21.64%
7 Total capital ratio (%)	21.16%	19.46%	19.04%	21.11%	21.64%
Additional CET1 buffer requirements as a percentage of RWA					
8 Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%	2.50%	2.50%	2.50%
9 Countercyclical buffer requirement (%)	0.00%	0.03%	0.03%	0.02%	0.02%
10 Bank G-SIB and/or D-SIB additional requirements (%)	0.50%	0.50%	0.50%	0.50%	0.50%
11 Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	3.00%	3.03%	3.03%	3.02%	3.02%
12 CET1 available after meeting the bank's minimum capital requirements (%)	13.16%	11.46%	11.04%	13.11%	13.64%
Leverage ratio					
13 Total leverage ratio exposure measure	20,200,161	21,601,323	19,417,404	19,816,310	18,674,804
14 Leverage ratio (%) including the impact of any applicable temporary exemption of central bank reserves	5.80%	5.04%	5.46%	5.42%	5.82%

Composition of Capital Disclosure

CC1: Composition of Capital Disclosure

Basel III template number	Items	Millions of yen, %	
		Group Consolidated Quarter-End	Cross- referenced to CC2
	Common Equity Tier 1 capital: Instruments and reserves	(1)	
1a+2-1c-26	Shareholders' equity	¥1,189,921	
1a	Common stock and capital surplus	478,206	(i), (j)
2	Retained earnings	835,727	(k)
1c	Treasury stock (Δ)	110,337	(l), (m)
26	Planned distributions (Δ)	13,675	
	Others	—	
1b	Stock subscription rights	8,901	(p)
3	Accumulated other comprehensive income (and other reserves)	7,742	(o)
5	Minority interest after adjustments	—	
6	Common Equity Tier 1 capital before regulatory adjustments	(a) 1,206,565	
	Common Equity Tier 1 capital: regulatory adjustments	(2)	
8+9	Intangible assets other than mortgage-servicing rights (net of related tax liability)	159,170	
8	Goodwill (net of related tax liability)	36,261	(e), (g)
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	122,908	(f)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	569	(d), (h)
11	Cash-flow hedge reserve	2,012	(n)
12	Shortfall of allowance to expected losses	—	
13	Securitization gain on sale (as set out in paragraph 562 of Basel II framework)	—	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	535	
15	Defined-benefit pension fund net assets	—	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	67	(b)
17	Reciprocal cross-holdings in common equity	—	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	8,958	(a), (b), (c), (g)
19+20+21	Amount exceeding the 10% threshold	—	
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	—	
20	Mortgage servicing rights (amount above 10% threshold)	—	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	—	
22	Amount exceeding the 15% threshold	—	
23	of which: significant investments in the common stock of financials	—	
24	of which: mortgage servicing rights	—	
25	of which: deferred tax assets arising from temporary differences	—	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	—	
28	Total regulatory adjustments to Common equity Tier 1	(b) 171,315	
	Common Equity Tier 1 capital		
29	Common Equity Tier 1 capital (CET1) ((a) - (b))	(c) ¥1,035,250	

Basel III template number	Items		Millions of yen, %	
			Group Consolidated Quarter-End	Cross- referenced to CC2
	Additional Tier 1 capital: instruments	(3)		
30	31a Shareholders' equity		¥ —	
	31b Stock subscription rights		—	
	32 Liabilities		138,800	
	Instruments issued by Special Purpose Companies		—	
34-35	Minority interest after adjustments		6,576	(q)
33+35	Tier 1 capital under Basel II included in Additional Tier 1 capital under transitional Basel III rules		—	
33	Capital instruments issued by Daiwa Securities Group Inc. and its Special Purpose Companies		—	
35	Capital instruments issued by consolidated subsidiaries and affiliates (excluding Special Purpose Companies of Daiwa Securities Group Inc.)		—	
36	Additional Tier 1 capital before regulatory adjustments	(d)	145,376	
	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)		3,006	(a), (b), (c), (g)
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		—	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions		5,756	
43	Total regulatory adjustments to Additional Tier 1 capital	(e)	8,762	
	Additional Tier 1 capital			
44	Additional Tier 1 capital ((d) - (e))	(f)	136,613	
	Tier 1 capital			
45	Tier 1 capital ((c) + (f))	(g)	1,171,864	
	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		1,547	(q)
47+49	Tier 2 capital under Basel II included in Tier 2 capital under transitional Basel III rules		—	
47	Capital instruments issued by Daiwa Securities Group Inc. and its Special Purpose Companies		—	
49	Capital instruments issued by consolidated subsidiaries and affiliates (excluding Special Purpose Companies of Daiwa Securities Group Inc.)		—	
50	General allowance included and eligible allowance in Tier 2 capital		—	
50a	General allowance		—	
50b	Eligible allowance		—	
51	Tier 2 capital before regulatory adjustments	(h)	¥ 1,547	

Basel III template number	Items		Group Consolidated Quarter-End	Millions of yen, % Cross- referenced to CC2
Tier 2 capital: regulatory adjustments				
52	Investments in own Tier 2 instruments	¥	—	
53	Reciprocal cross-holdings in Tier 2 instruments and other TLAC liabilities		—	
54	Investments in the capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)		7,303	(a), (b), (c), (g)
54a	Investments in the other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation and where the bank does not own more than 10% of the issued common share capital of the entity: amount previously designated for the 5% threshold but that no longer meets the conditions		—	
55	Significant investments in the capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		—	
57	Total regulatory adjustments to Tier 2 capital	(i)	7,303	
Tier 2 capital				
58	Tier 2 capital ((h) - (i))	(j)	—	
Total capital				
59	Total capital ((g) + (j))	(k)	1,171,864	
Risk weighted assets				
60	Total risk weighted assets	(l)	5,536,310	
Consolidated capital adequacy ratio				
61	Common Equity Tier 1 (as a percentage of risk weighted assets) ((c) / (l))		18.69%	
62	Tier 1 (as a percentage of risk weighted assets) ((g) / (l))		21.16%	
63	Total capital (as a percentage of risk weighted assets) ((k) / (l))		21.16%	
64	CET1 specific buffer requirement		3.00%	
65	of which: capital conservation buffer requirement		2.50%	
66	of which: countercyclical buffer requirement		0.00%	
67	of which: G-SIB/D-SIB additional requirement		0.50%	
68	CET1 available after meeting the minimum capital requirements		13.16%	
Amounts below the thresholds for deduction (before risk weighting)				
72	Non-significant investments in the capital of other financials	(6)	104,420	(a), (b), (c), (g)
73	Significant investments in the common stock of financials		62,626	(a), (b), (c), (g)
74	Mortgage servicing rights (net of related tax liability)		—	
75	Deferred tax assets arising from temporary differences (net of related tax liability)		16,563	(d), (h)
Applicable caps on the inclusion of allowance in Tier 2				
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	(7)	—	
77	Cap on inclusion of allowance in Tier 2 under Standardized approach		—	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)		—	
79	Cap for inclusion of allowance in Tier 2 under internal ratings-based approach		—	
Capital instruments subject to phase out arrangements				
82	Current cap on AT1 instruments subject to Phase out arrangements	(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).

Differences between those companies belonging to the corporate group ("Daiwa Securities Group," hereunder the Group), subsidiaries as per Ordinance for Enforcement of the Banking Act are included in the scope of consolidated capital adequacy ratio calculation (the regulatory scope of consolidation). The regulatory scope of consolidation has a wider coverage than the scope of consolidation in the financial statements.

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

Number of consolidated subsidiaries: 66 companies

Major Consolidated Subsidiaries	Businesses
Daiwa Securities Co. Ltd.	Securities-related businesses Investment advisory and agency businesses
Daiwa Asset Management Co. Ltd.	Investment management businesses Investment advisory and agency businesses
Daiwa Institute of Research Holdings Ltd.	Integration and management of subsidiaries
Daiwa Securities Business Center Co. Ltd.	Back office operations
Daiwa Property Co., Ltd.	Lending and borrowing of real estate
Daiwa Next Bank, Ltd.	Banking businesses
Daiwa Institute of Research Ltd.	Information services
Daiwa Institute of Research Business Innovation Ltd.	Information services
Daiwa Corporate Investment Co., Ltd.	Investment businesses
Daiwa PI Partners Co. Ltd.	Investment businesses
Daiwa Energy & Infrastructure Co. Ltd.	Investment businesses
Daiwa Real Estate Asset Management Co., Ltd.	Investment management businesses Investment advisory and agency businesses
Samty Residential Investment Corporation	Investment management for specified assets
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 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

List of subsidiaries not included under the scope of consolidation in the financial statements as of March 31, 2020 but belonging to the Group

Subsidiaries belonging to the Group	Businesses	Millions of yen	
		Total Assets	Net Assets
Daiwa Securities SMBC Principal Investments Co. Ltd.	Investment businesses	¥1,964	¥1,955
Nozomi Financial Holdings Co. Ltd.	Integration and management of subsidiaries	1,327	1,212
Nozomi Servicing Co. Ltd.	Debt collection services	1,905	714
Daiwa Investor Relations Co. Ltd.	Research and consulting regarding corporate management policy, finance policy, shareholder policy, corporate image, and IR activities	784	557
DMS Ltd.	Information services		
	Market research and consulting services	534	439
Asian Energy Investments Pte., Ltd.	Investment management businesses		
	Investment advisory and agency businesses	496	430
Daiwa ACA HealthCare Inc.	Investment funds management businesses		
	Asset management business		
	Real estate business	255	223
Daiwa Facilities Co., Ltd. (Former company name before July 1, 2020: Daiwa Facility Service Co., Ltd.)	Lending and borrowing of real estate		
	Management of real estate	200	200
DS Capital International (NI) Ltd.	Investment management businesses	104	104
Nozomi Finance & Consulting Co. Ltd.	Money lending business		
	Consulting services	6,351	83
Daiwa Corporate Investment Asia Ltd.	Investment businesses	136	75
Hubei Gaohe Fund management Co., Ltd.	Investment management businesses		
	Investment advisory and agency businesses	52	42
NIF Corporate Investments Co. Ltd.	Investment businesses	11	11

There are no companies included under the scope of consolidation in the financial statements but not belonging to the Group.

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

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

2. Overview of capital adequacy assessment methods

The Group sets forth "The Rules of Economic Capital Management" and "The Rules of Regulatory Capital Management," and assesses capital adequacy from economic capital, regulatory capital, and stress testing points of view.

<Economic Capital>

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

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

<Regulatory Capital>

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

<Stress Testing>

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

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

The Group has introduced the risk appetite framework to strengthen risk governance from the management level.

Based on the characteristics of various risks held in business, the Group has established basic matters to manage risks appropriately. The risk management structure is established to ensure financial soundness and business adequacy.

<Risk Appetite Framework>

The risk appetite framework defines risk appetite as the type and total amount of risk that should be assumed in order to achieve profit targets and business plans. It is the framework of group-wide risk control.

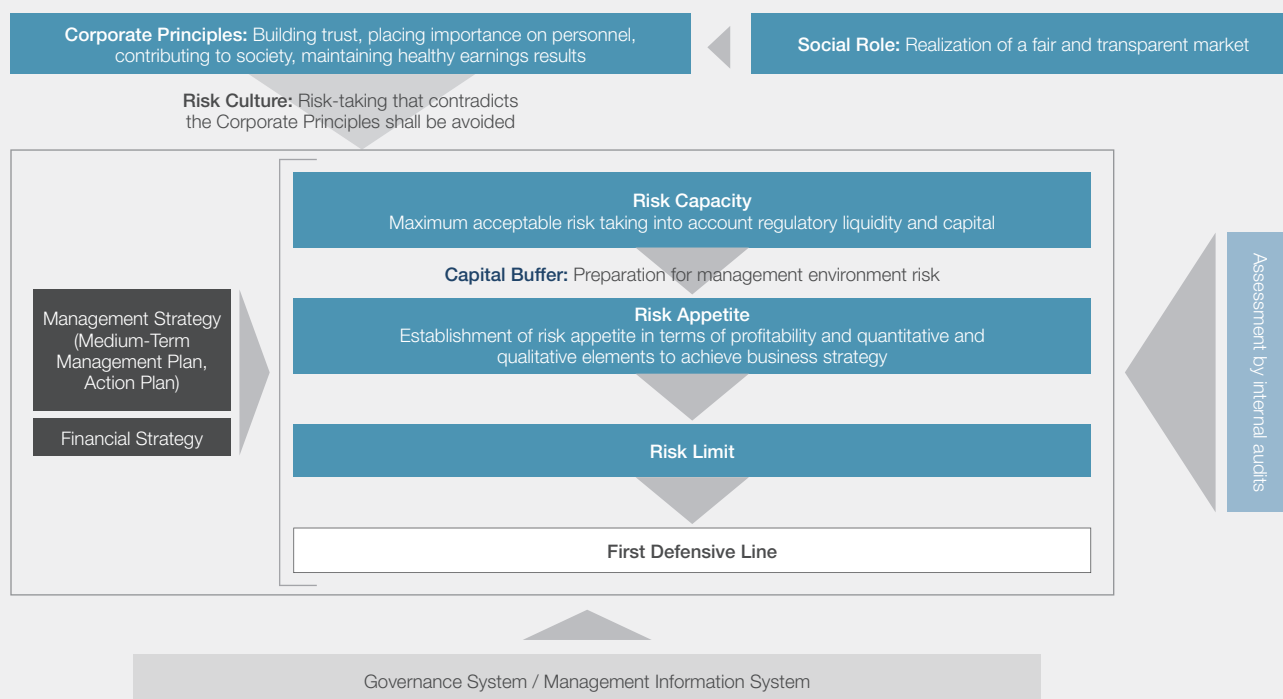
The Group operates the risk appetite framework as

described below.

(Overview of Risk Appetite Framework)

According to the liquidity, capital adequacy, concentration risk, and operational risk, as well as its business plan and risk characteristics, the Group adopts appropriate risk appetite metrics, sets the acceptable level of risk and the response plan in case of excess, and keeps conducting management and monitoring them.

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



The Roles and Responsibilities in the Risk Appetite Framework

—Board of Directors—

Conduct deliberation and determination of risk appetite statements, which include quantitative indicators of risk appetite of the Group.

—Audit Committee—

Perform audit on execution of duties by the Board of

Directors and management regarding the risk appetite framework.

—Group Risk Management Committee—

Conduct the Group's risk limits based upon the approved risk appetite.

In addition, properly grasp the status of risks including the situation of the risk management system and the risk limits violation of the group companies.

—CEO—

The CEO is responsible for the Group's overall management, which includes the group-wide business strategies, risk strategies and development and maintains the risk appetite framework.

—COO—

The COO has responsibility to assist the CEO's overall management which is based on the risk appetite framework.

—CFO—

The CFO is responsible for the Group's overall financial management which is based on the risk appetite framework.

—CRO—

Carry out development of the risk appetite statement and obtain board approval for the statement.

In addition, based on the statement, the CRO is responsible for the Group's overall risk management, which includes consolidating and monitoring the risk management system of each group company.

—CDO—

Based on the risk appetite framework, the CDO has responsibility to manage the overall data governance and the information system.

—Risk Management Department and compliance department of each group company—

As the second line of defense, based on the risk appetite, business size and risk characteristics, consolidate the risk limits for the company.

—Business department of each group company—

As the first line of defense, conduct autonomous risk management.

Detect exceeding of risk limits during daily business. Consolidate the appropriate system to perform countermeasure analysis and report to the Risk Management Department.

—Internal audit department—

As the third line of defense, conduct independent examination and evaluation for the Group's risk management framework. Consolidate an appropriate internal audit system to verify the effectiveness of the risk appetite framework.

(The operating structure of the risk appetite framework)

The Group's Board of Directors reviews the risk appetite statement on a semi-annual basis.

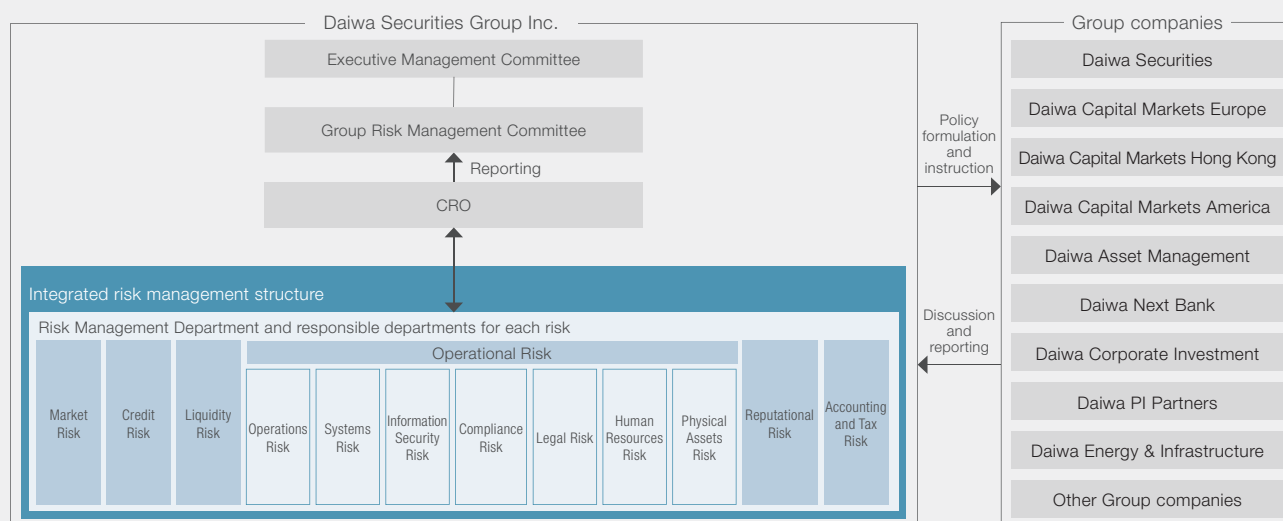
The risk appetite framework is also reviewed properly when business strategies or capital allocation plans are revised or the external environment changes significantly or great excess occurs on the risk profile.

<Risk characteristics and management policy, risk management system>

The Group is exposed to various risks in management. Of particular importance to the Group are the risks associated with its core securities business. Since the Group temporarily holds product positions for sale using its own account and offers products to customers, it is necessary to introduce liquidity risk including foreign currency, market risk resulting from market fluctuations, credit risk to trading partners and issuers, risk for which hedge does not function and operational risk that inevitably arises in executing business. The Group conducts integrated risk management that measures the impact on capital and liquidity within the Group from a forward-looking perspective.

Based on the risk appetite framework, Daiwa Securities Group Inc. plays a central role in risk governance system consolidation from the integrated management perspective. The Group Risk Management Committee, which is a subcommittee of the Executive Committee of the Group, performs monitoring on the risk management system and the status of risks of the group companies, to strengthen the risk management of the entire group.

The contents of each Group Risk Management Committee meeting are reported to the Audit Committee.



In addition, based on the group-wide risk management and the approved risk appetite framework, the Group Risk Management Committee established the basic policy of risk management in the “Risk Management Regulations,” which includes the following components:

(Basic policy of risk management)

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

In addition, assign the executive management and department to take charge of managing each risk. Consolidate the risk management system.

(Definitions of Risks)

—Market risk—

Market risk refers to the risk of incurring losses due to market fluctuations, which affect the value of stock prices, interest rates, foreign exchange rates, and commodity prices, or due to the event of significant market liquidity declining, fluctuations occurring and a trade cannot be concluded or a trade is forced under a disadvantageous condition.

—Credit risk—

Credit risk refers to the risk of losses caused in cases where a counterparty of a trade or the issuer of a financial product held by the Group suffers a default, or credibility

deteriorates. The credit risk of the Group’s trading activities involves counterparty risk and issuer risk.

—Liquidity risk—

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

—Operational risk—

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

—Reputational risk—

Reputational risk refers to the possibility of the Group sustaining unforeseen losses and the Group’s counterparties being adversely affected due to a deterioration of its reliability, reputation, and assessment caused by the spread of rumors or erroneous information.

—Accounting and tax risk—

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

Note: The Group will establish an investment-related risk management department and nominate an executive officer to enhance the structure of the risk management system.

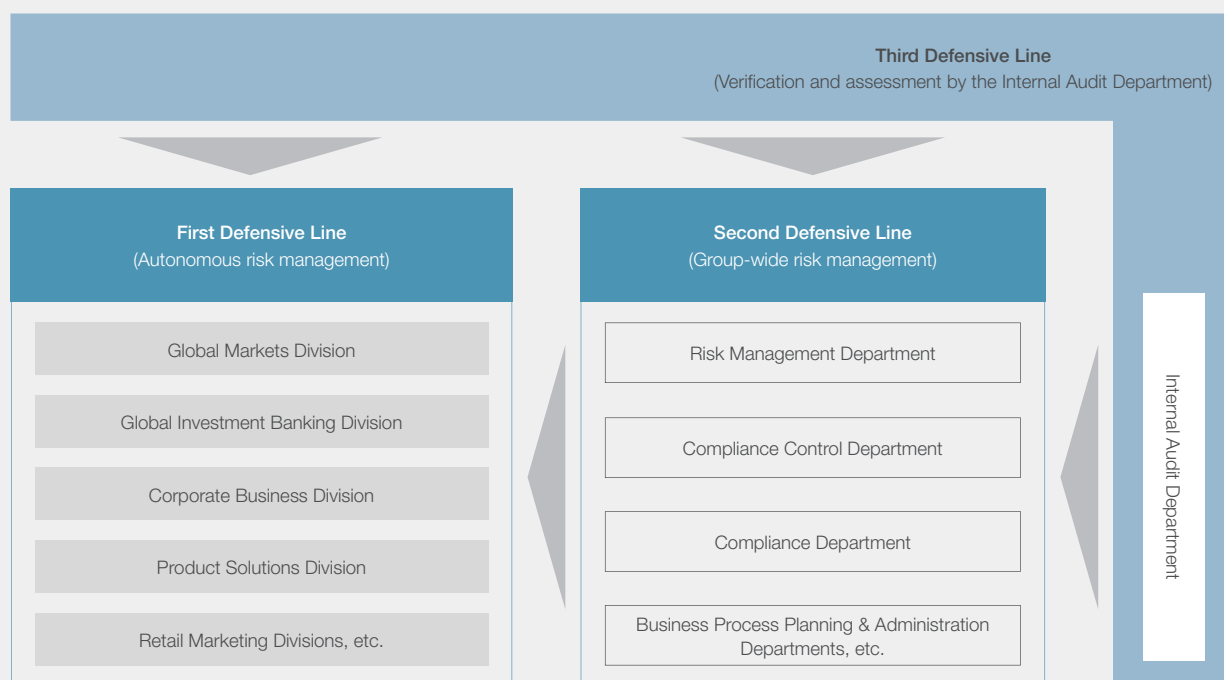
Executive Management, department and committee (to deliberate and decide the policies and specific measures of risk management) in charge of each risk

Risk category	Executive management	Department	Committee
Market risk	CRO	Risk Management Department	Group Risk Management Committee
Credit risk	CRO	Risk Management Department	Group Risk Management Committee
Liquidity risk	CRO	Risk Management Department	Group Risk Management Committee
Operational risk	CRO	Risk Management Department	Group Risk Management Committee
Reputational risk	Executive Managing Director of Corporate Communication	Corporate Communication Department	Disclosure Committee
	Executive Officer responsible for Investor Relations	Investor Relations Office	
	Executive Officer responsible for General Affairs	General Affairs Department	
Accounting and tax risk	CFO	Finance Department	Group Risk Management Committee

(Three lines of defense)

In order to establish an effective risk governance system, the Group consolidates the risk management framework based on the “three lines of defense.”

“Three lines of defense” is the concept of clarifying functions, roles and responsibilities in risk management and performing sound management. The first line is autonomous risk management. The second line is group-wide risk management. The third line is internal audit.



4. Credit risk

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

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

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

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

The Group has a structure to appropriately control credit risk. The Group's risk management department measures the amount of credit risk exposure and reports to management daily. In addition, the risk management department also conducts the screening of business partners, setting of credit facilities, measuring the quantity of risk, monitoring of the credit risk situation and reporting to the Group risk management committee.

B) Overview of accounting allowance and write-off standards

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

The subsidiary bank classifies the normal claims by category, according to the "Practical Guidelines on Self-Assessment of Assets of Financial Institutions of Banks and Others and Impairment of Bankruptcy and Allowance for Doubtful Accounts" (JICPA Bankruptcy Audit Special Committee Report No. 4 March 17, 2020), and records them on an expected loss ratio basis. Based on the self-assessment criteria of assets, the sales department and credit examination department conduct assessments for all claims.

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

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

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

A) Overview of the basic characteristics of policies, processes and the usage of netting

In securities-secured loans, loans are made up to the maximum borrowing amount within the market value of the securities received as collateral. After the execution of a loan, a netting agreement is conducted for the amount of the loan and the collateral valuation. Additional collateral is called in response to the deterioration of the ratio of the loan amount to the collateral value. Furthermore, collateral disposal is executed to protect loans when the deterioration is regarded as prolonged.

Collateral is used for CRM techniques. Types of collateral are generally cash or high liquid securities. Eligible collateral type and collateral haircut rate are set in consideration of the creditworthiness and liquidity of each collateral.

The exposure amount and collateral value are, accordingly, calculated and compared daily.

B) Overview of the basic characteristics of policies and processes of collateral evaluation and collateral management

C) Overview of the concentration of market risk and credit risk under applying CRM

Since price fluctuations occur with securities which are posted as collateral, assessment rates are evaluated by such volatility. In order to prevent concentration, for identical securities received from different business partners, an upper limit is set for the number of securities received.

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

A) Policy on how to assign risk capital and credit limits for exposures to counterparties and central clearing houses

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

B) Overview of the policies of collateral evaluation, collateral management and disposal procedures for collateral, guarantees and netting agreement

Collateral is used for CRM techniques. Types of collateral are generally cash or highly liquid securities. Eligible collateral type and collateral haircut rate are set in consideration of the creditworthiness and liquidity of each collateral. Received collateral is valued mark to market daily and monitored against exposures.

In addition, balance by types of collateral is also

subject to the monitoring. In the event that a business partner defaults, collateral will be sold in the market for claims protection.

For derivative and repo-style transactions, bilateral netting agreements (ISDA Master Agreement, etc.) and collateral agreement (ISDA CSA, etc.) are generally set. For a transaction where a legally enforceable bilateral netting arrangement exists, CRM techniques are applied. The Group uses the Comprehensive Approach for CRM techniques.

C) Explanation of the impact caused by additional collateral needs to be posted due to the deterioration of the creditworthiness of the Group

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

In addition, for uncollateralized exposures, an allowance amount is calculated based upon the potential exposure calculated by simulation and the CDS spread observed in the market.

7. Securitization exposures

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

The Group is involved in securitization transactions generally as an investor, and, accordingly, holds securitization products under investment, banking and trading business. Securitization products include market risk, credit risk, as well as risks related to the assets, stratified/tranched structure and others. Outstanding exposures and credit soundness of securitization products are periodically monitored by independent risk control departments.

B) Overview of monitoring framework of the regulation set forth under the provision of Article 226 Paragraph 1(i)-(iv) of the Notification

Based on the regulations, periodical monitoring of securitization exposures is being conducted in order to adequately grasp comprehensive risk characteristics of securitization exposures including risk characteristics of underlying assets, performance-related information of underlying assets, and the scheme of the securitization transaction.

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

Not applicable.

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

Not applicable.

E) Accounting policy applied for the securitization transaction

The Group complies with Accounting Standard Board of Japan Statement No. 10, "Accounting Standard for Financial Instruments" in recognizing, evaluating, and booking the occurrence or extinguishment of financial assets or liabilities related to securitization transactions.

F) Names of 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.

8. Market risk

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

The Group provides market liquidity through the trading businesses and takes the market risk by holding the assets. The Group engages in hedging activities in order to control profit and loss fluctuations. Toward this end, as hedging activities may not properly work under stress circumstances, taking account of financial soundness, business plan/budget subject to hedging activities, and so on, limits are assigned aiming at the estimated loss computed in VaR (maximum loss anticipated at specified confidence level) and various stress tests fall within the Group's capital. In addition, limits are assigned toward positions, sensitivities, and others.

The trading departments conduct monitoring by calculating positions and sensitivities for the purpose of grasping the market risk. In addition, the risk

management department monitors the group-wide market risk condition, and reports to management daily.

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

IMA is applied to general market risk and includes Daiwa Securities Co. Ltd., overseas subsidiaries and Daiwa Next Bank, Ltd. (trading book). IMA captures the following market risk factors which are "foreign exchange risk," "interest rate risk," "equity risk" and "commodity risk."

The Group applies VaR that implies maximum loss anticipated at a specified confidence level and stress VaR that implies maximum loss anticipated at a specified confidence level in a given stress timeframe under the IMA. The Group applies the historical simulation method that uses historical market fluctuations as a scenario. Assumptions of the historical simulation model are stated as follows:

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

(Supplementary explanation)

- VaR is used for internal management to capture a wide range of market risk, which includes equity-specific risks and credit spread risks.
- VaR has been calculated for all 260 business days since April 2, 2007. Take the maximum value of them as the length of the stressed period.
- Since VaR is calculated based on statistical assumptions based on data for a fixed period, stress tests are

conducted using scenarios based on both historical and hypothetical stress events.

- In order to test the accuracy of VaR figures, the Group conducts back-testing so as to reconcile VaR against actual profit and loss figures. Over the last 250 business days of the fiscal year ended March 2020, there were 8 times VaR breaches with a confidence level of 99%.
- The Group's internal model receives an internal audit by the internal audit department once a year, and also

receives independent verification by an internal third party on a regular basis.

- There is no Incremental Risk Charge (IRC) nor Comprehensive risk.

9. Operational risk

A) Risk management policies and procedures

As the Group's business becomes more sophisticated, diversified, and systemized, various risks may potentially be incurred, and thus, the importance of operational risk management is becoming more important year by year. The Group's major group companies engage in the following framework in compliance with operational risk management rules, and adequately manage operational risk. In addition, due to the diversifying nature of its business, the Group also sets rigid rules concerning authority, automates office work processes to reduce human error, prepares business manuals, and takes other necessary measures. Each Group company strives to reduce operational risk according to the nature of its own business.

<Operational Risk Management Framework>

The Group adopts RCSA (Risk Control Self-Assessment) as the framework for operational risk management. RCSA is a process which includes the following components: employees have the obligation to identify, grasp, and evaluate themselves according to operational risk. According to analysis of the frequency and the impact of the risk, they evaluate and verify the effectiveness of risk mitigation measures. RCSA is conducted among major consolidated subsidiaries, and the results are reported at the Group Risk Management Meeting.

B) Methods for the calculation of operational risk amount

The Basic Indicator Approach is used for the calculation of the operational risk amount.

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

A) Structure of recognizing, assessing, measuring and reporting risks

In addition to trading businesses, the Group holds equity exposure associated with investment securities for the purpose of trading business and banking business as well as business relation purposes. Because those financial instruments have distinct risk profiles for each product, the Group conducts adequate credit as well as market risk management including measurement of risk by the profile.

management are assets and liabilities. For the affiliated companies, the scopes of risk management are equity exposures. These are subject to risk management in each classification.

B) Risk management policy of subsidiaries' stock, affiliated companies' stock and other securities

For the consolidated subsidiaries, the scopes of risk

C) Accounting policy of valuation of equity exposure

Also, marketable available-for-sale securities are stated at their fair values based on quoted market consolidated closing prices (the unrealized gain or loss is fully recognized, and the cost of products sold is mainly pursuant to the moving average method). Non-marketable available-for-sale securities are carried at cost by the moving average method.

11. Interest rate risk

A) Overview of risk management policies and procedures

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

B) Overview of the method for measuring interest rate risk

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

12. Reconciliation of regulatory capital to balance sheet

CC2—Reconciliation of regulatory capital to balance sheet

				Millions of yen
		Balance sheets as in published statements	Under regulatory scope of consolidation	Cross-referenced to CC1
Assets				
Current assets				
Cash and deposits		¥ 3,964,512	¥ 3,969,510	
Cash segregated as deposits		415,953	415,953	
Notes and accounts receivable-trade		18,427	18,427	
Short-term investment securities	(a)	873,064	873,064	8, 18, 39, 54, 72, 73
Trading products	(b)	8,027,289	8,027,289	16, 18, 39, 54, 72, 73
Trading date accrual		—	—	
Operational investment securities	(c)	202,557	202,557	18, 39, 54, 72, 73
Allowance for investment loss		(1,160)	(1,160)	
Operating loans		1,768,471	1,768,471	
Work in process		609	609	
Margin transaction assets		114,384	114,384	
Loans secured by securities		6,685,756	6,685,756	
Advances paid		25,682	25,682	
Short-term loans receivable		3,087	3,087	
Accrued income		36,483	36,594	
Deferred tax assets	(d)	—	—	10, 75
Other current assets		711,935	713,429	
Allowance for doubtful accounts		(415)	(415)	
Total current assets		22,846,637	22,853,241	
Noncurrent assets				
Property, plant and equipment		309,166	313,076	
Intangible assets		124,115	124,176	
Goodwill	(e)	13,629	13,629	8
Others	(f)	110,486	110,547	9
Investments and other assets		542,179	542,093	
Investment securities	(g)	491,660	489,051	8, 18, 39, 54, 72, 73
Deferred tax assets	(h)	17,125	17,133	10, 75
Others		33,394	35,907	
Total noncurrent assets		975,462	979,347	
Total deferred charges		—	—	
Total assets		¥23,822,099	¥23,832,588	

		Balance sheets as in published statements	Under regulatory scope of consolidation	Millions of yen Cross-referenced to CC1
Liabilities				
Current liabilities				
Notes and accounts payable-trade	¥	8,938	¥ 8,938	
Trading products		5,362,261	5,362,261	
Trading date accrual		544,689	544,689	
Margin transaction liabilities		59,256	59,256	
Loans payable secured by securities		7,198,730	7,198,730	
Deposits from banking business		4,037,201	4,037,201	
Deposits received		353,943	360,176	
Guarantee deposits received		414,641	414,641	
Short-term loans payable		1,276,948	1,276,948	
Commercial paper		178,000	178,000	
Current portion of bonds		277,852	277,852	
Income taxes payable		7,403	7,428	
Deferred tax liabilities		—	3	
Provision for bonuses		26,747	26,747	
Other current liabilities		172,101	173,255	
Noncurrent liabilities				
Bonds payable		1,379,226	1,379,226	
Long-term loans payable		1,183,272	1,183,613	
Deferred tax liabilities		4,369	4,369	
Net defined benefit liabilities		44,359	44,359	
Provision for loss on litigation		1,570	1,570	
Negative goodwill		—	—	
Other noncurrent liabilities		28,900	29,217	
Reserves under the special laws		3,918	3,918	
Total liabilities		22,564,333	22,572,408	
Net assets				
Shareholders' equity				
Common stock	(i)	247,397	247,397	1a
Capital surplus	(j)	230,808	230,808	1a
Retained earnings	(k)	834,442	835,727	2
Treasury stock	(l)	(110,351)	(110,351)	1c
Advances on subscription of treasury stock	(m)	13	13	1c
Total shareholders' equity		1,202,310	1,203,595	
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities		26,853	26,853	
Deferred gains or losses on hedges	(n)	(13,592)	(13,592)	11
Foreign currency translation adjustment		(5,556)	(5,517)	
Total accumulated other comprehensive income	(o)	7,703	7,742	3
Subscription rights to shares	(p)	8,901	8,901	1b
Minority interests	(q)	38,849	39,938	34-35, 48-49
Total net assets		¥1,257,766	¥1,260,180	

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

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

Quantitative Disclosure (Consolidated)

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

Not applicable.

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

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

	Millions of yen			
	Credit risk exposures			
March 2020		Loans	Securities	Others
Japan	¥6,410,961	¥1,204,881	¥1,013,821	¥4,192,259
Overseas	453,040	62,130	29,725	361,183
Total (by area)	6,864,002	1,267,011	1,043,546	4,553,443
Sovereign	5,047,755	960,387	682,224	3,405,143
Financial institutions	511,820	—	9,634	502,185
Corporate	433,406	289,912	24,669	118,823
CCPs	34,648	—	—	34,648
Others	836,370	16,710	327,017	492,641
Total (by industry)	6,864,002	1,267,011	1,043,546	4,553,443
< 1 year	320,434	253,228	38,854	28,352
> 1 year ≤ 3 years	78,800	1	78,773	25
> 3 years ≤ 5 years	71,663	3	71,641	19
> 5 years ≤ 7 years	86,167	—	86,133	33
> 7 years	425,892	—	416,784	9,108
Indeterminate	5,881,043	1,013,778	351,359	4,515,904
Total (by maturity)	¥6,864,002	¥1,267,011	¥1,043,546	¥4,553,443

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		
March 2020	Term-end balance	Term-end allowance	Write-offs for the year
Japan	¥5,022	¥1,441	¥—
Overseas	2,527	354	—
Total (by area)	7,550	1,795	—
Sovereign	—	—	—
Financial institutions	34	—	—
Corporate	2,906	610	—
Others	4,608	1,185	—
Total (by industry)	¥7,550	¥1,795	¥—

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	¥356	¥252	¥2	¥—	¥101
Overseas	605	—	—	—	605
Total (by area)	961	252	2	—	706
Sovereign	—	—	—	—	—
Financial institutions	34	—	—	—	34
Corporate	925	252	2	—	670
CCPs	—	—	—	—	—
Others	—	—	—	—	—
Total (by industry)	¥961	¥252	¥2	¥—	¥706

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

Not applicable.

3. Amount of exposure by approaches for banks' equity investments in funds

Millions of yen

	Exposures
Equity investments in funds (look-through approach)	¥824,315
Equity investments in funds (mandate-based approach)	74,083
Equity investments in funds (subject to 250% risk weight)	—
Equity investments in funds (subject to 400% risk weight)	—
Equity investments in funds (fall-back approach)	115
Total	¥898,515

4. Other quantitative disclosures

OV1: Overview of RWA

Basel III template number		Millions of yen			
		RWA		Minimum capital requirements	
		March 2020	March 2019	March 2020	March 2019
1	Credit risk (excluding counterparty credit risk) (CCR)	¥1,065,998	¥ 816,153	¥ 85,280	¥ 65,292
2	Of which standardized approach (SA)	725,737	617,863	58,059	49,429
3	Of which internal rating-based (IRB) approach	—	—	—	—
	Of which significant investments	—	—	—	—
	Of which exposures for estimated residual value of lease	—	—	—	—
	Others	340,260	198,289	27,220	15,863
4	Counterparty credit risk	1,015,852	992,548	81,268	79,403
5	Of which standardized approach for counterparty credit risk (SA-CCR)	427,491	331,892	34,199	26,551
6	Of which internal model method (IMM)	—	—	—	—
	Of which credit valuation adjustment (CVA) risk	347,795	345,076	27,823	27,606
	Of which exposures to central counterparties (CCPs)	15,943	14,842	1,275	1,187
	Others	224,621	300,737	17,969	24,058
7	Equity positions under market-based approach	—	—	—	—
8	Equity investments in funds (look-through approach)	516,553	336,045	41,324	26,883
9	Equity investments in funds (mandate-based approach)	73,154	60,870	5,851	4,869
	Equity investments in funds (subject to 250% risk weight)	—	—	—	—
	Equity investments in funds (subject to 400% risk weight)	—	—	—	—
10	Equity investments in funds (fall-back approach)	1,443	653	115	52

Basel III template number		Millions of yen			
		RWA		Minimum capital requirements	
		March 2020	March 2019	March 2020	March 2019
11	Settlement risk	255	165	20	13
12	Securitization exposures in banking book	119,868	145,587	9,589	11,647
13	Of which internal ratings-based approach (SEC-IRBA) or internal assessment approach (IAA)	—	—	—	—
14	Of which external ratings-based approach (SEC-ERBA)	117,501	145,587	9,400	11,647
15	Of which standardized approach (SEC-SA) Of which 1250% risk weight applied	— 2,367	— —	— 189	— —
16	Market risk	1,604,159	1,530,739	128,332	122,459
17	Of which standardized approach (SA)	838,138	838,622	67,051	67,089
18	Of which internal model approaches (IMM)	766,021	692,117	61,281	55,369
19	Operational risk	940,462	975,088	75,237	78,007
20	Of which basic indicator approach	940,462	975,088	75,237	78,007
21	Of which standardized approach	—	—	—	—
22	Of which advanced measurement approach	—	—	—	—
23	Amounts below the thresholds for deduction (subject to 250% risk weight)	198,560	162,995	15,883	13,040
	Amounts included in risk weighted asset due to transitional arrangements	—	—	—	—
24	Floor adjustment	—	—	—	—
25	Total	¥5,536,310	¥5,020,849	¥442,904	¥401,667

Basel III template number		Millions of yen			
		RWA		Minimum capital requirements	
		March 2020	December 2019	March 2020	December 2019
1	Credit risk (excluding counterparty credit risk) (CCR)	¥1,065,998	¥1,207,131	¥ 85,280	¥ 96,570
2	Of which standardized approach (SA)	725,737	771,368	58,059	61,709
3	Of which internal rating-based (IRB) approach Of which significant investments Of which exposures for estimated residual value of lease Others	— — — 340,260	— — — 435,763	— — — 27,220	— — — 34,861
4	Counterparty credit risk	1,015,852	954,297	81,268	76,343
5	Of which standardized approach for counterparty credit risk (SA-CCR)	427,491	335,232	34,199	26,818
6	Of which internal model method (IMM) Of which credit valuation adjustment (CVA) risk Of which exposures to central counterparties (CCPs) Others	— 347,795 15,943 224,621	— 333,474 19,954 265,635	— 27,823 1,275 17,969	— 26,677 1,596 21,250
7	Equity positions under market-based approach	—	—	—	—
8	Equity investments in funds (look-through approach)	516,553	340,116	41,324	27,209
9	Equity investments in funds (mandate-based approach) Equity investments in funds (subject to 250% risk weight) Equity investments in funds (subject to 400% risk weight)	73,154 — —	115,166 — —	5,851 — —	9,213 — —
10	Equity investments in funds (fall-back approach)	1,443	2,006	115	160
11	Settlement risk	255	227	20	18
12	Securitization exposures in banking book	119,868	123,921	9,589	9,913
13	Of which internal ratings-based approach (SEC-IRBA) or internal assessment approach (IAA)	—	—	—	—
14	Of which external ratings-based approach (SEC-ERBA)	117,501	121,525	9,400	9,722
15	Of which standardized approach (SEC-SA) Of which 1250% risk weight applied	— 2,367	— 2,395	— 189	— 191
16	Market risk	1,604,159	1,750,411	128,332	140,032
17	Of which standardized approach (SA)	838,138	923,905	67,051	73,912
18	Of which internal model approaches (IMM)	766,021	826,506	61,281	66,120

Basel III template number		Millions of yen			
		RWA		Minimum capital requirements	
		March 2020	December 2019	March 2020	December 2019
19	Operational risk	940,462	948,297	75,237	75,863
20	Of which basic indicator approach	940,462	948,297	75,237	75,863
21	Of which standardized approach	—	—	—	—
22	Of which advanced measurement approach	—	—	—	—
23	Amounts below the thresholds for deduction (subject to 250% risk weight)	198,560	152,264	15,883	12,181
	Amounts included in risk weighted asset due to transitional arrangements	—	—	—	—
24	Floor adjustment	—	—	—	—
25	Total	¥5,536,310	¥5,593,840	¥442,904	¥447,507

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

	Millions of yen							
	Carrying values				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	¥ 3,964,512	¥ 3,969,510	¥3,969,510	¥ —	¥ —	¥ 266,392	¥ —	
2. Cash segregated as deposits	415,953	415,953	415,953	—	—	27,345	—	
3. Notes and accounts receivable-trade	18,427	18,427	18,427	—	—	—	—	
4. Short-term investment securities	873,064	873,064	822,958	—	50,105	286,574	—	
5. Trading products	8,027,289	8,027,289	—	3,583,933	—	8,030,243	(2,954)	
6. Trading date accrual	—	—	203	—	—	8,202	82,302	
7. Operational investment securities	202,557	202,557	202,557	—	—	41,960	—	
8. Allowance for investment loss	(1,160)	(1,160)	(1,160)	—	—	—	—	
9. Operating loans	1,768,471	1,768,471	1,261,788	—	506,682	356,369	—	
10. Work in process	609	609	609	—	—	—	—	
11. Margin transaction assets	114,384	114,384	—	114,377	—	—	—	
12. Loans secured by securities	6,685,756	6,685,756	—	7,369,310	—	3,355,246	—	
13. Advances paid	25,682	25,682	25,682	—	—	115	—	
14. Short-term loans receivable	3,087	3,087	3,087	—	—	76,582	—	
15. Accrued income	36,483	36,594	36,594	—	—	12,757	—	
16. Deferred tax assets	—	—	—	—	—	3,859	—	
17. Other current assets	711,935	713,429	688,294	12,157	—	79,250	25,134	
18. Allowance for doubtful accounts	(415)	(415)	(415)	—	—	(289)	—	
19. Total current assets	22,846,637	22,853,241	7,444,088	11,079,779	556,787	12,544,610	104,482	
20. Property, plant and equipment	309,166	313,076	313,076	—	—	19,328	—	
21. Intangible assets	124,115	124,176	—	—	—	7,694	124,176	
22. Goodwill	13,629	13,629	—	—	—	5,585	13,629	
23. Others	110,486	110,547	—	—	—	2,109	110,547	
24. Investments and other assets	542,179	542,093	541,745	—	189	35,149	8	
25. Investment securities	491,660	489,051	488,861	—	189	29,219	—	
26. Deferred tax assets	17,125	17,133	17,125	—	—	1,985	8	
27. Others	33,394	35,907	35,758	—	—	3,944	—	
28. Total noncurrent assets	975,462	979,347	854,822	—	189	62,172	124,184	
29. Total deferred assets	—	—	—	—	—	—	—	
30. Total assets	¥23,822,099	¥23,832,588	¥8,298,911	¥11,079,779	¥556,976	¥12,606,783	¥228,667	

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

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

Millions of yen								
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:					
			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	
Liabilities								
31. Notes and accounts payable-trade	¥ 8,938	¥ 8,938	¥ —	¥ —	¥ —	¥ —	¥ 8,938	
32. Trading products	5,362,261	5,362,261	—	3,499,169	—	5,362,261	—	
33. Trading date accrual	544,689	544,689	—	8,919	—	366,700	—	
34. Margin transaction liabilities	59,256	59,256	—	59,252	—	—	—	
35. Loans payable secured by securities	7,198,730	7,198,730	—	7,883,771	—	4,681,950	—	
36. Deposits from banking business	4,037,201	4,037,201	—	—	—	—	4,037,201	
37. Deposits received	353,943	360,176	—	—	—	74,939	360,176	
38. Guarantee deposits received	414,641	414,641	—	17,057	—	4,469	—	
39. Short-term loans payable	1,276,948	1,276,948	—	—	—	25,123	1,276,948	
40. Commercial paper	178,000	178,000	—	—	—	—	178,000	
41. Current portion of bonds	277,852	277,852	—	—	—	—	277,852	
42. Income taxes payable	7,403	7,428	—	—	—	1,794	7,428	
43. Deferred tax liabilities	—	3	—	—	—	4,064	3	
44. Provision for bonuses	26,747	26,747	—	—	—	12,409	26,747	
45. Other current liabilities	172,101	173,255	39,350	43,012	—	70,344	131,403	
46. Bonds payable	1,379,226	1,379,226	—	—	—	(353)	1,379,226	
47. Long-term loans payable	1,183,272	1,183,613	—	—	—	—	1,183,613	
48. Deferred tax liabilities	4,369	4,369	—	—	—	5	4,369	
49. Net defined benefit liabilities	44,359	44,359	—	—	—	—	44,359	
50. Provision for loss on litigation	1,570	1,570	—	—	—	—	1,570	
51. Negative goodwill	—	—	—	—	—	—	—	
52. Other noncurrent liabilities	28,900	29,217	—	—	—	16,745	13,740	
53. Reserves under the special laws	3,918	3,918	—	—	—	—	3,918	
54. Total liabilities	¥22,564,333	¥22,572,408	¥39,350	¥11,511,183	¥—	¥10,620,453	¥8,935,499	

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

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

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

	Millions of yen				
	Total	Items subject to:			
		Credit risk framework ¹	Counterparty credit risk framework	Securitization framework ²	Market risk framework
1. Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	¥23,603,921	¥8,298,911	¥ 11,079,779	¥556,976	¥12,606,783
2. Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	13,636,909	39,350	11,511,183	—	10,620,453
3. Total net amount under regulatory scope of consolidation	9,967,012	8,259,561	(431,404)	556,976	1,986,330
4. Off-balance sheet amounts	110,062	19,901	90,160	—	—
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	6,387,645	—	6,387,645	—	—
10. Differences due to netting and CRM for SFTs	16,187,805	—	16,187,805	—	—
11. Other differences	(11,859,661)	(408,406)	(20,573,842)	11,304	—
12. Exposure amounts considered for regulatory purposes	12,086,030	7,871,056	1,660,364	568,280	1,986,330

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	¥ —	¥1,267,055	¥ 43	¥1,267,011
2. Debt securities	—	696,509	—	696,509
3. Other on-balance sheet assets (debt products)	722	4,081,820	2,223	4,080,319
4. Sub-total on-balance sheet assets (1+2+3)	722	6,045,385	2,267	6,043,839
Off-balance sheet assets				
5. Acceptances and guarantees	—	15,578	—	15,578
6. Commitments	—	19,060	—	19,060
7. Sub-total off-balance sheet assets (5+6)	—	34,639	—	34,639
Total				
8. Total (4+7)	¥722	¥6,080,024	¥2,267	¥6,078,479

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

CR2: Changes in stock of defaulted loans and debt securities

		Millions of yen
Previous reporting period end: September 2019 Current reporting period end: March 2020		Amounts
1. Defaulted loans and debt securities at end of previous reporting period		¥ 41
2. Changes in loans and debt securities during the reporting period	Loans and debt securities that have defaulted since the last reporting period	0
3.	Returned to non-defaulted status	—
4.	Amounts written off	—
5.	Other changes	680
6. Defaulted loans and debt securities at end of reporting period (1+2-3-4+5)		722

* 1 Other changes include a decrease due to collection of exposures.

CR3: Credit risk mitigation techniques—overview

	Millions of yen				
	Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by credit derivatives, of which: secured amount
1. Loans	¥1,133,882	¥133,129	¥133,129	¥—	¥—
2. Debt securities	696,509	—	—	—	—
3. Other on-balance sheet assets (debt products)	4,080,314	4	4	—	—
4. Total (1+2+3)	5,910,706	133,134	133,134	—	—
5. Of which defaulted	706	—	—	—	—

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	4,612,794	—	4,612,794	—	—	—	0.00%	—
3. Non-Japanese sovereign and central bank	167,935	—	167,935	—	91	—	0.05%	—
4. Bank for International Settlements (BIS)	—	—	—	—	—	—	—	—
5. Japanese local public authorities	—	—	—	—	—	—	—	—
6. Non-Japanese public sector entities (excluding sovereign)	1,679	—	1,679	—	409	—	24.36%	—
7. Multilateral Development Banks (MDBs)	104	—	104	—	—	—	0.00%	—
8. Japan Finance Organization for Municipalities (JFM)	1,203	—	1,203	—	238	—	19.78%	—
9. Japanese government-sponsored entities	264,031	—	264,031	—	28,610	—	10.84%	—
10. Three major local public corporations of Japan	6	—	6	—	1	—	16.67%	—
11. Financial institutions and securities firms	511,786	19,060	511,786	3,812	106,683	—	20.69%	—
12. Corporates	414,847	15,579	281,713	14,682	294,287	—	99.29%	—
13. SMEs and individuals (risk weight 75% applied)	—	—	—	—	—	—	—	—
14. Residential mortgage loans	—	—	—	—	—	—	—	—
15. Projects including acquisition of real estate properties	14,281	2,895	14,281	2,895	17,176	—	100.00%	—
16. Past due exposures for three months or more (excluding residential mortgage loans)	706	—	706	—	1,046	—	148.16%	—
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)	275,828	2,724	275,828	1,362	277,191	—	100.00%	—
22. Total	¥6,265,205	¥40,259	¥6,132,071	¥22,751	¥725,737	—	11.79%	—

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

Asset classes	Risk weight	Millions of yen					
		Credit risk exposures (post-CCF and post-CRM)					
		0%	10%	20%	35%	50%	75%
1. Cash	¥	—	¥	—	¥	—	¥
2. Japanese government and central bank	4,612,794	—	—	—	—	—	—
3. Non-Japanese sovereign and central bank	167,620	—	—	219	—	94	—
4. Bank for International Settlements (BIS)	—	—	—	—	—	—	—
5. Japanese local public authorities	—	—	—	—	—	—	—
6. Non-Japanese public sector entities (excluding sovereign)	—	—	1,587	—	—	—	—
7. Multilateral Development Banks (MDBs)	104	—	—	—	—	—	—
8. Japan Finance Organization for Municipalities (JFM)	—	24	1,179	—	—	—	—
9. Japanese government-sponsored entities	—	241,954	22,076	—	—	—	—
10. Three major local public corporations of Japan	—	—	6	—	—	—	—
11. Financial institutions and securities firms	—	—	510,744	—	636	—	—
12. Corporates	—	—	1,863	—	1,236	—	—
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)	—	—	—	—	13	—	—
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	¥4,780,519	¥241,979	¥537,677	¥—	¥1,980	¥—	¥—

Asset classes	Risk weight	Millions of yen				
		Credit risk exposures (post-CCF and post-CRM)				Total
		100%	150%	250%	1250%	
1. Cash	¥	—	¥ —	¥—	¥—	¥ —
2. Japanese government and central bank		—	—	—	—	4,612,794
3. Non-Japanese sovereign and central bank		—	—	—	—	167,935
4. Bank for International Settlements (BIS)		—	—	—	—	—
5. Japanese local public authorities		—	—	—	—	—
6. Non-Japanese public sector entities (excluding sovereign)		92	—	—	—	1,679
7. Multilateral Development Banks (MDBs)		—	—	—	—	104
8. Japan Finance Organization for Municipalities (JFM)		—	—	—	—	1,203
9. Japanese government-sponsored entities		—	—	—	—	264,031
10. Three major local public corporations of Japan		—	—	—	—	6
11. Financial institutions and securities firms		4,217	—	—	—	515,598
12. Corporates		293,296	—	—	—	296,396
13. SMEs and individuals (risk weight 75% applied)		—	—	—	—	—
14. Residential mortgage loans		—	—	—	—	—
15. Projects including acquisition of real estate properties		17,176	—	—	—	17,176
16. Past due exposures for three months or more (excluding residential mortgage loans)		—	693	—	—	706
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)		277,191	—	—	—	277,191
22. Total		¥591,974	¥693	¥—	¥—	¥6,154,824

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

	Millions of yen					
	Replacement cost	PFE	Alpha used for computing EEPE regulatory EAD	EAD post-CRM	RWA	
1. SA-CCR (for derivatives)	¥233,508	¥222,878	1.4	¥638,941	¥427,491	
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)				423,439	224,621	
5. VaR for SFTs				—	—	
6. Total						¥652,113

CCR2: Credit valuation adjustment (CVA) capital charge

	Millions of yen	
	EAD post-CRM	RWA
1. Total portfolios subject to the Advanced CVA capital charge	¥ —	¥ —
2. (i) VaR component (including the 3×multiplier)	—	—
3. (ii) Stressed VaR component (including the 3×multiplier)	—	—
4. All portfolios subject to the Standardized CVA capital charge	578,287	347,795
5. Total subject to the CVA capital charge	¥578,287	¥347,795

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

		Millions of yen		
		EAD (post-CRM)		
	Risk weight	0%	10%	20%
Regulatory portfolio				
1. Japanese government and central bank		¥ 6,755	¥ —	¥ —
2. Non-Japanese sovereign and central bank		40,618	—	2,159
3. Bank for International Settlements (BIS)		40,727	—	—
4. Japanese local public authorities		—	—	—
5. Non-Japanese public sector entities (excluding sovereign)		—	—	29,123
6. Multilateral Development Banks (MDBs)		9,307	—	—
7. Japan Finance Organization for Municipalities (JFM)		—	—	9,486
8. Japanese government-sponsored entities		—	5,336	406
9. Three major local public corporations of Japan		—	—	—
10. Financial institutions and securities firms		—	—	332,828
11. Corporates		—	—	5,483
12. SMEs and individuals (risk weight 75% applied)		—	—	—
13. Other assets		—	—	—
14. Total		¥97,409	¥5,336	¥379,487

		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		46	—	74
3. Bank for International Settlements (BIS)		—	—	—
4. Japanese local public authorities		—	—	—
5. Non-Japanese public sector entities (excluding sovereign)		71	—	—
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		1,204	—	—
11. Corporates		7,609	—	571,141
12. SMEs and individuals (risk weight 75% applied)		—	—	—
13. Other assets		—	—	—
14. Total		¥8,931	¥—	¥571,216

		Millions of yen		
		EAD (post-CRM)		
	Risk weight	150%	Others	Total credit exposure
Regulatory portfolio				
1. Japanese government and central bank		¥—	¥—	¥ 6,755
2. Non-Japanese sovereign and central bank		—	—	42,899
3. Bank for International Settlements (BIS)		—	—	40,727
4. Japanese local public authorities		—	—	—
5. Non-Japanese public sector entities (excluding sovereign)		—	—	29,194
6. Multilateral Development Banks (MDBs)		—	—	9,307
7. Japan Finance Organization for Municipalities (JFM)		—	—	9,486
8. Japanese government-sponsored entities		—	—	5,742
9. Three major local public corporations of Japan		—	—	—
10. Financial institutions and securities firms		—	—	334,033
11. Corporates		—	—	584,234
12. SMEs and individuals (risk weight 75% applied)		—	—	—
13. Other assets		—	—	—
14. Total		¥—	¥—	¥1,062,381

CCR5: Composition of collateral for CCR exposure

	Millions of yen					
	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
1 Cash—domestic currency	¥ 23,611	¥158,654	¥181,158	¥262,257	¥ 4,181,819	¥ 3,157,753
2 Cash—other currencies	64,974	16,022	2,497	22,584	5,134,591	4,343,763
3 Domestic sovereign debt	215	27,101	—	8,803	2,341,721	2,841,176
4 Other sovereign debt	415	—	—	6,228	3,889,546	4,011,612
5 Government agency debt	1,304	—	—	—	639,519	1,267,750
6 Corporate bonds	35,756	—	—	—	35,592	86,505
7 Equity securities	9,438	637	13,987	105	436,154	173,361
8 Other collateral	3,546	—	—	—	18,314	35,328
9 Total	¥139,264	¥202,416	¥197,643	¥299,978	¥16,677,259	¥15,917,252

* Collateral applied to credit risk mitigation techniques

CCR6: Credit derivatives exposures

	Millions of yen	
	Protection bought	Protection sold
Notionals		
1 Single-name credit default swaps	¥ 654,169	¥ 887,103
2 Index credit default swaps	564,545	447,780
3 Total return swaps	—	—
4 Credit options	—	—
5 Other credit derivatives	—	—
6 Total notionals	1,218,714	1,334,883
Fair values		
7 Positive fair value (asset)	9,684	8,897
8 Negative fair value (liability)	(7,746)	(26,746)

CCR8: Exposures to central counterparties

		Millions of yen	
		EAD (post-CRM)	RWA
1	Exposures to QCCPs (total)		¥15,943
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	¥332,139	6,642
3	(i) OTC derivatives	148,603	2,972
4	(ii) Exchange-traded derivatives	27,816	556
5	(iii) Securities financing transactions	155,720	3,114
6	(iv) Netting sets where cross-product netting has been approved	—	—
7	Segregated initial margin	210,443	
8	Non-segregated initial margin	505	648
9	Pre-funded default fund contributions	54,893	8,652
10	Unfunded default fund contributions	—	—
11	Exposures to non-QCCPs (total)		—
12	Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	—	—
13	(i) OTC derivatives	—	—
14	(ii) Exchange-traded derivatives	—	—
15	(iii) Securities financing transactions	—	—
16	(iv) Netting sets where cross-product netting has been approved	—	—
17	Segregated initial margin	—	
18	Non-segregated initial margin	—	—
19	Pre-funded default fund contributions	—	—
20	Unfunded default fund contributions	—	—

SEC1: Securitization exposures in the banking book

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

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

Millions of yen

Type of underlying assets	Group acts as investor		
	Traditional	Synthetic	Sub-total
1 Retail (total)—of which	¥176,297	¥—	¥176,297
2 residential mortgage	108,125	—	108,125
3 credit card	—	—	—
4 other retail exposures	68,171	—	68,171
5 re-securitization	—	—	—
6 Wholesale (total)—of which	391,983	—	391,983
7 loans to corporates	391,794	—	391,794
8 commercial mortgage	—	—	—
9 lease and receivables	—	—	—
10 other wholesale	189	—	189
11 re-securitization	—	—	—

SEC2: Securitization exposures in the trading book

Millions of yen

Type of underlying assets	Group acts as originator		
	Traditional	Synthetic	Sub-total
1 Retail (total)—of which	¥1,571	¥—	¥1,571
2 residential mortgage	1,571	—	1,571
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	—	—	—

Type of underlying assets	Millions of yen		
	Group acts as investor		Sub-total
	Traditional	Synthetic	
1 Retail (total)—of which	¥0	¥ —	¥ 0
2 residential mortgage	0	—	0
3 credit card	—	—	—
4 other retail exposures	—	—	—
5 re-securitization	—	—	—
6 Wholesale (total)—of which	—	9,504	9,504
7 loans to corporates	—	9,504	9,504
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 wholesale
	Of which securitization			Of which retail underlying	
Exposure values (by RW bands)					
1 ≤20% RW	¥553,591	¥553,591	¥553,591	¥161,797	¥391,794
2 >20% to 50% RW	10,000	10,000	10,000	10,000	—
3 >50% to 100% RW	4,500	4,500	4,500	4,500	—
4 >100% to <1250% RW	—	—	—	—	—
5 1250% RW	189	189	189	—	189
Exposure values (by regulatory approach)					
6 Of which internal ratings-based approach (SEC-IRBA) or internal assessment approach (IAA)	—	—	—	—	—
7 Of which external ratings-based approach (SEC-ERBA)	568,091	568,091	568,091	176,297	391,794
8 Of which standardized approach (SEC-SA)	—	—	—	—	—
9 Of which 1250% risk weight applied	189	189	189	—	189
RWA (by regulatory approach)					
10 Of which internal ratings-based approach (SEC-IRBA) or internal assessment approach (IAA)	—	—	—	—	—
11 Of which external ratings-based approach (SEC-ERBA)	117,501	117,501	117,501	39,142	78,358
12 Of which standardized approach (SEC-SA)	—	—	—	—	—
13 Of which 1250% risk weight applied	2,367	2,367	2,367	—	2,367
Capital charge after cap					
14 Of which internal ratings-based approach (SEC-IRBA) or internal assessment approach (IAA)	—	—	—	—	—
15 Of which external ratings-based approach (SEC-ERBA)	9,400	9,400	9,400	3,131	6,268
16 Of which standardized approach (SEC-SA)	—	—	—	—	—
17 Of which 1250% risk weight applied	189	189	189	—	189

Millions of yen

Total exposures					
Traditional securitization			Synthetic securitization		
Of which re-securitization			Of which securitization		
	Of which senior	Of which non-senior			
Exposure values (by RW bands)					
1 ≤20% RW	¥—	¥—	¥—	¥—	¥—
2 >20% to 50% RW	—	—	—	—	—
3 >50% to 100% RW	—	—	—	—	—
4 >100% to <1250% RW	—	—	—	—	—
5 1250% RW	—	—	—	—	—
Exposure values (by regulatory approach)					
6 Of which internal ratings-based approach (SEC-IRBA) or internal assessment approach (IAA)	—	—	—	—	—
7 Of which external ratings-based approach (SEC-ERBA)	—	—	—	—	—
8 Of which standardized approach (SEC-SA)	—	—	—	—	—
9 Of which 1250% risk weight applied	—	—	—	—	—
RWA (by regulatory approach)					
10 Of which internal ratings-based approach (SEC-IRBA) or internal assessment approach (IAA)	—	—	—	—	—
11 Of which external ratings-based approach (SEC-ERBA)	—	—	—	—	—
12 Of which standardized approach (SEC-SA)	—	—	—	—	—
13 Of which 1250% risk weight applied	—	—	—	—	—
Capital charge after cap					
14 Of which internal ratings-based approach (SEC-IRBA) or internal assessment approach (IAA)	—	—	—	—	—
15 Of which external ratings-based approach (SEC-ERBA)	—	—	—	—	—
16 Of which standardized approach (SEC-SA)	—	—	—	—	—
17 Of which 1250% risk weight applied	—	—	—	—	—

Millions of yen

Total exposures					
Synthetic securitization					
Of which securitization	Of which re-securitization				
	Of which retail underlying	Of which wholesale		Of which senior	Of which non-senior
Exposure values (by RW bands)					
1 ≤20% RW	¥—	¥—	¥—	¥—	¥—
2 >20% to 50% RW	—	—	—	—	—
3 >50% to 100% RW	—	—	—	—	—
4 >100% to <1250% RW	—	—	—	—	—
5 1250% RW	—	—	—	—	—
Exposure values (by regulatory approach)					
6 Of which internal ratings-based approach (SEC-IRBA) or internal assessment approach (IAA)	—	—	—	—	—
7 Of which external ratings-based approach (SEC-ERBA)	—	—	—	—	—
8 Of which standardized approach (SEC-SA)	—	—	—	—	—
9 Of which 1250% risk weight applied	—	—	—	—	—
RWA (by regulatory approach)					
10 Of which internal ratings-based approach (SEC-IRBA) or internal assessment approach (IAA)	—	—	—	—	—
11 Of which external ratings-based approach (SEC-ERBA)	—	—	—	—	—
12 Of which standardized approach (SEC-SA)	—	—	—	—	—
13 Of which 1250% risk weight applied	—	—	—	—	—
Capital charge after cap					
14 Of which internal ratings-based approach (SEC-IRBA) or internal assessment approach (IAA)	—	—	—	—	—
15 Of which external ratings-based approach (SEC-ERBA)	—	—	—	—	—
16 Of which standardized approach (SEC-SA)	—	—	—	—	—
17 Of which 1250% risk weight applied	—	—	—	—	—

MR1: Market risk under standardized approach

	Millions of yen
	RWA
1 Interest rate risk (general and specific)	¥616,981
2 Equity risk (general and specific)	94,757
3 Foreign exchange risk	108,319
4 Commodity risk	—
Options	
5 Simplified approach	—
6 Delta-plus method	—
7 Scenario approach	—
8 Securitization	18,080
9 Total	¥838,138

MR2: RWA flow statements of market risk exposures under an IMA

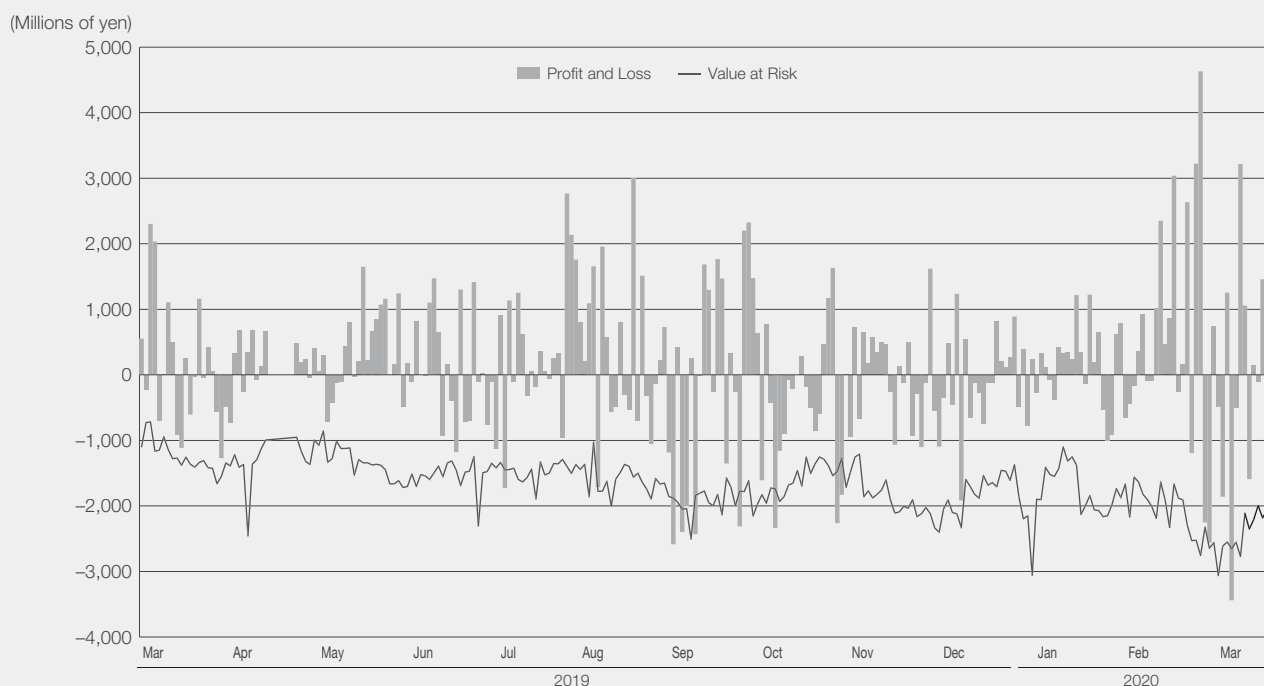
		Millions of yen				
		VaR	Stressed VaR	IRC	CRM	Other
		Total RWA				
1a	RWA at end of previous year	¥174,078	¥518,038	¥—	¥—	¥692,117
1b	Adjustments to RWA based on the regulatory consolidated capital at end of previous year	3.48	3.47	—	—	3.48
1c	Amounts of IMA at end of previous year	49,951	149,111	—	—	199,062
2	Change in Movement in risk levels	(7,820)	17,674	—	—	9,853
3	reporting Model updates/changes	—	—	—	—	—
4	period Methodology and policy	—	—	—	—	—
5	Acquisitions and disposals	—	—	—	—	—
6	Foreign exchange movements	—	—	—	—	—
7	Other	—	—	—	—	—
8a	Amounts of IMA at end of reporting period	42,130	166,785	—	—	208,915
8b	Adjustments to RWA based on the regulatory consolidated capital at end of reporting period	5.20	3.27	—	—	3.66
8c	RWA at end of reporting period	219,240	546,781	—	—	766,021

		Millions of yen				
		VaR	Stressed VaR	IRC	CRM	Other
		Total RWA				
1a	RWA at previous quarter end	¥211,398	¥615,107	¥—	¥—	¥826,506
1b	Adjustments to RWA based on the regulatory consolidated capital at previous quarter end	4.56	4.72	—	—	4.68
1c	Amounts of IMA at previous quarter end	46,332	130,112	—	—	176,444
2	Change in Movement in risk levels	(4,202)	36,672	—	—	32,470
3	reporting Model updates/changes	—	—	—	—	—
4	period Methodology and policy	—	—	—	—	—
5	Acquisitions and disposals	—	—	—	—	—
6	Foreign exchange movements	—	—	—	—	—
7	Other	—	—	—	—	—
8a	Amounts of IMA at end of reporting period	42,130	166,785	—	—	208,915
8b	Adjustments to RWA based on the regulatory consolidated capital at end of reporting period	5.20	3.27	—	—	3.66
8c	RWA at end of reporting period	219,240	546,781	—	—	766,021

MR3: IMA values for trading portfolios

		Millions of yen			Millions of yen
VaR (10 day 99%)—			Incremental Risk Charge (99.9%)		
1	Maximum value	¥ 8,736	9	Maximum value	—
2	Average value	4,568	10	Average value	—
3	Minimum value	2,612	11	Minimum value	—
4	Period end	3,370	12	Period end	—
Stressed VaR (10 day 99%)			Comprehensive Risk capital charge (99.9%)		
5	Maximum value	19,606	13	Maximum value	—
6	Average value	13,215	14	Average value	—
7	Minimum value	5,715	15	Minimum value	—
8	Period end	13,342	16	Period end	—
			17	Floor (standardized measurement method)	—

MR4: Comparison of VaR estimates with gains/losses



IRRBB1: Quantitative information on IRRBB

	Millions of yen	
	ΔEVE	
	March 2020	March 2019
1 Parallel up	¥ 4,392	¥ 4,691
2 Parallel down	24,566	32,156
3 Steepener	664	1,632
4 Flattener	309	430
5 Short rate up	1,943	1,718
6 Short rate down	14,668	18,699
7 Maximum	24,566	32,156
8 Tier 1 capital	1,171,864	1,086,889

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

CCyB1: Geographical distribution of credit exposures used in the countercyclical buffer

Geographical breakdown	Millions of yen			
	Countercyclical capital buffer rate	Risk-weighted assets used in the computation of the countercyclical capital buffer	Bank-specific countercyclical capital buffer rate	Countercyclical buffer amount
Hong Kong SAR	1.00%	¥ 14,913		
Luxembourg	0.25%	2,755		
Germany	0.25%	6		
Sum		17,674		
Total		¥2,409,513	0.00%	¥155

* Basically, Risk-weighted assets used in the computation of the countercyclical capital buffer are calculated on an "ultimate risk" basis. For a part of assets which are difficult to allocate jurisdictions by ultimate risk method, we adopt the jurisdictions which are recorded in balance sheet to the calculation.

Consolidated Leverage Ratio

1. Composition of consolidated leverage ratio

		Millions of yen, %		
Basel III template number (2)	Basel III template number (1)	Items	March 2020	March 2019
On-balance sheet exposures			(1)	
1		On-balance sheet items before adjustments	¥13,296,069	¥12,041,187
1a	1	Total assets in the consolidated balance sheet	23,822,099	21,126,706
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)	10,489	—
1d	3	Assets other than the adjustments that are excluded from the total assets in the consolidated balance sheet	10,536,519	9,085,519
2	7	Common Equity Tier 1 capital: regulatory adjustments	171,773	137,328
3		Total on-balance sheet exposures (excluding derivatives and SFTs)	(A) 13,124,296	11,903,859
Derivative exposures			(2)	
4		Replacement cost associated with all derivatives transactions (with the 1.4 alpha factor applied)	646,487	489,419
5		Add-on amounts for PFE associated with all derivatives transactions (with the 1.4 alpha factor applied)	434,611	395,086
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	111,454	106,899
8		Exempted CCP leg of client-cleared trade exposures		
9		Adjusted effective notional amount of written credit derivatives	1,334,883	1,110,451
10		Adjusted effective notional offsets and add-on deductions for written credit derivatives	1,038,287	830,277
11	4	Total derivative exposures	(B) 1,266,240	1,057,780
Securities financing transaction exposures			(3)	
12		Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	7,782,809	6,540,957
13		Netted amounts of cash payables and cash receivables of gross SFT assets	2,260,394	1,070,592
14		CCR exposure for SFT assets	157,448	163,474
15		Agent transaction exposures		
16	5	Total securities financing transaction exposures	(C) 5,679,863	5,633,839
Other off-balance sheet exposures			(4)	
17		Off-balance sheet exposure at gross notional amount	205,382	122,854
18		Adjustments for conversion to credit equivalent amounts	75,620	43,528
19	6	Off-balance sheet items	(D) 129,762	79,326
Capital and total exposures			(5)	
20		Tier 1 capital	(E) 1,171,864	1,086,889
21	8	Total exposures (A)+(B)+(C)+(D)	(F) 20,200,161	18,674,804
22		Leverage ratio on a consolidated basis (E) / (F)	5.80%	5.82%

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

There is no significant difference in the consolidated leverage ratio over the previous year.

Overview of Main Features of Regulatory Capital Instruments

1	Issuer	Daiwa Securities Group Inc.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	NA
3	Governing law(s) of the instrument	Japanese Law
3a	Other TLAC-eligible instruments governed by foreign law	—
	Regulatory treatment	
4	Transitional Basel III rules	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Group
7	Instrument type (types to be specified by each jurisdiction)	Common stock
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)	
	Consolidated Capital Adequacy Ratio	1,189,921 million Yen
9	Par value of instrument	—
10	Accounting classification	
	Consolidated balance sheets	Shareholders' equity
11	Original date of issuance	—
12	Perpetual or dated	NA
13	Original maturity date	—
14	Issuer call subject to prior supervisory approval	NA
15	Optional call date, contingent call dates and redemption amount	—
16	Subsequent call dates, if applicable	—
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	—
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	NA
22	Noncumulative or cumulative	NA
23	Convertible or non-convertible	NA
24	If convertible, conversion trigger(s)	—
25	If convertible, fully or partially	—
26	If convertible, conversion rate	—
27	If convertible, mandatory or optional conversion	—
28	If convertible, specify instrument type convertible into	—
29	If convertible, specify issuer of instrument it converts into	—
30	Write-down feature	NA
31	If write-down, write-down trigger(s)	—
32	If write-down, full or partial	—
33	If write-down, permanent or temporary	—
34	If temporary write-down, description of write-up mechanism	—
34a	Type of subordination	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Perpetual Subordinated Bonds
36	Non-compliant transitioned features	NA
37	If yes, specify non-compliant features	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
3a	Other TLAC-eligible instruments governed by foreign law	—	—
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in July 2006	Stock subscription right issued in July 2007
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	130 million Yen	175 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	NA	NA
13	Original maturity date	—	—
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
34a	Type of subordination	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Perpetual Subordinated Bonds	Perpetual Subordinated Bonds
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
3a	Other TLAC-eligible instruments governed by foreign law	—	—
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in July 2008	Stock subscription right issued in July 2009
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	162 million Yen	229 million Yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Stock subscription right	Stock subscription right
11	Original date of issuance	July 1, 2008	July 1, 2009
12	Perpetual or dated	NA	NA
13	Original maturity date	—	—
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
34a	Type of subordination	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Perpetual Subordinated Bonds	Perpetual Subordinated Bonds
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
3a	Other TLAC-eligible instruments governed by foreign law	—	—
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in July 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	273 million Yen	171 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	NA	NA
13	Original maturity date	—	—
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
34a	Type of subordination	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Perpetual Subordinated Bonds	Perpetual Subordinated Bonds
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
3a	Other TLAC-eligible instruments governed by foreign law	—	—
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in July 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	356 million Yen	192 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	NA	NA
13	Original maturity date	—	—
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
34a	Type of subordination	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Perpetual Subordinated Bonds	Perpetual Subordinated Bonds
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
3a	Other TLAC-eligible instruments governed by foreign law	—	—
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in 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	410 million Yen	962 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	NA	NA
13	Original maturity date	—	—
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
34a	Type of subordination	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Perpetual Subordinated Bonds	Perpetual Subordinated Bonds
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
3a	Other TLAC-eligible instruments governed by foreign law	—	—
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in 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	344 million Yen	1,082 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	NA	NA
13	Original maturity date	—	—
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
34a	Type of subordination	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Perpetual Subordinated Bonds	Perpetual Subordinated Bonds
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
3a	Other TLAC-eligible instruments governed by foreign law	—	—
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in 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	372 million Yen	951 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	NA	NA
13	Original maturity date	—	—
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
34a	Type of subordination	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Perpetual Subordinated Bonds	Perpetual Subordinated Bonds
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
3a	Other TLAC-eligible instruments governed by foreign law	—	—
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in 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	370 million Yen	472 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	NA	NA
13	Original maturity date	—	—
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
34a	Type of subordination	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Perpetual Subordinated Bonds	Perpetual Subordinated Bonds
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
3a	Other TLAC-eligible instruments governed by foreign law	—	—
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in 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	398 million Yen	639 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	NA	NA
13	Original maturity date	—	—
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
34a	Type of subordination	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Perpetual Subordinated Bonds	Perpetual Subordinated Bonds
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
3a	Other TLAC-eligible instruments governed by foreign law	—	—
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right issued in 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	432 million Yen	445 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	NA	NA
13	Original maturity date	—	—
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
34a	Type of subordination	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Perpetual Subordinated Bonds	Perpetual Subordinated Bonds
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
3a	Other TLAC-eligible instruments governed by foreign law	—	—
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional Basel III rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at solo/group/group&solo	Daiwa Securities Group Inc.	Daiwa Securities Group Inc.
7	Instrument type (types to be specified by each jurisdiction)	Stock subscription right series 15	Stock subscription right series 16
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	264 million Yen	62 million Yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Stock subscription right	Stock subscription right
11	Original date of issuance	August 10, 2018	August 15, 2019
12	Perpetual or dated	NA	NA
13	Original maturity date	—	—
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date, contingent call dates and redemption amount	—	—
16	Subsequent call dates, if applicable	—	—
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	—	—
19	Existence of a dividend stopper	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	NA	NA
22	Noncumulative or cumulative	NA	NA
23	Convertible or non-convertible	NA	NA
24	If convertible, conversion trigger(s)	—	—
25	If convertible, fully or partially	—	—
26	If convertible, conversion rate	—	—
27	If convertible, mandatory or optional conversion	—	—
28	If convertible, specify instrument type convertible into	—	—
29	If convertible, specify issuer of instrument it converts into	—	—
30	Write-down feature	NA	NA
31	If write-down, write-down trigger(s)	—	—
32	If write-down, full or partial	—	—
33	If write-down, permanent or temporary	—	—
34	If temporary write-down, description of write-up mechanism	—	—
34a	Type of subordination	—	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Perpetual Subordinated Bonds	Perpetual Subordinated Bonds
36	Non-compliant transitioned features	NA	NA
37	If yes, specify non-compliant features	—	—

1	Issuer	Samty Residential Investment Corporation
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	NA
3	Governing law(s) of the instrument	Japanese Law
3a	Other TLAC-eligible instruments governed by foreign law	—
	Regulatory treatment	
4	Transitional Basel III rules	Additional Tier 1 capital Tier 2 capital
5	Post-transitional Basel III rules	Additional Tier 1 capital Tier 2 capital
6	Eligible at solo/group/group&solo	Daiwa Securities Group Inc.
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	Additional Tier 1 capital 6,576 million Yen Tier 2 capital 1,547 million Yen
9	Par value of instrument	—
10	Accounting classification	
	Consolidated balance sheets	Non-controlling interest
11	Original date of issuance	—
12	Perpetual or dated	NA
13	Original maturity date	—
14	Issuer call subject to prior supervisory approval	NA
15	Optional call date, contingent call dates and redemption amount	—
16	Subsequent call dates, if applicable	—
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	—
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	NA
22	Noncumulative or cumulative	NA
23	Convertible or non-convertible	NA
24	If convertible, conversion trigger(s)	—
25	If convertible, fully or partially	—
26	If convertible, conversion rate	—
27	If convertible, mandatory or optional conversion	—
28	If convertible, specify instrument type convertible into	—
29	If convertible, specify issuer of instrument it converts into	—
30	Write-down feature	NA
31	If write-down, write-down trigger(s)	—
32	If write-down, full or partial	—
33	If write-down, permanent or temporary	—
34	If temporary write-down, description of write-up mechanism	—
34a	Type of subordination	—
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Perpetual Subordinated Bonds
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)	JP350220AL30	JP350220BL39
3	Governing law(s) of the instrument	Japanese Law	Japanese Law
3a	Other TLAC-eligible instruments governed by foreign law	—	—
	Regulatory treatment		
4	Transitional Basel III rules	Additional Tier 1 capital	Additional Tier 1 capital
5	Post-transitional Basel III rules	Additional Tier 1 capital	Additional 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)	Daiwa Securities Group Inc. first series of unsecured perpetual subordinated bonds with optional-redemption clause and write-down clause	Daiwa Securities Group Inc. second series of unsecured perpetual subordinated bonds with optional-redemption clause and write-down clause
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	116,400 million Yen	22,400 million Yen
9	Par value of instrument	125,000 million Yen	25,000 million Yen
10	Accounting classification		
	Consolidated balance sheets	Liabilities	Liabilities
11	Original date of issuance	March 16, 2020	March 16, 2020
12	Perpetual or dated	NA	NA
13	Original maturity date	—	—
14	Issuer call subject to prior supervisory approval	YES	YES
15	Optional call date, contingent call dates and redemption amount	June 5, 2025 at per Tax event or capital event at per	June 5, 2030 at per Tax event or capital event at per
16	Subsequent call dates, if applicable	Each interest payment date after first call date	Each interest payment date after first call date
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Fixed to floating	Fixed to floating
18	Coupon rate and any related index	From the day immediately following March 16, 2020 until June 5, 2025: 1.20% per annum From the day immediately following June 5, 2025: 6-month euro-yen LIBOR+1.40%	From the day immediately following March 16, 2020 until June 5, 2030: 1.39% per annum From the day immediately following June 5, 2030: 6-month euro-yen LIBOR+1.50%
19	Existence of a dividend stopper	YES	YES
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	YES	YES

31	If write-down, write-down trigger(s)	Events(1), (2) or (3) below: (1) When the Company's consolidated Common Equity Tier1 capital ratio falls below 5.125%. (2)When the principal amount of and interest on the bonds shall be written down to zero when it is confirmed that the "specified item 2 measures." (3)When the Company becomes subject to bankruptcy and other insolvency proceedings.	Events(1), (2) or (3) below: (1) When the Company's consolidated Common Equity Tier1 capital ratio falls below 5.125%. (2)When the principal amount of and interest on the bonds shall be written down to zero when it is confirmed that the "specified item 2 measures." (3)When the Company becomes subject to bankruptcy and other insolvency proceedings.
32	If write-down, full or partial	Full or Partial	Full or Partial
33	If write-down, permanent or temporary	Temporary	Temporary
34	If temporary write-down, description of write-up mechanism	When the Company determines that the principal amount of the bonds that have been written-down be reinstated after prior confirmation of the Financial Services Agency of Japan and any other relevant Japanese governmental organizations that the Company's consolidated Common Equity Tier1 capital ratio remains at a sufficiently high level immediately after giving effect to the relevant reinstatement of the bonds.	When the Company determines that the principal amount of the bonds that have been written-down be reinstated after prior confirmation of the Financial Services Agency of Japan and any other relevant Japanese governmental organizations that the Company's consolidated Common Equity Tier1 capital ratio remains at a sufficiently high level immediately after giving effect to the relevant reinstatement of the bonds.
34a	Type of subordination	Contractual	Contractual
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, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
ASSETS			
Cash and cash deposits:			
Cash and cash equivalents (Note 5)	¥ 981,809	¥1,437,027	\$ 9,090,824
Cash segregated as deposits for regulatory purposes (Note 5)	383,574	304,071	3,551,611
	1,365,383	1,741,098	12,642,435
Receivables:			
Loans receivable from customers (Note 5)	192,382	117,041	1,781,315
Loans receivable from other than customers (Notes 5 and 18)	332,509	292,831	3,078,787
Receivables related to margin transactions (Notes 3 and 5)	112,046	171,124	1,037,463
Short-term guarantee deposits (Note 5)	596,136	386,977	5,519,777
Other (Note 18)	51,675	54,951	478,472
Less: Allowance for doubtful accounts	(156)	(114)	(1,444)
	1,284,592	1,022,810	11,894,370
Collateralized short-term financing agreements (Notes 4, 5 and 18)	3,370,605	2,157,871	31,209,306
Trading assets (Notes 5, 6, 8 and 18)	5,827,228	4,585,634	53,955,815
Trading account receivables, net (Note 5)	—	196,596	—
Other assets:			
Property and equipment, at cost	26,198	23,207	242,574
Less: Accumulated depreciation	(17,822)	(15,919)	(165,018)
	8,376	7,288	77,556
Intangible fixed assets	76,908	74,795	712,111
Lease deposits	15,068	15,417	139,518
Investment securities (Notes 5 and 7)	9,054	10,592	83,833
Deferred tax assets (Note 13)	11,001	7,918	101,861
Other (Note 18)	14,942	15,709	138,352
Less: Allowance for doubtful accounts	(2,832)	(2,902)	(26,222)
	132,517	128,817	1,227,009
	¥11,980,325	¥9,832,826	\$110,928,935

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
LIABILITIES AND NET ASSETS			
Debt:			
Short-term borrowings (Notes 5, 8 and 18)	¥ 1,044,758	¥1,224,396	\$ 9,673,685
Commercial paper (Note 5)	199,900	100,000	1,850,927
Long-term debt (Notes 5, 11 and 18)	1,555,896	1,625,148	14,406,444
	2,800,554	2,949,544	25,931,056
Payables:			
Payables to customers and counterparties (Notes 5 and 10)	653,629	567,990	6,052,120
Payables related to margin transactions (Notes 3 and 5)	58,618	68,613	542,760
	712,247	636,603	6,594,880
Collateralized short-term financing agreements			
(Notes 4, 5 and 18)	3,200,853	1,757,346	29,637,528
Trading liabilities (Notes 5, 6 and 18)			
	4,264,030	3,593,928	39,481,759
Trading account payables, net (Note 5)			
	126,832	—	1,174,370
Accrued and other liabilities:			
Income taxes payable	1,578	2,316	14,611
Accrued bonuses	10,142	10,970	93,907
Retirement benefits (Note 12)	32,145	31,742	297,639
Other (Note 18)	83,112	74,170	769,556
	126,977	119,198	1,175,713
Statutory reserves (Note 14)			
	3,905	3,925	36,157
Total liabilities	11,235,398	9,060,544	104,031,463
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	925,926
Capital surplus	349,920	349,920	3,240,000
Retained earnings	293,461	320,112	2,717,231
	743,381	770,032	6,883,157
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	1,546	2,250	14,315
Total net assets	744,927	772,282	6,897,472
	¥11,980,325	¥9,832,826	\$110,928,935

See accompanying notes.

Statements of Income

DAIWA SECURITIES Co. Ltd.

Years ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Operating revenues:			
Commissions (Note 18)	¥177,833	¥185,742	\$1,646,602
Net gain on trading (Note 20)	76,736	89,169	710,518
Interest and dividend income (Note 18)	44,083	57,464	408,176
	298,652	332,375	2,765,296
Interest expense (Note 18)	28,780	39,546	266,481
Net operating revenues (Note 17)	269,872	292,829	2,498,815
Selling, general and administrative expenses (Notes 12 and 21)	240,567	239,493	2,227,472
Operating income	29,305	53,336	271,343
Other income (expenses):			
Provision for statutory reserves, net (Note 14)	20	7	185
Other, net (Note 22)	(11,892)	3,224	(110,111)
	(11,872)	3,231	(109,926)
Income before income taxes	17,433	56,567	161,417
Income taxes (Note 13):			
Current	8,563	16,218	79,288
Deferred	(2,776)	2,051	(25,704)
	5,787	18,269	53,584
Profit	¥ 11,646	¥ 38,298	\$ 107,833
		Yen	U.S. dollars (Note 1)
Per share amounts:			
Net income	¥14,374.46	¥47,269.49	\$133
Cash dividends applicable to the year (Note 16)	14,374	47,269	130

See accompanying notes.

Statements of Changes in Net Assets

DAIWA SECURITIES Co. Ltd.

Years ended March 31, 2020 and 2019

	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 March 31, 2018	810,200	¥100,000	¥349,920	¥ 346,250	¥ 4,852
Profit				38,298	
Cash dividends paid				(64,436)	
Net changes of items other than owners' equity					(2,602)
Balance at March 31, 2019	810,200	¥100,000	¥349,920	¥ 320,112	¥ 2,250
Profit				11,646	
Cash dividends paid				(38,297)	
Net changes of items other than owners' equity					(704)
Balance at March 31, 2020	810,200	¥100,000	¥349,920	¥ 293,461	¥ 1,546

	Thousands of U.S. dollars (Note 1)			
	Owners' equity			Accumulated other comprehensive income
	Common stock	Capital surplus	Retained earnings	Valuation difference on available-for-sale securities
Balance at April 1, 2019	\$925,926	\$3,240,000	\$2,964,000	\$20,833
Profit			107,833	
Cash dividends paid			(354,602)	
Net changes of items other than owners' equity				(6,518)
Balance at March 31, 2020	\$925,926	\$3,240,000	\$2,717,231	\$14,315

See accompanying notes.

Statements of Cash Flows

DAIWA SECURITIES Co. Ltd.

Years ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Cash flows from operating activities:			
Profit	¥ 11,646	¥ 38,298	\$ 107,833
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	20,140	17,483	186,481
Allowance for doubtful accounts, net	(28)	(47)	(259)
Provision for retirement benefits, net	420	1,199	3,889
Losses (gains) related to investment securities	(164)	(3,485)	(1,519)
Structural reform cost	12,702	—	117,611
Deferred income taxes	(2,776)	2,051	(25,704)
Changes in operating assets and liabilities:			
Receivables and payables related to margin transactions	49,083	83,277	454,472
Short-term guarantee deposits	(209,159)	(79,086)	(1,936,657)
Other receivables and other payables	(99,122)	(121,191)	(917,795)
Collateralized short-term financing agreements	230,773	491,127	2,136,787
Trading assets and liabilities	(248,064)	(205,413)	(2,296,889)
Other, net	(8,343)	2,914	(77,250)
Total adjustments	(254,538)	188,829	(2,356,833)
Net cash flows provided by (used in) operating activities	(242,892)	227,127	(2,249,000)
Cash flows from investing activities:			
Payments for purchases of property and equipment	(3,726)	(1,500)	(34,500)
Payments for purchases of intangible fixed assets	(26,880)	(28,468)	(248,889)
Payments for purchases of investment securities	(56)	(18)	(519)
Proceeds from sales and redemption of investment securities	674	4,476	6,241
Payments for guarantee deposits	(689)	(548)	(6,380)
Proceeds from collection of guarantee deposits	1,037	429	9,602
Other, net	(305)	(302)	(2,824)
Net cash flows provided by (used in) investing activities	(29,945)	(25,931)	(277,269)
Cash flows from financing activities:			
Increase or Decrease in short-term borrowings and commercial paper	(79,738)	11,900	(738,315)
Increase in long-term debt	280,890	267,588	2,600,833
Decrease in long-term debt	(345,236)	(296,769)	(3,196,629)
Payments of cash dividends	(38,297)	(64,436)	(354,602)
Net cash flows provided by (used in) financing activities	(182,381)	(81,717)	(1,688,713)
Net increase in cash and cash equivalents	(455,218)	119,479	(4,214,982)
Cash and cash equivalents at beginning of year	1,437,027	1,317,548	13,305,806
Cash and cash equivalents at end of year	¥ 981,809	¥1,437,027	\$ 9,090,824

See accompanying notes.

Notes to Financial Statements

DAIWA SECURITIES Co. Ltd.

Years ended March 31, 2020 and 2019

1. Basis of financial statements

The accompanying financial statements for Daiwa Securities Co. Ltd. ("the Company") have been restructured and translated into English (with some additional explanations described solely for the convenience of the non-Japanese readers) from the statutory financial statements prepared by the Company in accordance with generally accepted accounting principles in Japan ("Japanese GAAP"). Some supplementary information included in the original statutory financial statements prepared in the Japanese language,

but not considered as necessary for fair presentation, is not presented in the accompanying financial statements.

The translations of the yen amounts into U.S. dollars are presented solely for the convenience of the readers, using the exchange rate as of March 31, 2020, which was ¥108 to U.S.\$1. The convenience translations should not be construed as representations that the yen amounts have been, could have been, or could be, converted into U.S. dollars at this or any other rate of exchange.

2. Significant accounting policies

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

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

Other significant items associated with the preparation of the financial statements

- Application of tax effect accounting for the transition from the consolidated taxation system to the group relief system

The Company does not apply the provisions of Paragraph 44 of "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018) to the transition to the group relief system established in "Law to Partially Revise Income Tax Law" (Law No. 8 of Reiwa 2) and to the revision of the single tax payment system accompanying such transition, in accordance with Paragraph 3 of "Practical Solution on the Tax Effect Accounting for Transition from the Consolidated Taxation System to the Group Relief System" (PITF No. 39, March 31, 2020). Therefore, the amount of deferred tax assets and deferred tax liabilities are based on the provisions of the tax law prior to the revision.

Unapplied accounting standard

- Accounting Standard for Revenue Recognition (ASBJ Statement No. 29 revised on March 31, 2020)
- Implementation Guidelines on Accounting Standards for Revenue Recognition (ASBJ Guidance No. 30 revised on March 31, 2020)

(a) Overview

A comprehensive accounting standard for revenue recognition. Revenue should be recognized by applying the following five steps:

Step 1: Identify the contract with a customer;

Step 2: Identify the performance obligations under the contract;

Step 3: Determine the transaction price;

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

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

(b) Application date

The Company will apply the standards from the beginning of the fiscal year ending March 31, 2022.

(c) Impact of application

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

- Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30 issued on July 4, 2019)
- Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31 issued on July 4, 2019)
- Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9 revised on July 4, 2019)
- Accounting Standard for Financial Instruments (ASBJ Statement No. 10 revised on July 4, 2019)
- Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No.19 revised on March 31, 2020)

(a) Overview

In order to enhance comparability with internationally recognized accounting standards, "Accounting Standard for Fair Value Measurement" and "Implementation Guidance on Accounting Standard for Fair Value Measurement" (together,

hereinafter referred to as "Fair Value Accounting Standards") were developed and guidance on methods for measuring fair value were issued. Fair Value Accounting Standards are applicable to the fair value measurement of the following items: —Financial instruments in "Accounting Standard for Financial Instruments"; and —Inventories held for trading purposes in "Accounting Standard for Measurement of Inventories."

(b) Application date

The Company will apply the standards from the beginning of the fiscal year ending March 31, 2021.

(c) Impact of application

No significant impact is anticipated.

- Accounting standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections (ASBJ Statement No.24 revised on March 31, 2020)

(a) Overview

To provide the users of the financial statements with an overview of the accounting principles and procedures adopted when the relevant accounting standards are not clear.

(b) Application date

The Company will apply the standard from the end of the fiscal year ending March 31, 2021.

- Accounting standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31 issued on March 31, 2020)

(a) Overview

To provide the users of the financial statements with more useful information to understand accounting estimates for items which are recorded in the financial statements in the current year based on accounting estimates, and would have significant impacts on the financial statements in the following year.

(b) Application date

The Company will apply the standard from the end of the fiscal year ending March 31, 2021.

3. Margin transactions

Margin transactions at March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Assets:			
Loans on margin transactions	¥102,894	¥153,580	\$ 952,722
Cash collateral pledged for securities borrowing on margin transactions	9,152	17,544	84,741
	¥112,046	¥171,124	\$1,037,463
Liabilities:			
Borrowings on margin transactions	¥ 3,435	¥ 2,537	\$ 31,806
Cash received for securities lending on margin transactions	55,183	66,076	510,954
	¥ 58,618	¥ 68,613	\$ 542,760

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

4. Collateralized short-term financing agreements

Collateralized short-term financing agreements at March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Assets:			
Securities purchased under agreements to resell	¥1,903,365	¥ 897,413	\$17,623,750
Securities borrowed	1,467,240	1,260,458	13,585,556
	¥3,370,605	¥2,157,871	\$31,209,306
Liabilities:			
Securities sold under agreements to repurchase	¥2,899,520	¥1,452,218	\$26,847,407
Securities loaned	301,333	305,128	2,790,121
	¥3,200,853	¥1,757,346	\$29,637,528

5. Financial instruments

Concerning the situation of financial instruments

(1) Policy for dealing with financial instruments

The Company, the primary businesses of which are investment and financial services businesses with a core focus on securities-related business, is involved in trading and brokerage of securities and derivative products, underwriting and secondary offering of securities, dealing in public offerings, secondary offering and private placement of securities and other securities-related business, banking business and other financial businesses.

The Company holds financial assets and liabilities such as "trading securities and other," "derivatives," and "investment securities," etc., in its businesses and raises funds with corporate bonds, medium-term notes, borrowing from financial institutions, commercial paper, call money, deposit acceptance, repurchase agreements, etc. In

fundraising, under the basic policy for financing such that enough liquidity for continuing business should be effectively secured, the Company tries to realize efficient and stable financing by diversifying financial measures and maturity dates and maintaining an appropriate balance between assets and liabilities. Also, the Company utilizes interest rate swaps and foreign currency swaps, etc., for the purpose of hedging fluctuations in interest rates and foreign currencies in terms of financial assets and liabilities.

The Company tries to secure financial soundness by managing entirely and efficiently the variety of risks incurred by holding financial assets and liabilities in accordance with the characteristics of such risks.

(2) Contents and risk of financial instruments

The Company holds financial instruments in the trading

business as follows: (a) trading securities and other (stocks and warrants, bonds and units of investment trusts, etc.), loans secured by securities and loans payable secured by securities, margin transaction assets and liabilities, etc.; (b) derivatives traded on exchanges, such as stock index futures, bond futures, interest rate futures and options for such derivatives; and (c) derivatives (OTC derivatives) not traded on exchanges, such as interest rate swaps, foreign exchange swaps, foreign currency futures, bond options, currency options, FRA and OTC securities derivatives, etc. Also, the Company holds investment securities for business relationships, etc.

Among the various risks associated with these financial instruments, the major risks are market risk and credit risk. Market risk means the risks of suffering losses from fluctuations in the value of holding financial instruments and transactions in accordance with changes of market prices or rate of stock prices, interest rates, foreign exchange rates and commodities prices, etc., and from the market environment in which no transaction can be executed because of an excessive decrease of liquidity or one in which market participants are forced to trade in extremely unfavorable conditions. Credit risk means the risk of suffering losses from defaults or creditworthiness changes, etc., of counterparts or issuers of financial instruments which the Company holds.

In the trading business, the Company conducts derivative transactions as single transactions or as transactions embedded in structured notes, in order to meet customers' needs. These include transactions which are highly volatile in comparison to the fluctuation of stock prices, interest rates, foreign exchange rates and commodities prices of reference assets and the correlation between them, or transactions which tend to move in a complicated manner. Therefore, these carry higher risk than the reference assets. These derivative transactions are categorized as "Trading assets" in the balance sheets and the realized and unrealized profit/loss by fluctuation of fair values are recorded as "Net gain on trading."

The Company, holding the financial instruments as above, also raises funds utilizing corporate bonds, medium-term notes, borrowing from financial institutions, commercial paper, call money, deposits acceptance, repurchase agreements, etc., and is exposed to liquidity risk. Liquidity risk means the risk of suffering losses such that cash management may be impossible or require remarkably higher financing costs than usual as a result of an abrupt change of market environment or deterioration of financial conditions of the Company, etc.

The Company utilizes derivative transactions as brokers

and end-users in the derivatives market. Derivative products have been necessary to deal with a variety of customers' financial needs and subsidiaries provide customers with financial instruments to meet customers' requests in many ways as brokers. For instance, the Company provides customers with foreign currency futures to hedge the exchange rate risk of foreign currency of foreign bonds held by customers and also with interest rate swaps to hedge interest rate risk when customers issue corporate bonds, etc. As end-users, the Company utilizes interest rate swaps to hedge interest rate risk regarding financial assets and liabilities of the Company and utilizes many kinds of futures and options to hedge the trading positions.

(3) Risk management system concerning financial instruments

The Company adopted the "Risk Management Rule" at the meeting of the Board of Directors, which states the basic policy of risk management, and conducted risk management suitable for each business profile and size in accordance with the basic policy of risk management.

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

(a) Management of market risk

The Company manages its trading business by establishing the limit for Value at Risk (which indicates the estimate of the maximum loss amount under a certain confidence level, hereinafter "VaR"), position and sensitivity, etc., considering the financial situation, the business plan and budget of each division. The risk management department of the Company monitors and reports the market risk to the management of the Company on a daily basis. In order to cover the capacity limit of VaR calculated by the statistical hypothesis based on the data obtained for a certain period, the Company applies the stress test with a scenario assuming the impact of abrupt change in the market and hypothetical stress events.

(Quantitative information concerning market risk)

The Company utilizes the historical simulation method (holding period: 1 day, confidence interval: 99%, observation period: 520 business days) for calculating VaR of trading products.

The VaR as of March 31, 2020 (fiscal year-end) was ¥1.2 billion (\$11.1 million) in total.

In the meantime, the Company verifies the model by executing back tests which compare calculated VaR and the actual profit/loss. Please note that as the VaR

statistically estimates the risk based on historical market fluctuation, it may be unable to completely grasp the risk in an environment in which the market unexpectedly changes beyond the estimation.

(b) Management of credit risk

The credit risk generated in the trading business of the Company consists of counterparty risk and issuer risk. In regard to counterparty risk, the Company has established the upper limit on the credit-equivalent exposure that can be tolerated for each counterparty and periodically monitors such credit-equivalent exposure. The Company monitors risk amount related to the issuer risk of financial instruments held for market-making. In addition, the Company is periodically monitoring the influence from the large-lot credit.

Because margin transactions generate credit to customers, the Company requires customers to set deposits as collateral. In connection with securities loan transactions, the Company has tried to reduce credit risk by establishing credit limits for counterparties, charging necessary collateral, and daily mark-to-market.

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

The Company holds financial instruments in the business for other than trading purposes such as investment securities for business relationships. In connection with investment securities for business relationships, etc., the Company decides to acquire or sell the securities in accordance with the policy defined by the relevant company's rules. Also, the Company regularly monitors the risk profile.

(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, 2020, if the index, such as TOPIX, were to change by 10%, market prices of the listed equities in "Investment securities" would fluctuate by ¥0.2 billion (\$1.9 million).

Also, the main financial liabilities in the Company that are influenced by market risk are "bonds and notes" and "long-term borrowings." As of March 31, 2020, if all other risk variables were assumed to be unchanged and the interest rate was supposed to change by 10 basis points (0.1%), the market prices of "bonds and notes" and "long-term borrowings" would fluctuate by ¥0.1 billion

(\$0.9 million) and ¥0.9 billion (\$8.3 million), respectively.

(iii) Management of liquidity

The Company conducts its business with a core focus on the securities-related business by utilizing a variety of assets and liabilities, it has the basic policy of fundraising to efficiently and stably secure enough liquidity for continuing its business.

Methods of raising funds of the Company include unsecured fundraising such as corporate bonds, medium-term notes, borrowing from financial institutions, commercial paper, call money and deposits acceptance, etc., and secured fundraising such as repurchase agreements, etc. The Company intends to realize effective and stable fundraising by combining these various methods.

In terms of financial stability, the Company, preparing for the case that the environment vastly changes, endeavors even in ordinary times to secure a stable reserve to prevent the business from suffering difficulties. Also, the Company tries to diversify the maturity and sources of funds in preparation for the event where it becomes difficult to raise new funds and to reschedule the existing funds due to a financial crisis.

Further, Daiwa Securities Group Inc.—our parent company—collectively manages and monitors the liquidity of Daiwa Securities Group Inc. and its subsidiaries ("Daiwa") under the basic policy to secure the appropriate liquidity of Daiwa as a whole. Also, the Company monitors every day if the liquidity portfolio, which should cover financing proceeds without collateral that has a maturity date within a certain period as well as the estimated cash outflow caused by realization of one of some stress scenarios prepared in advance during the same period, is maintained or not.

The Company has also established a contingency funding plan as one of the measures of dealing with liquidity risk. This plan states the basic policy concerning the reporting lines and the method of fundraising, etc., depending upon the urgency of stress by internal factors such as decrease in creditworthiness and external factors such as abrupt change of market environment. The contingency funding plan enables the Company to prepare a system for securing liquidity through a swift response.

The contingency funding plan of the Company is periodically revised to adapt quickly to the evolving financial environment.

(4) Supplemental explanation for fair value, etc., of financial instruments

Fair value of financial instruments includes the price based on market value and the theoretical price reasonably

calculated in the case of no market value. As such, theoretical prices are calculated based on certain assumptions, etc., and may be changed under different assumptions, etc.

Fair values of financial instruments

The figures stated in the balance sheets as of March 31, 2020 and 2019, fair value and the difference of the two are as below. Any items for which it is extremely difficult to obtain fair value are not included in the table below (see Note 2).

	Millions of yen					
	2020			2019		
	Amounts on balance sheets	Fair value	Difference	Amounts on balance sheets	Fair value	Difference
Assets						
(1) Cash and cash equivalents	¥ 981,809	¥ 981,809	¥ —	¥1,437,027	¥1,437,027	¥ —
(2) Cash segregated as deposits for regulatory purposes	383,574	383,574	—	304,071	304,071	—
(3) Trading assets	5,827,228	5,827,228	—	4,585,634	4,585,634	—
(4) Receivables related to margin transactions	112,046	112,046	—	171,124	171,124	—
(5) Trading account receivables, net	—	—	—	196,596	196,596	—
(6) Collateralized short-term financing agreements	3,370,605	3,370,605	—	2,157,871	2,157,871	—
(7) Short-term guarantee deposits	596,136	596,136	—	386,977	386,977	—
(8) Loans receivable from customers	192,382	192,382	—	117,041	117,041	—
(9) Loans receivable from other than customers	332,509	332,509	—	292,831	292,831	—
(10) Investment securities						
Other securities	2,880	2,880	—	3,629	3,629	—
Total Assets	¥11,799,169	¥11,799,169	¥ —	¥9,652,801	¥9,652,801	¥ —
Liabilities						
(11) Trading liabilities	¥ 4,264,030	¥ 4,264,030	¥ —	¥3,593,928	¥3,593,928	¥ —
(12) Payables related to margin transactions	58,618	58,618	—	68,613	68,613	—
(13) Trading account payables, net	126,832	126,832	—	—	—	—
(14) Collateralized short-term financing agreements	3,200,853	3,200,853	—	1,757,346	1,757,346	—
(15) Payables to customers and counterparties	653,629	653,629	—	567,990	567,990	—
(16) Short-term borrowings	1,044,758	1,044,758	—	1,224,396	1,224,396	—
(17) Commercial paper	199,900	199,900	—	100,000	100,000	—
(18) Long-term debt	1,555,896	1,562,133	(6,237)	1,625,148	1,632,106	(6,958)
Total Liabilities	¥11,104,516	¥11,110,753	¥(6,237)	¥8,937,421	¥8,944,379	¥(6,958)

Thousands of U.S. dollars

2020

	Amounts on balance sheets	Fair value	Difference
Assets			
(1) Cash and cash equivalents	\$ 9,090,824	\$ 9,090,824	\$ —
(2) Cash segregated as deposits for regulatory purposes	3,551,611	3,551,611	—
(3) Trading assets	53,955,815	53,955,815	—
(4) Receivables related to margin transactions	1,037,463	1,037,463	—
(5) Trading account receivables, net	—	—	—
(6) Collateralized short-term financing agreements	31,209,306	31,209,306	—
(7) Short-term guarantee deposits	5,519,777	5,519,777	—
(8) Loans receivable from customers	1,781,315	1,781,315	—
(9) Loans receivable from other than customers	3,078,787	3,078,787	—
(10) Investment securities			
Other securities	26,667	26,667	—
Total assets	\$109,251,565	\$109,251,565	\$ —
Liabilities			
(11) Trading liabilities	\$ 39,481,759	\$ 39,481,759	\$ —
(12) Payables related to margin transactions	542,760	542,760	—
(13) Trading account payables, net	1,174,370	1,174,370	—
(14) Collateralized short-term financing agreements	29,637,528	29,637,528	—
(15) Payables to customers and counterparties	6,052,120	6,052,120	—
(16) Short-term borrowings	9,673,685	9,673,685	—
(17) Commercial paper	1,850,927	1,850,927	—
(18) Long-term debt	14,406,444	14,464,194	(57,750)
Total liabilities	\$102,819,593	\$102,877,343	\$(57,750)

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

(1) Cash and cash equivalents

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

(2) Cash segregated as deposits for regulatory purposes

Cash segregated as deposits for regulatory purposes mainly consists of the trust of cash segregated for customers. The price of those which are invested in securities like government bonds are calculated based on reasonably calculated prices utilizing yield spread with index interest rates for each term which are defined by immediately previous traded prices including those of similar bonds. Other investment products are recorded as their book value because the fair value closely resembles the book value and they are settled in the short term.

(3) Trading assets and (11) Trading liabilities

Trading securities and other

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

Derivatives

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

OTC equity derivatives	prices calculated by price valuation models (models generally acknowledged in the market or a model expanding such models), based on price of equities or equities indices, interest rates, dividends, volatility, discount rates, correlation, etc.
Credit derivatives	prices calculated by price valuation models (models generally acknowledged in the market or a model expanding such models), based on interest rates, credit spread of referents, etc.

Concerning OTC derivatives, the amount equivalent to credit risk to the counterparty, etc., and liquidity risk are added to the fair value as necessary.

(4) Receivables related to margin transactions and (12) Payables related to margin transactions
Receivables related to margin transactions consist of lending money to customers accompanied by margin transactions and cash collateral to securities finance companies. These are recorded at their book value as deemed to be settled in the short term because the former is settled by reversing trades by customers' decisions and the latter is collateral marked-to-market on lending and borrowing transactions.

Payables related to margin transactions consist of borrowing money from securities finance companies accompanied by customers' margin transactions and the amount equivalent to sales price of securities as to customers' margin transactions. These are recorded at their book value as deemed to be settled in the short term because the former is marked-to-market and the latter is settled by reversing trades by customers' decisions.

(5) Trading account receivables, net and (13) Trading account payables, net
These are recorded at their book value because their fair values are similar to book value as they are settled in the short term.

(6), (14) Collateralized short-term financing agreements
These are recorded at their book value because fair values are similar to book value as these are primarily settled in the short term.

(7) Short-term guarantee deposits and (15) Payables to customers and counterparties
These are mainly guarantee deposits relating to derivative transactions. They are recorded at their book value as they can be deemed to be settled in the short term because the characteristics are marked-to-market for each transaction.

Concerning other guarantee deposits received from customers, the payment amount when settled at the end of this fiscal year (book value) is deemed as fair value.

(8) Loans receivable from customers and (9) Loans receivables from other than customers
These are recorded at their book value because fair values are similar to book value as these are primarily settled in the short term.

(10) Investment securities

Equities, etc.	closing price or closing quotation on the main stock exchange
Bonds	price reasonably calculated by utilizing spread with index interest rate based on immediately previous traded price including similar bonds (OTC and broker screen, etc.) or market value information (trading price statistics, etc.), or reasonably calculated price based on the value of collateralized assets
Certificates of deposits	calculated price utilizing the latest traded prices including similar instruments (OTC and broker screen, etc.), and yield spreads (reflected credit spreads and supply-demand) from the corresponding index interest rates (yield curve of major short-term interest rates) of each calculated period

(16) Short-term borrowings and (17) Commercial paper
These are recorded at their book value because fair value is similar to book value as they are settled in the short term.

(18) Long-term debt
The fair values of bonds and notes due within one year are recorded at their book value because fair value is similar to book value as they are settled in the short term.

Concerning the fair value of bonds whose maturity is longer than one year, in the case that market price (trading price statistics, etc.) is available in the market, fair value is calculated from the market price. If the market price is not available, fair value is calculated from book value which is adjusted based on the amount equivalent to the fluctuation of interest rate and credit spread of the Company since the issuance. As to the credit spread of the Company, the Company refers to the interest rate of the most recent fundraising, market prices of similar bonds issued by the Company, etc.

Concerning fair values of long-term borrowings, fair value is calculated from book value which is adjusted based

on the amount equivalent to the fluctuation of interest rate and credit spread of the Company from initial lending. As to the credit spread of the Company, the Company refers to

the interest rate of the most recent fundraising, market prices of similar bonds issued by the Company, etc.

(Note 2) Any financial instruments for which it is deemed extremely difficult to obtain their fair value at March 31, 2020 and 2019 are listed below and are not included in the “Assets (10) Investment securities—Other securities” of fair value information of financial instruments.

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Subsidiaries' stocks and related companies' stocks			
Unlisted equities	¥1,136	¥1,135	\$10,518
Other securities			
Unlisted equities	2,981	3,007	27,602
Investments in limited partnership and other similar partnerships	734	1,315	6,796
Others	1,323	1,506	12,250

The instruments above are extremely difficult to obtain fair value because no readily available market price exists, and it is extremely difficult to estimate their future cash flow. Therefore, their fair value is not disclosed.

(Note 3) Scheduled redemption amount of financial receivables and securities with a maturity date after March 31, 2020:

	Millions of yen			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and cash equivalents	¥ 981,809	¥—	¥—	¥—
Cash segregated as deposits for regulatory purposes	383,574	—	—	—
Receivables related to margin transactions	112,046	—	—	—
Collateralized short-term financing agreements	3,370,605	—	—	—
Short-term guarantee deposits	596,136	—	—	—
Investment securities:				
Other securities with a maturity date	—	—	—	—
Other securities	—	—	—	—
Total	¥5,444,170	¥—	¥—	¥—

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

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

	Thousands of U.S. dollars			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and cash equivalents	\$ 9,090,824	\$—	\$—	\$—
Cash segregated as deposits for regulatory purposes	3,551,611	—	—	—
Receivables related to margin transactions	1,037,463	—	—	—
Collateralized short-term financing agreements	31,209,306	—	—	—
Short-term guarantee deposits	5,519,777	—	—	—
Investment securities:				
Other securities with a maturity date	—	—	—	—
Other securities	—	—	—	—
Total	\$50,408,981	\$—	\$—	\$—

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

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

(Note 4) Scheduled redemption amount of commercial paper and long-term debt after March 31, 2020:

	Millions of yen			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Commercial paper	¥199,900	¥ —	¥ —	¥ —
Long-term debt	270,187	553,731	421,024	310,954
Total	¥470,087	¥553,731	¥421,024	¥310,954

	Thousands of U.S. dollars			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Commercial paper	\$1,850,927	\$ —	\$ —	\$ —
Long-term debt	2,501,731	5,127,139	3,898,370	2,879,204
Total	\$4,352,658	\$5,127,139	\$3,898,370	\$2,879,204

6. Trading assets and trading liabilities

Trading assets and trading liabilities at March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Trading assets:			
Trading securities:			
Equities	¥ 224,916	¥ 127,835	\$ 2,082,556
Government, corporate and other bonds	1,815,556	1,435,133	16,810,704
Investment trusts	97,762	89,256	905,204
Commercial paper, certificates of deposits and others	3,523	5,956	32,620
Derivatives:			
Option transactions	293,928	376,124	2,721,556
Futures and forward transactions	116,039	42,848	1,074,435
Swap agreements	3,243,789	2,492,998	30,035,083
Other derivatives	34,669	19,355	321,009
Risk reserves	(2,954)	(3,871)	(27,352)
	¥5,827,228	¥4,585,634	\$53,955,815
Trading liabilities:			
Trading securities:			
Equities	¥ 89,606	¥ 155,142	\$ 829,685
Government, corporate and other bonds	675,535	739,491	6,254,953
Investment trusts	3,466	169	32,093
Derivatives:			
Option transactions	309,714	350,842	2,867,722
Futures and forward transactions	130,499	39,299	1,208,324
Swap agreements	3,020,057	2,286,990	27,963,491
Other derivatives	35,153	21,995	325,491
	¥4,264,030	¥3,593,928	\$39,481,759

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, 2020 and 2019 consisted of the following:

	Millions of yen		
	Cost	Fair value	Difference
March 31, 2020:			
Equities	¥1,019	¥2,880	¥1,861
Bonds	—	—	—
	¥1,019	¥2,880	¥1,861
March 31, 2019:			
Equities	¥1,034	¥3,629	¥2,595
Bonds	—	—	—
	¥1,034	¥3,629	¥2,595

	Thousands of U.S. dollars		
	Cost	Fair value	Difference
March 31, 2020:			
Equities	\$9,435	\$26,667	\$17,232
Bonds	—	—	—
	\$9,435	\$26,667	\$17,232

Cost/amortized cost of non-marketable securities as of March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Other securities:			
Unlisted equities	¥4,117	¥4,142	\$38,120
Investments in limited partnership and other similar partnerships	734	1,315	6,796
Other	1,323	1,506	12,250
	¥6,174	¥6,963	\$57,166

8. Pledged assets

Secured obligations at March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Short-term borrowings	¥278,358	¥250,000	\$2,577,389
	¥278,358	¥250,000	\$2,577,389

The above obligations at March 31, 2020 and 2019 were secured by the following assets:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Trading assets	¥530,220	¥553,284	\$4,909,444
	¥530,220	¥553,284	\$4,909,444

In addition to the above, securities borrowed amounting to ¥35,918 million (\$332,574 thousand) and ¥17,361 million were pledged as guarantees at March 31, 2020 and 2019, respectively.

Total fair value of the securities pledged as collateral at March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Securities loaned	¥ 300,522	¥ 304,475	\$ 2,782,611
Securities sold under agreements to repurchase	2,619,626	1,464,754	24,255,796
Other	354,560	418,943	3,282,963
	¥3,274,708	¥2,188,172	\$30,321,370

Total fair value of the securities received as collateral at March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Securities borrowed	¥1,488,683	¥1,317,322	\$13,784,102
Securities purchased under agreements to resell	1,593,217	897,742	14,752,009
Other	172,785	248,076	1,599,861
	¥3,254,685	¥2,463,140	\$30,135,972

9. Lease transactions

The information concerning operating leases at March 31, 2020 and 2019 is as follows:

Lessee:	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Operating leases:			
Future lease payments in respect of operating leases	¥39,855	¥45,207	\$369,028
Due within one year	7,476	7,857	69,222

10. Payables to customers and counterparties

Payables to customers and counterparties at March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Deposits from customers	¥224,449	¥195,938	\$2,078,231
Guarantee deposits received	407,696	367,143	3,774,963
Other	21,484	4,909	198,926
	¥653,629	¥567,990	\$6,052,120

11. Long-term debt

Long-term debt as of March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Bond payable in yen: 1.72% due CY2020	¥ 18,400	¥ 18,400	\$ 170,370
Bond payable in yen: 2.16% due CY2025	7,800	7,800	72,222
Bond payable in yen: 2.41% due CY2026	3,000	3,000	27,778
Bond payable in yen: 2.24% due CY2026	5,000	5,000	46,296
Bond payable in yen: 0.14% due CY2034	—	5,000	—
Bond payable in yen: 0.09% due CY2038	2,000	2,000	18,519
Medium-term notes maturing through CY2049	703,328	707,742	6,512,296
Subordinated medium-term notes maturing through CY2021	5,900	6,425	54,630
Subordinated borrowings in yen maturing through CY2025	50,000	50,000	462,963
Long-term borrowings in yen maturing through CY2049	760,468	819,781	7,041,370
	¥1,555,896	¥1,625,148	\$14,406,444

The amount for medium-term notes as of March 31, 2020 includes US\$353,651 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, 2020 and 2019 are ¥32,097 million (\$297,194 thousand)

and ¥31,677 million, respectively. Benefit expenses stated in the statements of income for the years ended March 31, 2020 and 2019 were ¥2,658 million (\$24,611 thousand) and ¥2,707 million, respectively.

Movement in retirement benefit obligations consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
At beginning of period	¥31,677	¥30,478	\$293,306
Service cost	2,658	2,707	24,611
Benefits paid	(2,527)	(1,780)	(23,398)
Other	289	272	2,675
At end of period	¥32,097	¥31,677	\$297,194

(2) Defined contribution plan

Benefit expenses to “Defined contribution” for the years ended March 31, 2020 and 2019 were ¥2,392 million (\$22,148 thousand) and ¥2,316 million, respectively.

Retirement benefits for directors

Directors’ and corporate auditors’ retirement benefits of ¥48 million (\$445 thousand) and ¥65 million are included in “Retirement benefits” in the accompanying balance sheets as of March 31, 2020 and 2019. Benefit expenses stated in the statements of income for the years ended March 31, 2020 and 2019 were ¥14 million (\$130 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, 2020 and 2019 is as follows:

	2020	2019
Statutory tax rate:	30.6%	30.6%
Valuation allowance	(0.4)	0.9
Permanent difference (expense)	3.6	1.2
Permanent difference (income)	(1.1)	(0.6)
Other	0.5	0.2
Effective tax rate	33.2%	32.3%

Details of deferred tax assets and liabilities as of March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Deferred tax assets:			
Retirement benefits	¥ 9,843	¥ 9,719	\$ 91,139
Compensation and bonuses	2,995	3,251	27,731
Asset retirement obligations	2,553	1,730	23,639
Loss on trading	1,824	2,105	16,889
Statutory reserves	1,196	1,202	11,074
Impairment loss	900	—	8,333
Write-down of investment securities	641	594	5,935
Enterprise tax and office taxes	499	661	4,620
Depreciation	349	348	3,231
Other	6,546	5,554	60,613
Gross deferred tax assets	27,346	25,164	253,204
Less: Valuation allowance	(14,979)	(15,048)	(138,695)
Total deferred tax assets	12,367	10,116	114,509
Deferred tax liabilities	1,366	2,198	12,648
Net deferred tax assets	¥ 11,001	¥ 7,918	\$ 101,861

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

14. Statutory reserves

The Financial Instruments and Exchange Act of Japan requires a securities company to set aside a reserve in proportion to its securities transactions and other related

trading to cover future eventual operational losses caused by the securities company for customer transactions.

15. Contingent liabilities

The outstanding balances of the guarantees obligated by the Company arising as guarantors of employees' borrowings were ¥24 million (\$222 thousand) and ¥ 47 million at March 31, 2020 and 2019, respectively. The outstanding balances

of the guarantees obligated by the Company arising as guarantors of derivative transactions of fellow subsidiaries were ¥317 million (\$2,935 thousand) and ¥1,970 million at March 31, 2020 and 2019, 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 ¥14,374 (\$130) per share amounting to ¥11,646 million (\$107,833 thousand) were approved by the shareholders' meeting on June 18, 2020.

17. Segment information

The Company defines reportable segments as a group of operating segments whose discrete financial information is available and reviewed by the Company's management regularly in order to make decisions about resources to be allocated and assess their performance. The Company decides operating segments by business market and business category based on organization structure and aggregates to two reporting segments: "Retail sales" and "Domestic wholesale."

"Retail sales" provides broad types of products and

services mainly to individual and unlisted corporate customers. "Domestic wholesale" consists of "Global markets" and "Global investment banking." "Global markets" sells and trades stock, bonds, foreign exchange and the other derivatives mainly to institutional investors and investors of business, financial and public-interest corporations both at home and abroad. "Global investment banking" provides various investment banking services such as underwriting of securities and advisory of M&A, etc., at home and abroad.

(Net operating revenues by reportable segment)

Millions of yen

	Retail sales	Domestic wholesale	Reportable segment total	Others	Total
Year ended March 31, 2020:					
Net operating revenues:					
Sales to customers	¥161,715	¥103,865	¥265,580	¥(3,138)	¥262,442
Intersegment sales and transfers	—	—	—	—	—
Total	¥161,715	¥103,865	¥265,580	¥(3,138)	¥262,442

Millions of yen

	Retail sales	Domestic wholesale	Reportable segment total	Others	Total
Year ended March 31, 2019:					
Net operating revenues:					
Sales to customers	¥182,361	¥103,993	¥286,354	¥2,269	¥288,623
Intersegment sales and transfers	—	—	—	—	—
Total	¥182,361	¥103,993	¥286,354	¥2,269	¥288,623

Thousands of U.S. dollars

	Retail sales	Domestic wholesale	Reportable segment total	Others	Total
Year ended March 31, 2020:					
Net operating revenues:					
Sales to customers	\$1,497,361	\$961,713	\$2,459,074	\$(29,055)	\$2,430,019
Intersegment sales and transfers	—	—	—	—	—
Total	\$1,497,361	\$961,713	\$2,459,074	\$(29,055)	\$2,430,019

* "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
	2020	2019	2020
Net operating revenues			
Reportable segment total	¥265,580	¥286,354	\$2,459,074
Net operating revenues from "Others"	(3,138)	2,269	(29,055)
Commission fee deducted from net operating revenues	8,656	6,371	80,148
Other adjustments	(1,226)	(2,165)	(11,352)
Net operating revenues of financial statements	¥269,872	¥292,829	\$2,498,815

(Impairment losses on fixed assets by reportable segment)

The impairment losses recognized on fixed assets in "Others" for the year ended March 31, 2020 are ¥2,339 million (\$21,657 thousand), and are included in "Structural reform cost" in the statement of income.

(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, 2020 and 2019, 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
				2020
Daiwa Securities Group Inc.	¥247,397 million	Proceeds from Borrowings	Short-term borrowings	¥231,400
		Interest expense (Note 1)	Long-term debt	410,368
			Accrued and other liabilities—Other	2,112
Daiwa Capital Markets Europe Limited	£732 million	Recurring transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	¥ 3,200
		Interest income (Note 3)	Collateralized short-term financing agreements (Liabilities)	368,046
		Interest expense (Note 3)		
		Recurring transactions of loans	Loans receivable from other than customers	¥179,651
		Interest income (Note 3)	Receivables—Other	766
		Recurring transactions of purchase and sale of securities (Notes 2, 3)		
		Recurring transactions of derivatives (Notes 2, 3)	Trading assets	¥ 48,457
			Trading liabilities	48,623
Daiwa Capital Markets America Inc.	\$100 million	Recurring transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	¥ 37,068
		Interest income (Note 3)	Collateralized short-term financing agreements (Liabilities)	197,845
		Interest expense (Note 3)		
		Recurring 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	¥ 2,989
		Commissions (Note 4)		¥16,954
Daiwa Next Bank, Ltd.	¥50,000 million	Recurring transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	¥ 29,969
		Interest income (Note 3)		
		Interest expense (Note 3)		
		Recurring transactions of purchase and sale of securities (Notes 2, 3)		
		Recurring transactions of derivatives (Notes 2, 3)	Trading assets	¥ 1,916
			Trading liabilities	6

* "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 recurring transactions.

(Note 3) Terms of transaction are determined based on 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
				2019
Daiwa Securities Group Inc.	¥247,397 million	Proceeds from Borrowings	Short-term borrowings	¥314,396
		Interest expense (Note 1) ¥10,942	Long-term debt	441,181
			Accrued and other liabilities—Other	2,373
Daiwa Capital Markets Europe Limited	£732 million	Recurring transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	¥ 500
		Interest income (Note 3) ¥ 109	Collateralized short-term financing agreements (Liabilities)	172,697
		Interest expense (Note 3) 968		
		Recurring transactions of loans	Loans receivable from other than customers	¥243,623
		Interest income (Note 3) ¥ 5,633	Receivables—Other	2,162
		Recurring transactions of purchase and sale of securities (Notes 2, 3)		—
		Recurring transactions of derivatives (Notes 2, 3)	Trading assets	¥ 43,596
			Trading liabilities	47,860
Daiwa Capital Markets America Inc.	\$100 million	Recurring transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	¥ 65,813
		Interest income (Note 3) ¥ 879	Collateralized short-term financing agreements (Liabilities)	278,933
		Interest expense (Note 3) 11,608		
		Recurring transactions of purchase and sale of securities (Notes 2, 3)		—
Daiwa Asset Management Co. Ltd.	¥15,174 million	Agency service agreement for investment trust funds	Receivables—Other	¥ 3,401
		Commissions (Note 4) ¥19,976		
Daiwa Next Bank, Ltd.	¥50,000 million	Recurring transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	¥ 22,236
		Interest income (Note 3) ¥ 1,891		
		Interest expense (Note 3) —		
		Recurring transactions of purchase and sale of securities (Notes 2, 3)		—
		Recurring transactions of derivatives (Notes 2, 3)	Trading assets	¥ 868
			Trading liabilities	174

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Terms and conditions of the transactions and transaction policy:

(Note 1) Interest rates on borrowings are determined rationally in consideration of market interest rates.

(Note 2) The description of transaction amount is omitted because these are recurring transactions.

(Note 3) Terms of transaction are determined based on 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
				2020
Daiwa Securities Group Inc.	¥247,397 million	Proceeds from Borrowings	Short-term borrowings	\$2,142,593
		Interest expense (Note 1) \$ 85,944	Long-term debt	3,799,704
			Accrued and other liabilities—Other	19,556
Daiwa Capital Markets Europe Limited	£732 million	Recurring transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	\$ 29,630
		Interest income (Note 3) \$ 398	Collateralized short-term financing agreements (Liabilities)	3,407,833
		Interest expense (Note 3) 4,361	Loans receivable from other than customers	\$1,663,435
		Recurring transactions of loans	Receivables—Other	7,093
		Interest income (Note 3) \$ 44,546		
		Recurring transactions of purchase and sale of securities (Notes 2, 3) —		
		Recurring transactions of derivatives (Notes 2, 3)	Trading assets	\$ 448,676
			Trading liabilities	450,213
Daiwa Capital Markets America Inc.	\$100 million	Recurring transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	\$ 343,222
		Interest income (Note 3) \$ 4,269	Collateralized short-term financing agreements (Liabilities)	1,831,898
		Interest expense (Note 3) 71,574		
		Recurring 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	\$ 27,676
		Commissions (Note 4) \$156,981		
Daiwa Next Bank, Ltd.	¥50,000 million	Recurring transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	\$ 277,491
		Interest income (Note 3) \$ 3,241		
		Interest expense (Note 3) —		
		Recurring transactions of purchase and sale of securities (Notes 2, 3) —		
		Recurring transactions of derivatives (Notes 2, 3)	Trading assets	\$ 17,741
			Trading liabilities	56

* "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 recurring transactions.

(Note 3) Terms of transaction are determined based on 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 six special purpose entities for the year ended March 31, 2020 (eight for the year ended March 31, 2019) 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, 2020 and 2019 are ¥677,459 million (\$6,272,769 thousand) and ¥621,348 million, respectively.

20. Net gain on trading

Net gain on trading for the years ended March 31, 2020 and 2019 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Equities and others	¥40,030	¥39,847	\$370,648
Bonds, forex and others	36,706	49,322	339,870
	¥76,736	¥89,169	\$710,518

21. Selling, general and administrative expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2020 and 2019 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Employees' compensation and benefits	¥ 95,095	¥ 98,021	\$ 880,509
Commissions and brokerage	20,995	17,963	194,398
Communications	11,982	12,425	110,944
Occupancy and rental	25,006	25,089	231,537
Data processing and office supplies	47,377	46,934	438,676
Taxes other than income taxes	3,917	4,426	36,269
Depreciation	20,140	17,483	186,481
Other	16,055	17,152	148,658
	¥240,567	¥239,493	\$2,227,472

22. Other income (expenses)

Details of "Other, net" in the accompanying statements of income for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Gains on sales of investment securities	¥ 164	¥3,485	\$ 1,519
Structural reform cost	(12,702)	—	(117,611)
Office transfer expenses	—	(575)	—
Other	646	314	¥5,981
	¥(11,892)	¥3,224	\$(110,111)

Impairment loss

(Fiscal year ended March 31, 2020)

Daiwa recognized the impairment losses for the following asset group.

			Millions of yen	Thousands of U.S. dollars
	Condition	Location	Impairment loss	Impairment loss
Assets to be held and used	Low profit-earning assets	Kanto region	¥1,016	\$ 9,407
Assets to be disposed	Low operating assets	Kanto region	1,323	12,250
Total			¥2,339	\$21,657

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 software 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 ¥2,339 million (\$21,657 thousand), which are included in "structural reform cost" for the year ended March 31, 2020.

The recoverable amount is measured by value in use, which is equal to zero.

23. Subsequent events

None

Independent Auditor's Report



To the Board of Directors of Daiwa Securities Co. Ltd.:

Opinion

We have audited the accompanying financial statements of Daiwa Securities Co. Ltd. ("the Company"), which comprise the balance sheets as at March 31, 2020 and 2019, the statements of income, statements of changes in net assets and statements of cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2020 and 2019, and its financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Corporate Auditors and the Board of Corporate Auditors for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with corporate auditors and the board of corporate auditors regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Convenience Translation

The U.S. dollar amounts in the accompanying financial statements with respect to the year ended March 31, 2020 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.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Company which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Kanako Ogura
Designated Engagement Partner
Certified Public Accountant

Tomomi Mase
Designated Engagement Partner
Certified Public Accountant

Koji Fukai
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC

Tokyo Office, Japan
July 10, 2020

Notes to the Reader of Independent Auditor's Report:

This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.

Daiwa Securities Group Inc. Corporate Data

Head Office

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9-1, Marunouchi 1-chome, Chiyoda-ku,
Tokyo 100-6751, Japan
Tel: (81) 3-5555-1111

Website

<https://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, 2020)

Number of Shareholders

151,537 (as of March 31, 2020)

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

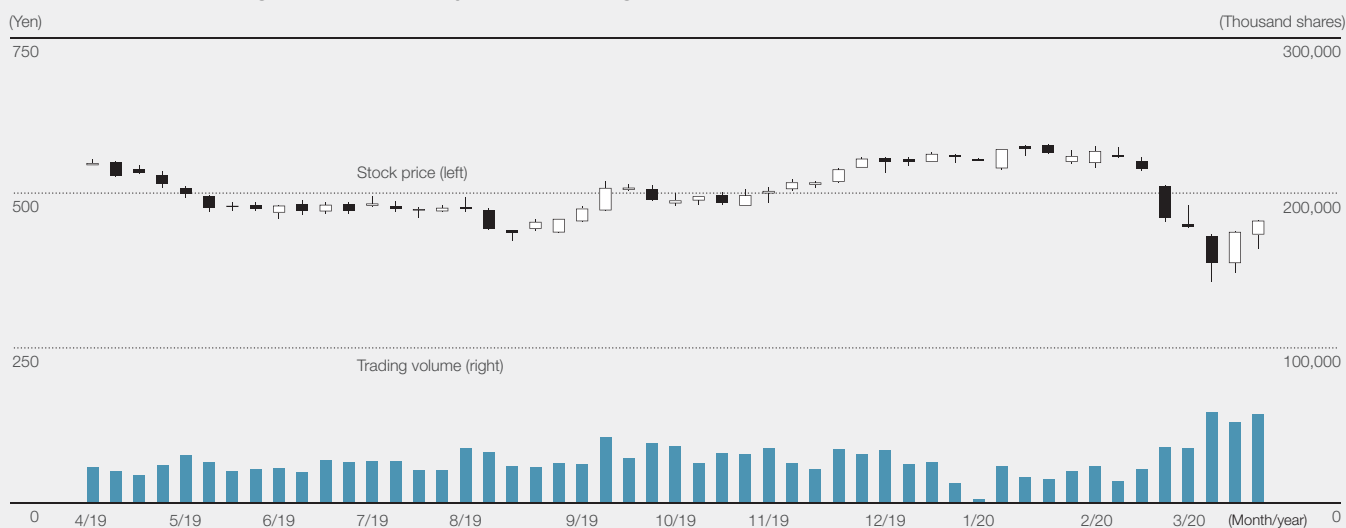
Fax: (81) 3-5555-0661

Email: ir-section@daiwa.co.jp

URL: <https://www.daiwa-grp.jp/english/ir/>

Stock Information

1. Stock Price and Trading Volume on the Tokyo Stock Exchange (April 1, 2019– March 31, 2020)



2. Major Shareholders (As of March 31, 2020)

Name	Number of shares held (Thousands)	% of total outstanding shares
The Master Trust Bank of Japan, Ltd. Trust Account	117,262	7.71%
Japan Trustee Services Bank, Ltd. Trust Account	70,107	4.61%
Taiyo Life Insurance Company	37,980	2.49%
Japan Trustee Services Bank, Ltd. Trust Account 5	32,208	2.11%
Nippon Life Insurance Company	31,164	2.05%
JAPAN POST HOLDINGS Co., Ltd.	30,000	1.97%
JP MORGAN CHASE BANK 385151	29,923	1.96%
Japan Trustee Services Bank, Ltd. Trust Account 9	24,842	1.63%
Japan Trustee Services Bank, Ltd. Trust Account 7	24,347	1.60%
STATE STREET BANK WEST CLIENT - TREATY 505234	23,044	1.51%

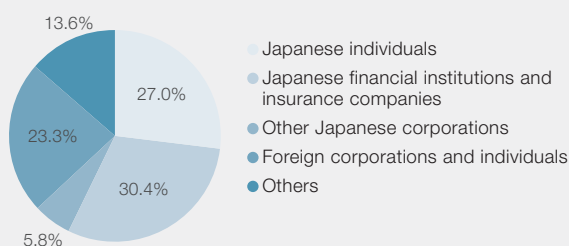
Note: Treasury stock of 179,906,470 shares is excluded for calculating the percentage of the above list of major shareholders.

3. Stock Price on the Tokyo Stock Exchange

(April 1, 2019–March 31, 2020)

Open	High	Low	Close	Average daily trading volume
¥545.5	¥578.6	¥356.8	¥419.2	5,857 thousand shares

4. Breakdown of Shareholders (As of March 31, 2020)



Officers

(As of September 1, 2020)

Daiwa Securities Group Inc.

Directors

(Members of the Board)

Chairman of the Board	Outside Directors
Takashi Hibino	Michiaki Ogasawara
	Hirota Takeuchi
Directors	Ikuo Nishikawa
Seiji Nakata	Eriko Kawai
Toshihiro Matsui	Katsuyuki Nishikawa
Keiko Tashiro	Toshio Iwamoto
Akihiko Ogino	
Sachiko Hanaoka	
Hiromasa Kawashima	

Corporate Executive Officers

President and CEO	Executive Managing Directors
Seiji Nakata*	Junichi Arihara
	(CRO and CDO)
Deputy Presidents	Yoshifumi Otsuka
Toshihiro Matsui* (COO)	Kana Shirakawa
Keiko Tashiro	(CHO)
Kazuo Takahashi	Tomoyuki Murase
Mikita Komatsu	(CIO)
Koichi Matsushita	Eiji Sato (CFO)
Masahisa Nakagawa	
Senior Executive Managing Directors	Corporate Executive Officer
Akihiko Ogino	Takashi Hibino
Shinsuke Niizuma	
Atsushi Mochizuki	

Executive Officers

Senior Executive Managing Directors	Senior Managing Directors
Hironori Oka	Yukiko Takeuchi
	Naoki Suzuki
Executive Managing Directors	Atsushi Itaya
Hideki Araki	Nensuke Tanaka
Shiko Yanagisawa	Yuki Hayakawa

* Representative Corporate Executive Officers

Daiwa Securities Co. Ltd.

Directors

(Members of the Board)

Chairman of the Board	Senior Executive Managing Directors
Takashi Hibino	Yasushi Iwasaki
	Atsushi Mochizuki*
President	Executive Managing Directors
Seiji Nakata*	Masataka Tsujimoto
	Hiroshi Hara
Deputy Presidents	Yoshihisa Kaneko
Toshihiro Matsui*	Junichi Arihara
Kazuo Takahashi*	Yoshifumi Otsuka
Keiko Tashiro*	Tomoo Fujioka
Mikita Komatsu*	Kana Shirakawa
Senior Executive Managing Directors	Mitsuru Fujita
Koichi Maruo	Tomoyuki Murase
Yuichi Akai	Sungcho Kang
Masahiro Kobayashi	
Yoshinori Matsumoto	
Naoto Shimomura	
Shinsuke Niizuma	
Akihiko Ogino	

Audit & Supervisory Board Members

Sumiyuki Akaiwa
Sachiko Hanaoka
Hiromasa Kawashima
Hiroshi Obayashi

Executive Officers

Executive Managing Directors	Senior Managing Directors	Senior Managing Directors
Hirota Shirokawa	Hidekazu Shirota	Kenichi Ueno
Toshiya Tadokoro	Isao Tsujioka	Nensuke Tanaka
Hiroko Sakurai	Tsutomu Kobayashi	Katsumi Maekawa
Hiroki Ikeda	Tsutomu Takahashi	Yoshinori Nakazawa
Kei Sano	Yoshiaki Tanaka	Masahiro Fujisawa
Futoshi Sekine	Takaaki Narieda	Katsuyasu Murata
Tomonori Tsuji	Yukiko Takeuchi	
Eiji Sato	Tomohide Wakayama	
Toru Yamamoto	Takashi Yamada	
Junichi Serizawa	Atsushi Itaya	

* Representative Directors

Domestic Group Companies

(As of September 30, 2020)

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GranTokyo North Tower
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Daiwa Asset Management Co. Ltd.

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Daiwa Institute of Research Holdings Ltd.

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Daiwa Institute of Research Ltd.

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Daiwa Institute of Research Business Innovation Ltd.

1-14-5 Eitai, Koto-ku, Tokyo 135-0034, Japan
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Daiwa Securities Business Center Co. Ltd.

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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.

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9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6756, Japan
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Daiwa Corporate Investment Co., Ltd.

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9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6756, Japan
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Daiwa PI Partners Co. Ltd.

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Daiwa Energy & Infrastructure Co. Ltd.

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Good Time Living Co. Ltd.

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Daiwa Food & Agriculture Co. Ltd.

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Overseas Group Companies

(As of September 30, 2020)

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Bandra East, Mumbai 400051

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14th Floor, 200 Keelung Road, Sec. 1, Taipei

Tel: +(886) 2-2723-9698

DBP-Daiwa Capital Markets Philippines, Inc.

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Tel: +(632) 8737-3000

Daiwa (Shanghai) Corporate Strategic Advisory Co. Ltd.

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Pudong, Shanghai

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Myanmar Securities Exchange Centre Co., Ltd.

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Tel: +(95) 1-374894

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Daiwa Securities Group

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