

Creating the future  
through everyone's action

# From savings to **SDGs**

Integrated Report 2021

Year ended March 31, 2021

**Daiwa Securities Group**

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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.

Member of  
**Dow Jones  
Sustainability Indices**  
Powered by the S&P Global CSA



**2021 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. "FY2020" refers to the fiscal year ended March 31, 2021, and other fiscal years are referred to in a corresponding manner.

**In the event that any material 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 2021

In the spring of 2021, Daiwa Securities Group announced both Vision 2030, which shows the kind of company we are aiming to be in 2030, and the Medium-Term Management Plan “Passion for the Best” 2023, covering the first three years of that period.

Based on the Corporate Principles, which consist of four components—“building trust,” “placing importance on personnel,” “contributing to society,” and “maintaining healthy earnings results”—the Group is working to implement the Vision and new Medium-Term Management Plan while continuously enhancing corporate value. To deepen understanding of the corporate activities the Group is undertaking to achieve these objectives and to generate value together with all of our stakeholders, we have created this integrated report as a tool for dialogue.

In particular, Integrated Report 2021 includes not only an outline of Vision 2030 and the new Medium-Term Management Plan, but also seeks to convey what kind of discussions the Group engaged in during the processes of crafting these statements, where we will place emphasis in realizing them, and what kind of company we are aiming to become, drawing on both quantitative and qualitative information and bringing in the voices of outside directors, management, and employees.

Concerning ESG issues, we drew on advice we received from investors based on the integrated report and other channels in our discussions about crafting the Vision and Medium-Term Management Plan. We are continuing to enhance content in FY2021 so that the integrated report can be an even more useful tool for investors and stakeholders. Detailed ESG-related data and other information are available on our website. I would appreciate it if you would provide us with your opinions on this report.

中田 誠 司

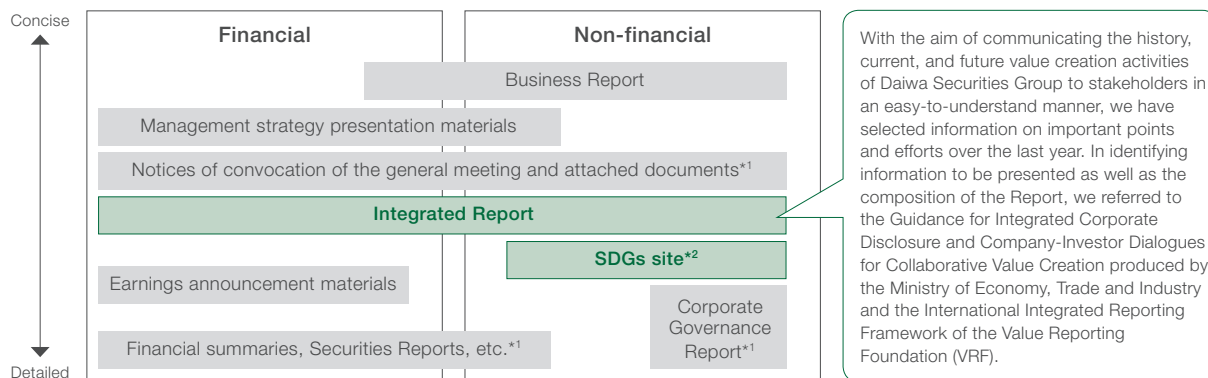
Seiji Nakata  
President and CEO  
Daiwa Securities Group Inc.



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



#### Position of Integrated Report in Disclosure Documents

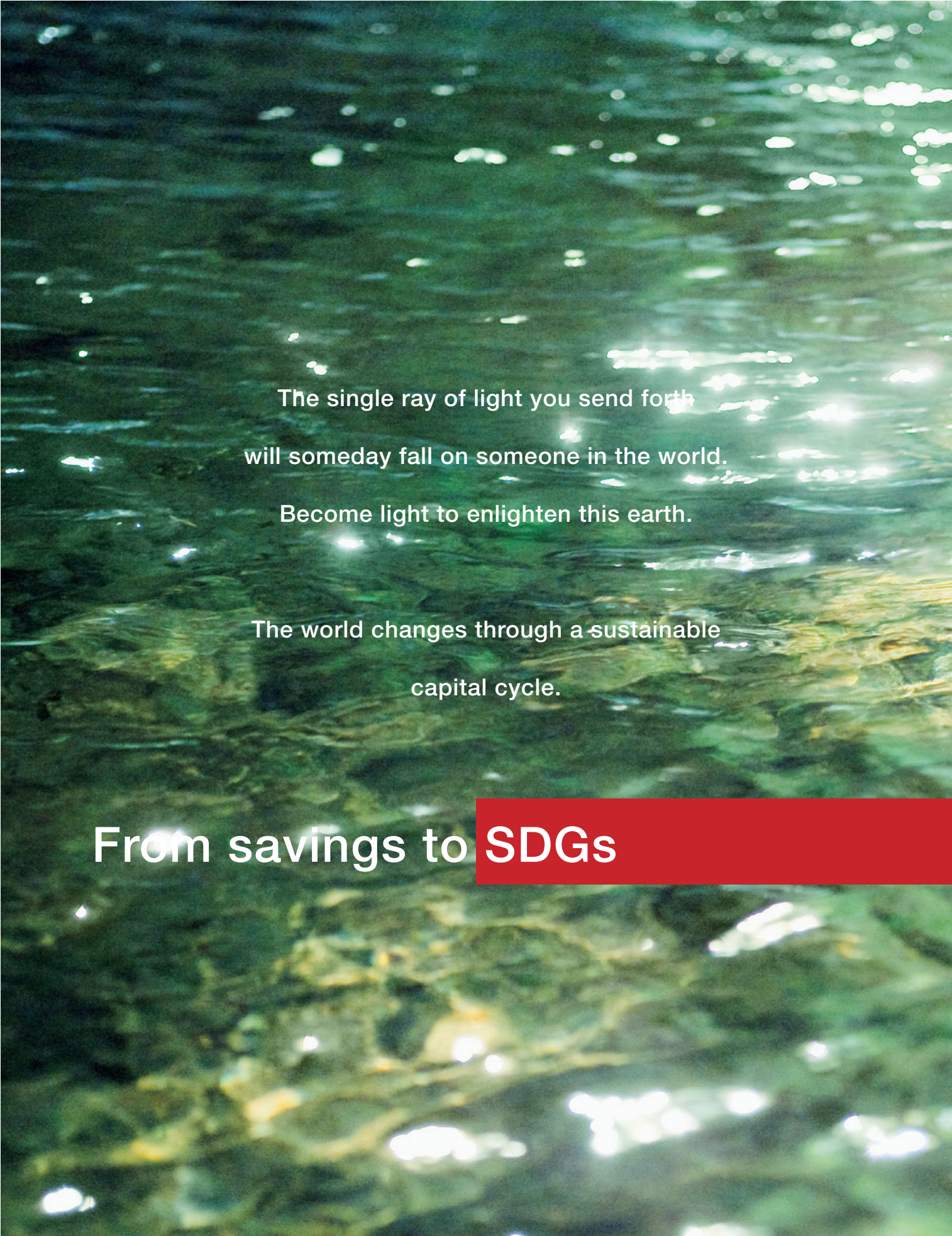


\*1 Documents systematically stipulated under the Companies Act, Financial Instruments and Exchange Law, etc.

\*2 Detailed ESG-related data and other information are available on our SDGs website.  
<https://www.daiwa-grp.jp/english/sdgs/>







The single ray of light you send forth  
will someday fall on someone in the world.

Become light to enlighten this earth.

The world changes through a sustainable  
capital cycle.

From savings to **SDGs**





## Corporate Principles 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 for 119 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. The Daiwa Spirit enhances 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.

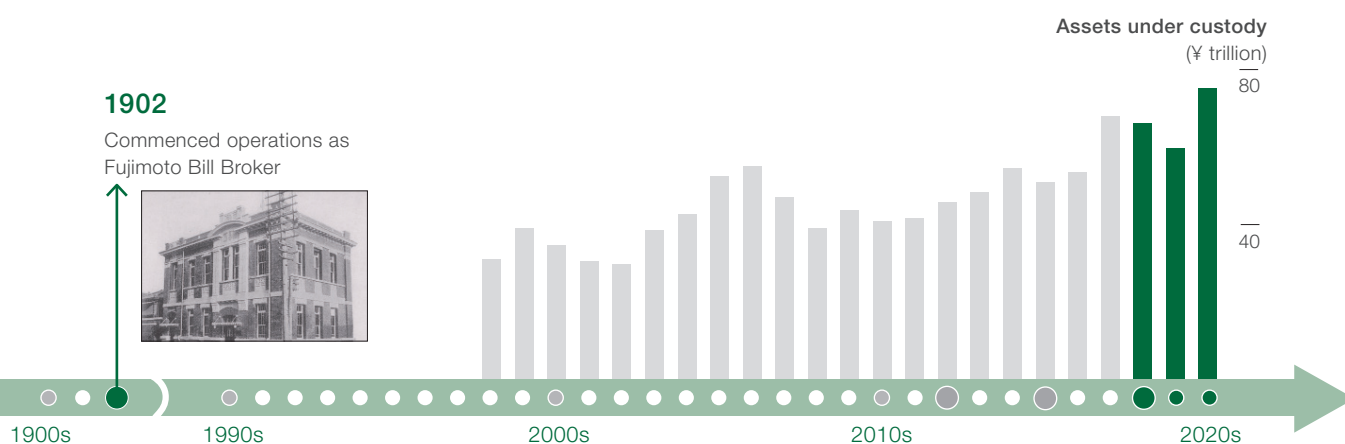


## Corporate History

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 markets. 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.

In 2021, Daiwa Securities Group formulated a vision leading up to 2030 as well as a Medium-Term Management Plan covering the first three years of that period. Seizing on changes in society as opportunities, the Group is working to transform the business model while enhancing corporate value and contributing to society.



### With a pioneering spirit, the Group has led the development of Japan's financial and capital markets.

#### 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 (Currently SSI Securities)  
became 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.  
Became the first Japanese securities  
company to introduce NPS\*

#### 2019

Established CONNECT Co. Ltd.

\* 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.

## Vision 2030—From Savings to SDGs

For Daiwa Securities Group to continue over the next decade to be a company that is indispensable to society, it was essential to craft and put into practice a forward-looking vision of how we believe the world will change. Recognizing this, the Group formulated Vision 2030 as an action guideline shared by all officers and employees, spelling out the kind of company we want to be by 2030, which is also the deadline for achieving the SDGs.

Under the keyword “from savings to SDGs,” Vision 2030 seeks to help realize the SDGs by creating a sustainable capital cycle. As the COVID-19 pandemic further exacerbates many of the issues facing society, the 17 goals and 169 targets of the SDGs have taken on even greater significance. Additionally, for securities companies, which have the function of connecting investors with the countries and companies taking action to achieve the SDGs, their true value to society is facing scrutiny.

## Creating the future through

Innov

Promoting innovation  
and realization of

100 years of life

Realization of a society  
where everyone can spend  
100 years of life affluently

**Vision**

**From savin**

—Realize the S  
a sustainable

**Diversity &**

Realization of a society  
play an active role  
diverse

Foundation of sustainable management



Japan has roughly ¥1,000 trillion in cash and deposits, which account for more than half of all individual financial assets. If even a tenth of this resource could be used to help address issues that are aiming to achieve the SDGs, the social impact would be enormous. Even as demand grows for financing to transform energy structures and develop innovative technologies to achieve net-zero greenhouse gas emissions, it is projected that a growing number of investors are also motivated to invest in these areas. Now that society is taking meaningful steps toward the realization of a sustainable society, the Group is committed to helping achieve the SDGs as a securities company together with investors and other stakeholders under the banner of “from savings to SDGs.”

Under Vision 2030, the Group is aiming to create sustainable added value and continue to be a company that is indispensable to society well into 2030 and beyond.

# everyone's action

ation

that enriches society  
self-transformation

2030

gs to SDGs

SDGs by creating  
capital cycle—

Inclusion

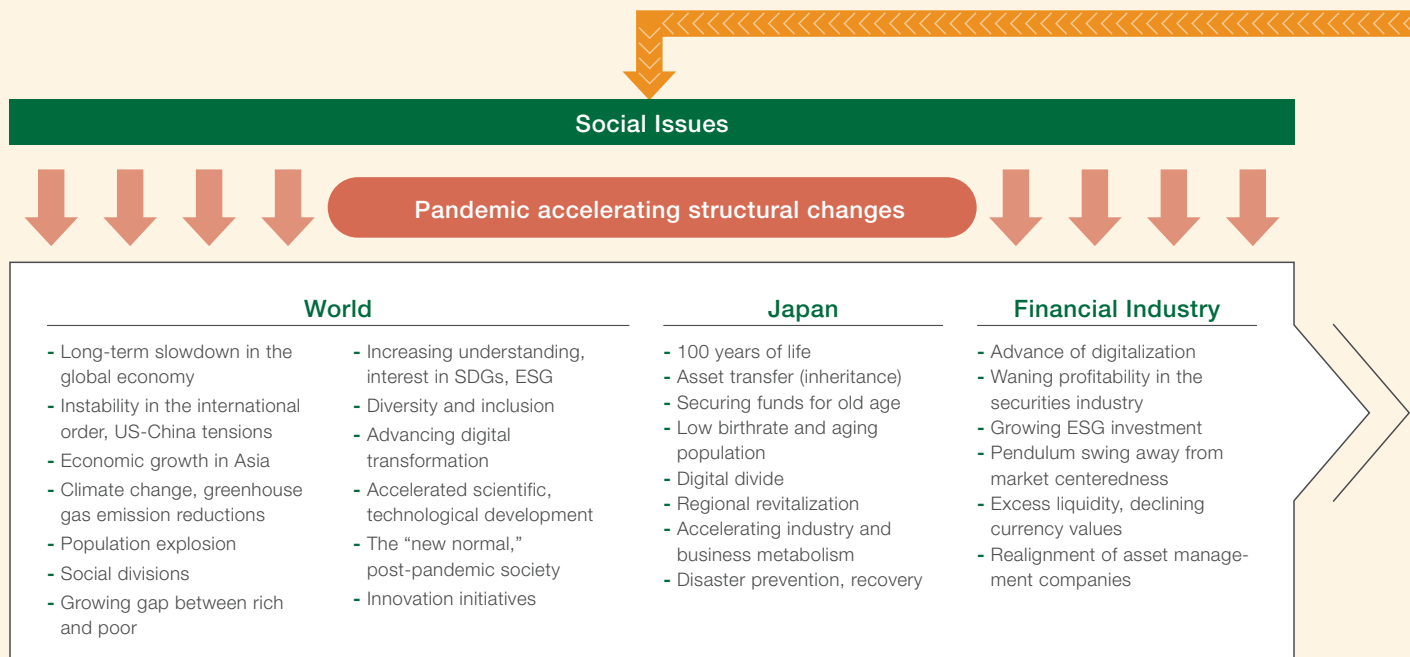
where everyone can  
by acknowledging  
personalities

Green & Social

Promoting the transition to  
a carbon-free society and  
realizing a resilient society

Strengthening the foundation that supports  
sustainable corporate management

# Daiwa Securities Group Value Creation Model



## Daiwa Securities Group's Business Activities

### Management Resources and Strengths of Daiwa Securities Group (Input)



**Financial Capital**



**Human Capital**



**Social Capital**

- ◆ Shareholders' equity ..... **¥1.33 trillion**
- ◆ Consolidated total capital ratio..... **21.72%**
- ◆ Consolidated group employees..... **15,529**
- ◆ Certified Financial Planners.. **1,165 (the most in the industry)**
- ◆ Analysts ranking..... **1st\***
- ◆ Anshin Planners and Inheritance Consultants  
..... **Assigned to the head office and all branches**
- \* See page 46
- ◆ Branches in **24** countries and regions
- ◆ Domestic locations: **180** (as of the end of June 2021)
- ◆ Contact center: **820** seats
- ◆ Collaboration with a diverse group of alliance partners
- ◆ NPS ..... **1st\***
- ◆ Assets under Custody ..... **¥75.3 trillion**
- \* NTT Communications Online NPS Benchmark Survey 2020 Face-to-face securities division

### Retail Division

Net operating revenues... **¥169.5 billion**  
Ordinary income ..... **¥ 20.0 billion**

### Wholesale Division

Net operating revenues... **¥215.8 billion**  
Ordinary income ..... **¥ 74.7 billion**

### Asset Management Division

Net operating revenues... **¥ 51.1 billion**  
Ordinary income ..... **¥ 32.7 billion**

### Investment Division

Net operating revenues... **¥ 4.6 billion**  
Ordinary income ..... **¥ 1.1 billion**

**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 FY2020 results or standing at the end of March 2021



## Solving social problems

### Daiwa Securities Group's Materiality (priority areas)

▶▶ Page 10



100 years of life

▶▶ Page 40



Innovation

▶▶ Page 49



Green & Social

▶▶ Page 56



Diversity & Inclusion

▶▶ Page 64



Foundation of  
sustainable management

▶▶ Page 77

### Basic Policies ▶▶ Page 12



Achieving  
Customer First  
&  
Quality No. 1



Creation of a new  
capital recycling  
system through a  
Hybrid Strategy



Pursuing the best mix  
of digital and real

Aiming to establish a stronger earnings model that is not easily affected by the market environment, the Group is further evolving Quality No. 1 and the Hybrid Strategy established by the previous Plan and adding efforts to achieve digital transformation.

### Social Value

#### Retail Division ▶▶ Page 112

- ◆ Supporting asset formation in line with customers' life plans
- ◆ Providing optimal solutions for customers' total assets
- ◆ Improving customer satisfaction

#### Wholesale Division ▶▶ Page 114

- ◆ Providing investment opportunities in global financial markets
- ◆ Supporting industrial development and restructuring, discovering and fostering new industries
- ◆ Supporting financing to address social issues

#### Asset Management Division ▶▶ Page 116

- ◆ 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.)

#### Investment Division ▶▶ Page 118

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

## Creating Shared Value (Output)

### Economic Value

( Figures reflect FY2020 results.  
Market capitalization and ratings  
are as of June 30, 2021. )

Ordinary income ¥115.1 billion

ROE 8.5%

Total shareholder returns ¥84.8 billion\*

S&P

BBB+/A-

Rating

(Daiwa Securities Group Inc./  
Daiwa Securities Co. Ltd.)

Moody's

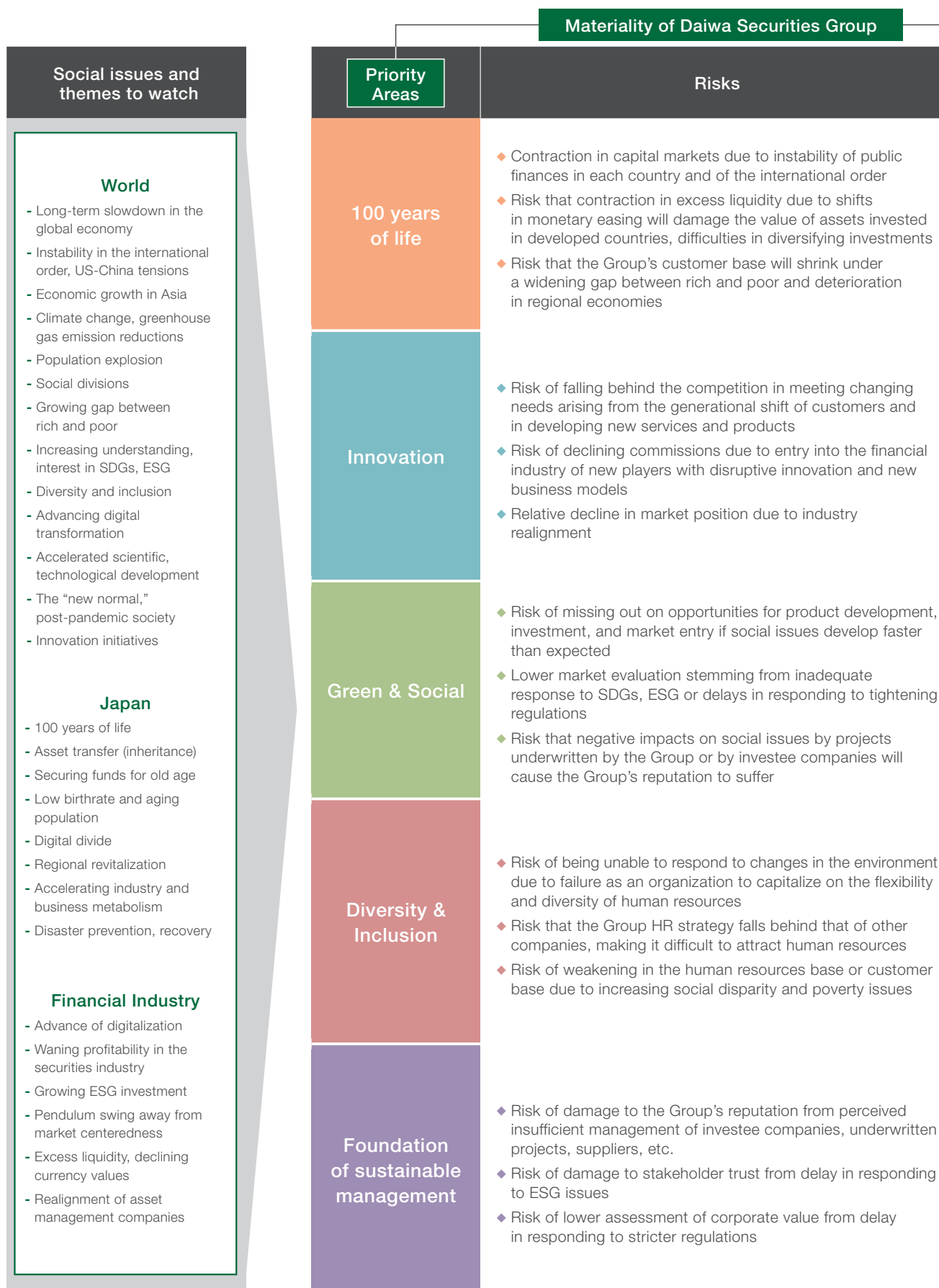
Baa1/A3

Market capitalization ¥1,036.7 billion

## Reinvestment

\* On April 28, 2021, the Group resolved to buy back shares of the company, up to a total of 45 million shares at a total acquisition value of up to ¥30 billion. Total shareholder returns are the maximum value when ¥30 billion worth of shares have been acquired, and may be lower depending on the total acquisition value during the buyback period.

## Risks and Opportunities



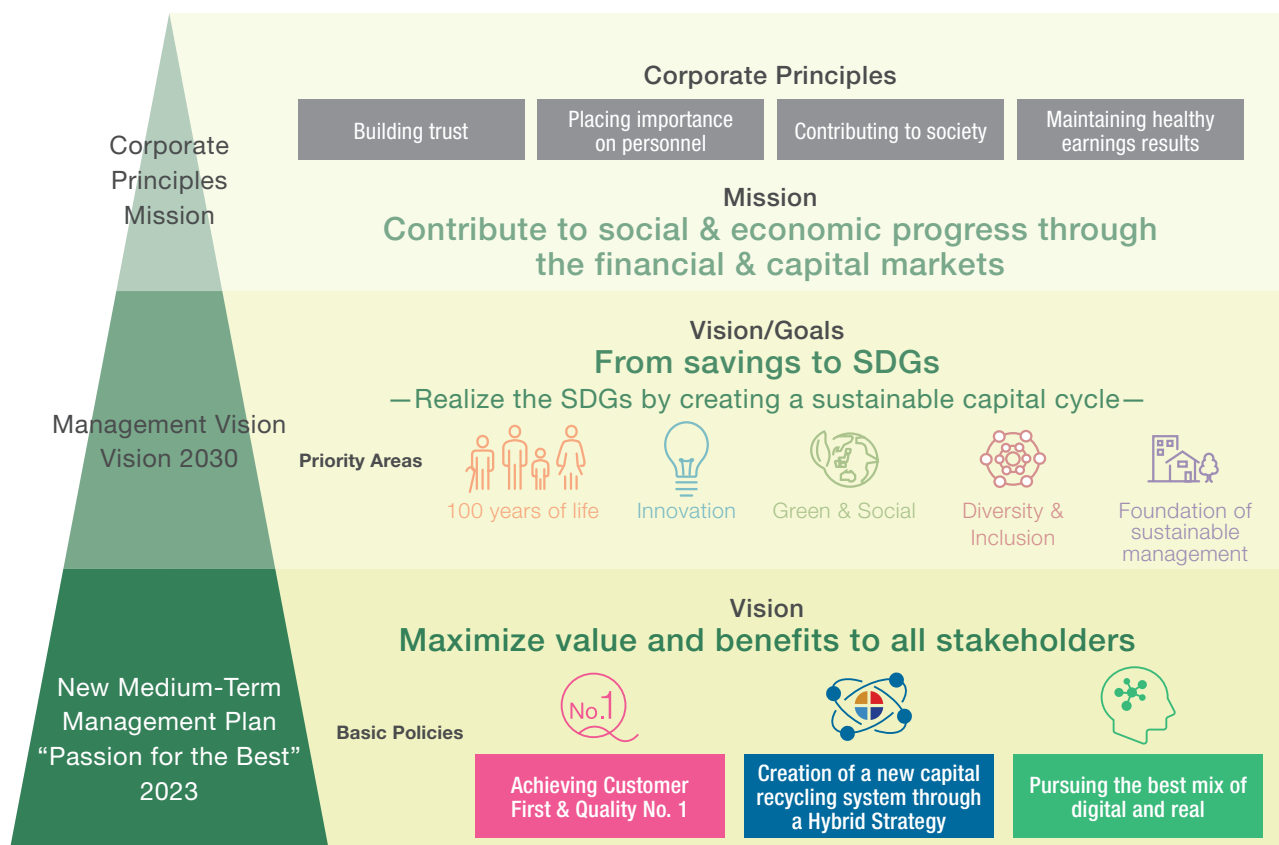


Opportunities	Major Responses (priority issues)
<ul style="list-style-type: none"> <li>◆ Growing need for wealth management and asset succession services in line with concentration of financial assets among the elderly population</li> <li>◆ Increasing needs for asset management to support old age, improving financial literacy in Japanese society</li> <li>◆ Greater attention to regions outside major urban centers</li> <li>◆ Increased investment opportunities in Asia</li> </ul>	<p><b>Realization of a society where everyone can spend 100 years of life affluently</b></p> <ol style="list-style-type: none"> <li>1. Support for household asset formation and conservation toward the realization of a prosperous 100-year life</li> <li>2. Realization of local revitalization with private funds</li> <li>3. Financial support for economic growth in Asia</li> </ol> <p>» Page 40</p>
<ul style="list-style-type: none"> <li>◆ Growing demand for corporate financing and M&amp;A to realize innovation</li> <li>◆ Productivity gains from streamlining back office functions and strengthening customer channels</li> <li>◆ Possibility of offering new financing methods and products, such as security token offerings using blockchain or other digital technologies</li> <li>◆ Expanding investment demand for new asset classes</li> </ul>	<p><b>Promoting innovation that enriches society and realization of self-transformation</b></p> <ol style="list-style-type: none"> <li>4. Support for accelerating corporate metabolism toward the realization of innovation that enriches society</li> <li>5. Reform of business portfolio to create new added value</li> <li>6. Leading social transformation as a one-of-a-kind financial platformer</li> </ol> <p>» Page 49</p>
<ul style="list-style-type: none"> <li>◆ Mounting demand for finance that helps solve environmental and social issues</li> <li>◆ Opportunities to invest in and enter businesses that lead to solutions to environmental and social issues</li> <li>◆ Development and provision of new financial products and services that balance economic returns and social impact</li> </ul>	<p><b>Promoting the transition to a carbon-free society and realizing a resilient society</b></p> <ol style="list-style-type: none"> <li>7. Promotion of green finance to support the realization of a carbon-free society</li> <li>8. Development and provision of new financial products and services that contribute to the realization of a sustainable society</li> </ol> <p>» Page 56</p>
<ul style="list-style-type: none"> <li>◆ Productivity gains through stronger employee engagement that recognizes diversity</li> <li>◆ Enhancement of HR measures leading to recruitment and retention of human resources</li> <li>◆ Greater productivity and increased business development opportunities through the recruitment and training of digital IT staff</li> <li>◆ Providing consulting to meet the various needs of customers</li> </ul>	<p><b>Realization of a society where everyone can play an active role by acknowledging diverse personalities</b></p> <ol style="list-style-type: none"> <li>9. Fostering human resources who can provide added value</li> <li>10. Building an organization where everyone can play an active role by acknowledging diverse personalities</li> </ol> <p>» Page 64</p>
<ul style="list-style-type: none"> <li>◆ Possibility of gaining higher assessment of corporate value through improved ESG evaluation</li> <li>◆ The Group's efforts may lead to advising of client companies or project acquisitions</li> <li>◆ Stronger foundation for the value chain</li> </ul>	<p><b>Strengthening the foundation that supports sustainable corporate management</b></p> <ol style="list-style-type: none"> <li>11. Strengthening a sound and highly transparent management base</li> <li>12. Leading the maintenance and development of financial and capital markets</li> <li>13. Creating a beautiful global environment that will lead to the next generation</li> <li>14. Realization of a better future community/society</li> </ol> <p>» Page 77</p>

## Daiwa Securities Group Vision and Strategies

Daiwa Securities Group has compiled a new Medium-Term Management Plan, “Passion for the Best” 2023, which covers the first three years of our efforts to become the company envisioned by Vision 2030 and summarizes concrete actions in priority areas.

Accompanied by the slogan, “The best partner for co-creating the future —Be with you—,” the Basic Policies of the Plan call for the Group to achieve customer first and Quality No. 1 operations and create a new capital recycling system through a Hybrid Strategy, as well as pursuing the best mix of digital and real. As we build value in both financial and non-financial areas, we aim to be the best partner for all stakeholders by maximizing value and benefits not only for our customers but also society, shareholders, and employees.



### Basic Policies of “Passion for the Best” 2023

The new Medium-Term Management Plan builds on the Basic Policies of the previous Plan, which were to provide 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. These approaches have been reframed as “achieving Customer First & Quality No. 1” operations and the “creation of a new capital recycling system through a Hybrid Strategy,” toward which we will redouble our efforts. To these, we added a third policy in light of the growing importance of digital transformation (DX), namely, “pursuing the best mix of digital and real”. With these three pillars as the Basic Policies, the Plan adopted “The best partner for co-creating the future —Be with you—” as its slogan, emphasizing the need for a customer-centered approach. Under the new Plan, we will also continue to strengthen our SDG- and ESG-related actions and other initiatives in sustainability, while further reinforcing head office corporate strategies as a foundation for supporting individual strategies.

### Numerical targets for the new Medium-Term Management Plan

As numerical targets for the new Plan, we established KPIs with an awareness of the need for the sustainable improvement of corporate value through financial and non-financial actions.

On the financial side, the Performance KPIs are ROE of 10% or higher and ordinary income of ¥200 billion or more.

In addition, new KPIs to evaluate progress in implementing our wealth management business model and Hybrid Strategy include an asset-based revenue ratio of 50% or higher in the Retail Division, hybrid-related ordinary income of ¥50 billion or more, and a hybrid-related ordinary income ratio of around 25%.

On the non-financial side, we have added KPIs related to human resources, an indispensable element in constructing a sustainable business structure. These include efforts to foster digital IT human resources and empower women in the workplace.

## New Medium-Term Management Plan

FY2018-FY2020  
Previous Medium-Term  
Management Plan

FY2021-FY2023

### New Medium-Term Management Plan “Passion for the Best” 2023

The best partner for co-creating the future

—Be with you—

Basic Policies

Providing  
high-value-added  
solutions through the  
use of our Quality  
No. 1 consulting  
capabilities

Providing  
new value as  
an integrated  
securities group  
with a hybrid  
business model

Digital  
transformation

Basic Policies

No.1  
Achieving  
Customer First  
& Quality No. 1

Creation of a new  
capital recycling  
system through  
a Hybrid Strategy

Pursuing the best mix of digital and real

Maximize  
value and  
benefits to all  
stakeholders

Initiatives in  
sustainability

Corporate strategy

Financial & capital/  
Risk management/Compliance/  
HR/Overseas

## Quantitative Targets (KPIs) Targets to achieve in FY2023

	Performance	Wealth Management Business	Hybrid Strategy	Financial Base
Financial KPIs	<ul style="list-style-type: none"> <li>ROE <b>10%</b> or higher</li> <li>Ordinary income <b>¥200</b> billion or more</li> </ul>	<ul style="list-style-type: none"> <li>Retail Division asset-based revenue ratio <b>50%</b> or higher*<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>Hybrid-related ordinary income <b>¥50</b> billion or more</li> <li>Hybrid-related ordinary income ratio Around <b>25%</b></li> </ul>	<ul style="list-style-type: none"> <li>Consolidated total capital ratio Maintain at <b>18%</b> or higher</li> </ul>
	Human Resources	Wealth Management Business	Sustainability	
Non-financial KPIs	<ul style="list-style-type: none"> <li>Number of Digital IT Masters <b>200</b> personnel or more</li> <li>Number of CFPs and CMAs <b>3,000</b> personnel or more</li> </ul>	<ul style="list-style-type: none"> <li>Daiwa Securities assets under custody (AUC) <b>¥90</b> trillion or more</li> </ul>	<ul style="list-style-type: none"> <li>Ratio of women on the Board of Directors <b>30%</b> or higher*<sup>2</sup></li> <li>Ratio of women in management positions <b>25%</b> or higher*<sup>3</sup></li> <li>Employee satisfaction Maintain at <b>80%</b> or higher</li> <li>Balance of investment in SDGs-related businesses <b>¥150</b> billion or more</li> <li>SDG bond league table In top <b>3</b></li> <li>'Ouen (Supporting)' term deposits balance <b>¥200</b> billion or more</li> </ul>	

100 years of life
 Innovation
 Green & Social
 Diversity & Inclusion
 Foundation of sustainable management

\*1 4Q, FY2023 \*2 By 2030 \*3 FY2025



## Message from the CEO

The conviction and fortitude to achieve  
a once-in-a-century business model shift



Seiji Nakata

President and CEO  
Daiwa Securities Group Inc.

## My thoughts

## Convictions about a sustainable securities business

“Passion for the Best” 2020, the previous Medium-Term Management Plan that started in FY2018, has concluded and a new three-year plan, “Passion for the Best” 2023, started this past April. Before looking back at the last three years, I’d like to say a word about what I was thinking about in the first year after becoming CEO in 2017.

The key word for me was “sustainability.” Looking ahead to at least the next 10 years, and in some cases 20 years, I felt the central issue was the kind of management the Daiwa Securities Group needed to be able to flourish along with society while persevering as a company. Our core securities business is divided into retail business for individuals and wholesale business for corporations. For the retail business, how can we transform the business model to stay abreast of the times? For the wholesale business, what kind of network infrastructure do we need to build? In an industry crowded with major players at home and abroad, how do we delineate the markets, products, and targets that really showcase our competitive advantages?

I’ll come back to the transformation of the business model later, but in a sense, what I mulled over even more than the retail and wholesale securities businesses was how we might cultivate businesses outside the securities field. Today and going forward, securities will remain our core business. But over-dependence on the securities business tends to leave our performance vulnerable to whatever is happening in the market at the time. So, it seemed to me that it was critical for us to engage in operations that carry a different risk profile from the securities business, even though they may be based on it, and to grow those businesses by harnessing synergies with the securities business. The conclusion I reached was that sustainable growth was possible for the Group as a whole only if we stopped standing on one leg and started generating stable earnings from other businesses.

## Hybrid Strategy

## Expanding points of contact with customers through new businesses

I think I had already established the ground of this conviction about 15 years earlier, when I was the Head of Planning. At that time, we were starting preparations for the launch of Daiwa Next Bank and entry into the REIT market. In those days, if customers were wealthy, they already owned securities, but most people had far more cash or real estate assets than securities. Even if we got the chance to talk with a customer about securities, if the conversation turned to cash, let alone real estate, it couldn’t go anywhere if we had no products to offer. I had a sense that the Group’s future was in jeopardy unless we could engage in a wide-ranging consulting business involving not just securities but all of our customers’ assets. After that is when we started Daiwa Next Bank. In the area of real estate as well, even if it’s not feasible for us to develop and hold our own properties like a real estate developer, handling securitized products like REITs has given us points of contact with customers.

By the time I became CEO, both Daiwa Next Bank and the real estate asset management business were up and running and had grown to a certain size. Now, we are working to further expand both businesses while broadening our line of non-securities businesses. To this end, we are aggressively embarking on business fields we had been unable to enter before. Group companies Daiwa Energy & Infrastructure in the renewable energy investment field and Daiwa Food & Agriculture in the agriculture field are prime examples. When I took up the position as CEO, I sought to convey my thoughts and aims through two key phrases: Quality No. 1 and Hybrid Strategy. These two focal points were woven into the framework of the Medium-Term Management Plan that kicked off in FY2018 and remain guideposts now, as we enter a new three-year Plan. In other words, over the six-year span of the previous and current Plans, I am committed whole-heartedly to pouring all my efforts as CEO into achieving our targets, both quantitatively and qualitatively. The previous Plan ushered us into a phase of sowing seeds and laying the groundwork for these two focal points; with the new Plan we have entered the phase of finally delivering results.

▶▶ Page 27  
Hybrid Strategy

## Message from the CEO

### Sales reform

## A once-in-a-century turning point for the business model

Now, looking back at the previous Medium-Term Management Plan, unfortunately, we weren't always where we wanted to be with the numerical targets, in part because of our vulnerability to market conditions. Against targets of ¥200 billion or more in ordinary income and ROE of 10% or more, we wound up in FY2020 with ¥115.1 billion in ordinary income and ROE of 8.5%. I would say somewhere between a 60% to 70% achievement rate. Results were more satisfactory in terms of our qualitative goals. For example, the previous Plan set out customer-oriented performance indicators. To achieve these and to realize the next level of Quality No. 1, we took steps to implement the Daiwa version of NPS (a customer satisfaction index) as a concrete measure of success. We saw benefits of this in assets under custody, which grew to reach ¥75.3 trillion by the end of the three-year period of the Plan. Although this fell somewhat short of our numerical target of ¥80 trillion, our NPS scores have risen year by year, which I believe enabled us to steadily build up assets under custody.

My reason for insisting on incorporating NPS tools into the sales reform was because I thought it was more necessary than ever to have a solid grasp of the issues, concerns, and dissatisfaction of customers. In the past, after a customer bought or sold one of our financial products like an investment trust or stock, our point of contact with them was temporarily shut off. But aside from securities, our customers also hold cash and real estate, and we are in an era now when total asset management has become essential. Many of our customers are relatively wealthy and elderly. It's safe to say that the chief concern for many of them is how to preserve the assets they currently have and how to pass them down to their children and grandchildren. Even though this is the case, the typical sales approach focused on one-off earnings from transactions. We came to realize that this approach didn't adequately address the issues and concerns of customers. That's what led to the introduction of NPS. We want to tap into ongoing transactions with customers by taking on board their issues more broadly and more deeply. NPS is an objective tool for evaluating our success in doing that.

But succeeding with NPS calls for taking a long view. As I mentioned, we typically relied heavily on brokerage commissions from individual financial products such as investment trusts and stocks. And while that approach is certainly more efficient in terms of earning commission income, in this day and age, what we need to emphasize is multiplying the overall transaction time with the customer. We might enjoy brisk buying and selling volume when market conditions and prices are favorable, but transactions fall off whenever the market turns downward. Let's say the time span for our business interaction with a customer is just one year. Multiplying our commission income by just that one year will yield a relatively small amount. On the other hand, if a customer signs up for a discretionary asset management service like Daiwa Fund Wrap, our income comes from an annual fee based on the balance of entrusted assets. If the transaction period extends for 10 years or 20 years, the balance fee is multiplied by that many years, and our total income ends up being significantly greater.

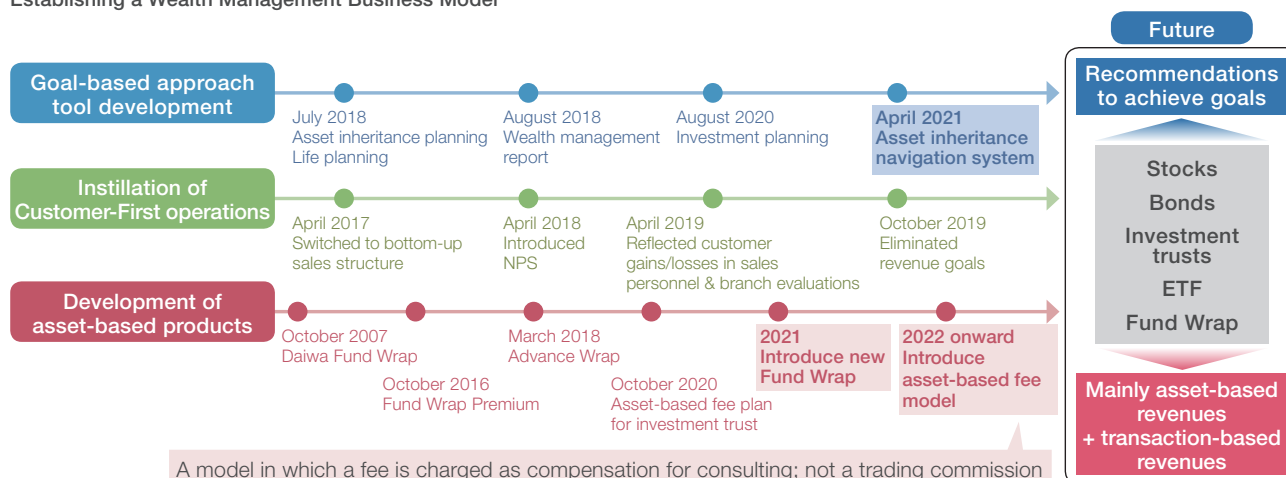
The hurdle for us is that, in the process of transitioning to a wealth management business model, our upfront commission income will temporarily drop off—not only that; corporate earnings will also slow down. But we can't miss the forest for the trees. If we don't get over this hurdle, we'll go right back to the conventional brokerage-led business model, and I am determined as top manager never to do that. So, it is crucial for me to keep getting the message out across the Group that passing through this valley is something we can't avoid if we want to reach the next stage of growth. Wrapping up the previous Medium-Term Management Plan, I got the strong sense that we are at last poised to start transitioning to the wealth management business model I'm aiming for. Not just tweaking the existing model, but seriously overhauling it—it's no exaggeration to say that this is a point a company gets to once every hundred years. Whether or not we can change the business model depends entirely on whether top management has steadfast conviction and fortitude to see it through. Here's where I believe we will see how the Group differs from other securities companies.

▶▶ Page 25  
Previous  
Medium-Term  
Management  
Plans

▶▶ Page 28  
Retail division  
strategy



## Establishing a Wealth Management Business Model



### 100 years of life

## Earnings opportunities changing with demographics

Another motive for breaking away from commissions-based business is the fact that the former framework, under which the earnings of securities companies would increase in proportion to improvement in the stock market, has collapsed. During Japan's bubble economy, for example, people in their 50s were the core customer base for asset management. That generation still evinces a strong willingness to put money into asset formation. In recent years, though, even if the market is strong, the earnings of securities companies don't necessarily follow suit. One factor for this is the downward pressure on commissions caused by the advent of online securities brokers—we've recently seen competition from commission-free accounts. An even bigger factor is that investment appetites are weaker than they used to be. Currently, looking at the approximately ¥1,950 trillion in personal financial assets in Japan, the lion's share is held by people 70–75 years old. If that's the case, much of customer concern shifts to the preservation and passing down of assets already held, rather than the desire to boost asset formation. That's the point where our earnings no longer track market conditions. Before becoming CEO, for a time I was head of the retail marketing division. On the ground, I had a tangible sense of this shift in the current of customer mentality.

At the moment, 63% of all assets in Japan are held by people in their 60s or older, but down the road it's easy to imagine that this proportion will change in line with generational shifts. I'm 61 years old now, and the parents of my generation are probably around 85 to 90. Just looking at friends and acquaintances, it's easy to realize that inheritance issues are going to crop up as people age. In general, such assets tend to be inherited by the children, in their 60s or older. So, there is a huge market for asset management among that generation.

### New Medium-Term Management Plan

## Refining the business portfolio and achieving targets

Turning to the new Medium-Term Management Plan, having spent the past three years more or less laying the groundwork, we are now ready to begin the transition to a wealth management business model. Meanwhile, we will further enlarge the hybrid business model driving our non-securities businesses. These were the two pillars from the previous Plan. In addition, we have set a new goal of pursuing the ideal mix of digital and real businesses, to capitalize on the astonishing advances in digital transformation emerging in the wake of the COVID-19 pandemic. Together, these three pillars form the backbone of the new Plan's qualitative targets. Regarding numerical targets, taking into account the changes wrought by the pandemic on the business environment and the three-year outlook for macroeconomic growth, and after collating the targets of each division, we decided to target ordinary income of ¥200 billion or more and ROE of 10% or more, which are the same levels as the previous Plan. I think ¥200 billion yen in ordinary income is

►► Page 26  
Assumed  
business portfolio

## Message from the CEO



imminently achievable. Of that amount, we project ¥50 billion in ordinary income from hybrid businesses (¥25 billion in FY2020). This is a realistic target, I think, representing the combined earnings of each business in this area.

In the hybrid businesses, our thrusts going forward will be real estate asset management and the business of Daiwa Energy & Infrastructure. Real estate asset management has been robust in housing and office buildings, while hotel businesses that were hard hit by the pandemic should turn around as vaccination efforts spur economic recovery. REITs, which are securitized products rather than physical properties, hold great promise as an asset product. Of course, our hybrid businesses cover a range of areas, and businesses like Daiwa Food & Agriculture that utilize agritech also contribute to the Sustainable Development Goals (SDGs). However, each business unit has different characteristics. Some contribute to earnings relatively early on, while others need to be

viewed over the long term. Real estate asset management is a business that builds up a large asset balance fairly quickly. By the end of FY2023, I'd like us to increase the balance of assets under management by ¥300 billion over the current level to ¥1.5 trillion.

As Japan and the rest of the world move toward a carbon-free society, the future of renewable energy, a major alternative to current energy sources, really has no limits. Daiwa Energy & Infrastructure has accumulated assets under management of just under ¥120 billion. It can derive dividends and other income gains based on this balance. The company can also package funds based on the solar power plants it owns throughout the country, as well as selling the debt portion as green bonds. Consequently, strong growth in renewable energy will make it possible to invest in this area via funds without investing directly in power plants. In light of the potential involved, we intend to position real estate asset management and renewable energy as the two growth drivers of our hybrid businesses and as the core of our earnings.

From 2022, we will shift to a more full-fledged asset-based fee model to further cultivate the wealth management business. We already introduced an asset-based fee plan for investment trusts in October last year. This product does not charge a commission at the time of purchase or sale. Instead, a fee is charged based on the balance and holding period. By the end of March this year, just half a year after launch, total asset balance in this product had reached ¥200 billion. That equates to more than ¥400 billion for a full year. Two years from now, by the end of FY2023, I'd like to see total investments rise to about ¥1.5 trillion. In designing such new products, though, I think a bit of caution is in order. It doesn't make sense simply to import an asset-based fee model as is from the U.S., where it has become mainstream. Investment styles of Japanese people differ from those in the U.S., while the savings ratios in the two countries are completely different. What we need is to carry out marketing that is oriented to Japanese sensibilities and design products that suit the investment behaviors of Japanese customers. Fortunately, since we started handling Daiwa Fund Wrap, the product I mentioned earlier, we have introduced a range of other innovative services ahead of other companies. Our knowledge and experience base covers the whole gamut of globally diversified investment and asset allocation. Launching the asset-based fee plan for investment trusts last fall took us one step further, and we are now working diligently on a product plan for full-scale deployment of the asset-based fee model. I hope you will look forward to our efforts.

▶▶ Page 30  
Real estate AM

▶▶ Page 61  
Daiwa Energy &  
Infrastructure

Approaching the  
next generation

## Nurturing investment experience through CONNECT

Looking ahead, it is in our interest as a securities company to encourage people in their 20s and 30s to gain investment experience, even starting with a small amount. Otherwise, Japan could end up with the bulk of individual financial assets remaining tucked away in savings accounts. This realization prompted us last summer to launch a smartphone-based securities investment service, CONNECT. Millennials and

members of Gen Z are adept at handling everything in their lives via smartphone. In fact, I went to my own son and daughter to get their opinions about CONNECT from the consumer's perspective, in terms of usability and product and service design. As we see it, CONNECT is best suited as a gateway for entry level investors whereas older customers benefit more by shifting to face-to-face consulting.

Still, I often see news items about various companies trying to lock in users, using terms like economic zone and ecosystem. Without mincing words, the notion of locking in customers is supply-side logic and reasoning. In my experience, consumers are smarter than that. They freely use the products and services most suited to their situation and context at the time. Locking in customers in their 20s and 30s in no way guarantees smooth sailing for the business for the next 20 or 30 years. Neither is business stability dependent on locking in customers. Customer needs and issues are constantly in flux, according to individual lifestyles and life stages, and according to age. That's why it is important to continue offering platforms and products that match changing needs. Of course, this generally entails greater effort and costs. But a company that doesn't keep making an honest, concentrated effort to do so will find its business waning as a result.

#### Sustainability

### Every employee engaged in solving social issues toward 2030

The scope of our business is currently expanding, and along with it demands for a broader range of diverse human resources. The key to success is the quality of our people, which also ties in directly with the Quality No. 1 mindset I advocate so strongly. Our Group already leads the industry in the number of Certified Financial Planner (CFP®) certification holders, the highest rank of financial planners. More than a thousand of our people already hold CFP certification; going forward we plan to expand the scope of certification training to further raise the quality of our human resources. The securities industry has always had a fairly high flow of people between companies, and we have actively recruited talented people from outside. Now, in the process of expanding into non-securities businesses, this trend has become even more pronounced. On the securities side as well, we have significantly revised our compensation framework and personnel evaluation system for employees with more highly specialized skills. In closing I want to say a word about our long-term vision.

Along with the new Medium-Term Management Plan we announced the Vision 2030, the first ever long-term vision for the Group. As 2030 happens to coincide with the deadline for achieving the SDGs, rather than "from savings to investment" we came up with the slogan "from savings to the SDGs." My sense is that one thing the pandemic ended up making clearer to us all is the need for each country, each company, and each individual to seriously take stock of the problems facing society and take whatever actions they can to help solve them. The Group has been paying attention to the SDGs from early on, and I personally chair the SDGs Promotion Committee we established. We have taken various initiatives with regard to the SDGs. We have called on all employees to "make the SDGs your own," solicited volunteers, and established a venue for proposing businesses that contribute to the SDGs. We formulated the long-term vision, recognizing that we had reached a stage where we needed to move forward with more specific targets, and keeping in mind the risks and opportunities we foresee in each division. We also set performance indicators after considering what we want to accomplish in the first three-year period as we move toward 2030. As it happens, if we roll over the Medium-Term Management Plan every three years, the final year will land in 2030, which corresponds to the SDGs deadline. I invite you to keep a look out for the SDG-related efforts of the Daiwa Securities Group going forward.

▶▶ Page 65  
Diversity &  
Inclusion

▶▶ Page 104  
Sustainability  
promotion  
structure

中田 誠 司

Seiji Nakata

President and CEO  
Daiwa Securities Group Inc.



# Process of Formulating Vision 2030

## Process of identifying Materiality (priority areas and priority issues)

Daiwa Securities Group identified important social issues in the formation of its medium- to long-term Vision. The Group also identified Materiality (priority areas and priority issues) based on its understanding of society's requests obtained through communication with shareholders as well as the Group's impact on society.

The Group seeks to achieve Vision 2030 by managing progress based on KPI initiatives in order to improve the Group's value and realize a sustainable society.

Previously

### Incorporating an SDGs perspective as the basis of our business strategy

In 2018, Daiwa Securities Group established the SDGs Promotion Committee, chaired by President and CEO Seiji Nakata. It subsequently formulated the Passion for SDGs -Daiwa Securities Group Action Plan-, which detailed the Group's commitment to actively contributing to SDGs through its businesses.

STEP 1

### Understanding and assessing social issues

Based on its Corporate Principles, and taking into consideration various international frameworks (GRI, ISO 26000, SASB, TCFD, etc.), international initiatives such as the UN Global Compact, indices established by ESG evaluation organizations, and issues raised by governments and economic organizations, Daiwa Securities Group identified important social issues that might provide opportunities or pose risks.

The Group then drew up a long list of 65 issues that it could engage in in order to strengthen its management foundation.

STEP 2

### Dialogue with internal and external stakeholders

Through communication with both internal and external stakeholders, the Group evaluated the impact and the importance to society of the social issues it identified in Step 1.

In addition, it consulted with outside members of the SDGs Promotion Committee and internal experts on which priority issues and direction it should focus on over the medium and long term. The Group also engaged in dialogue with SDGs promotion managers at various headquarters and Group companies, and with young employees who will comprise the heart of the Group's workforce in 2030, on the topic of what goals it should set for 2030.



Internal experts



Dialogue with young employees who will comprise the heart of the Group's workforce in 2030

STEP 3

### Formulation of Materiality (draft)

Based on the results of the evaluations outlined in Step 2, Daiwa Securities Group identified 10 issues it should engage in through its businesses, and four issues it should engage in in order to strengthen its management foundation.

The Group then discussed what opportunities and risks the formulated Materiality (draft) would present and pose.

STEP 4

### Management's discussions and decisions

Materiality (draft) was discussed by outside directors, outside members of the SDGs Promotion Committee, and management at Board of Directors, Group Executive Committee, and SDGs Promotion Committee meetings.

Vision 2030, including Materiality, was authorized by the Board of Directors. At the same time, a set of KPIs was drawn up to manage the progress of Materiality initiatives.

Going forward, Materiality will be continually revised, in accordance with international trends in social issues, changes in the business environment, and feedback from both internal and external stakeholders.

Going forward

### Taking on Materiality and realizing Vision 2030

Representatives of various headquarters and Group companies will manage progress, seek to understand issues, and implement related measures.

The state of progress will be regularly monitored by management through committees, including the SDGs Promotion Committee and Board of Directors.

## Message from the Head of SDGs



## Directing money toward solving social issues in Japan

### Formulating the Vision 2030

We recently put together the Vision 2030, which defines the major goals of the Daiwa Securities Group on a ten-year span. We already have guiding principles and values that go unchanged from one era to the next, like our corporate philosophy and the Daiwa Spirit. But by mapping out this Vision, we can use our medium-term management plan as a means to achieve those specific goals. Going forward, that will make our medium-term management plan more effective.

In the process of putting together the Vision 2030, our biggest focus was on making sure it had relevance as a resource for all our employees. We wanted everyone to feel included in creating the Vision—instead of feeling like it had been pushed onto them by management.

Our young employees shared a lot of input, including insights and challenges that came up from talking with customers each day. One comment stood out: *The reality is that the daily grind makes it hard for busy employees, including managers, to reflect on their work and what it means. But when the company's long-term direction is explicitly defined, you can see clearly what you yourself need to do.* That really resonated with me. Even if you feel that your boss's instructions are vague, you can look to the higher-level concept of the Vision 2030 for guidance. It shows you the right direction, like a compass. The Vision does not belong to executives or department heads. More than anything, it is for us all—for ourselves in ten years from now. Communicating with our younger colleagues gave me a renewed sense of the importance of that.

## Message from the Head of SDGs

We also asked experts for their professional opinions. On environmental issues, we discussed what targets the Group should set for CO<sub>2</sub> emissions reductions. Another important question was what we as a comprehensive securities group could do to direct money toward solving issues. On diversity, we received many valuable insights not just about our ongoing measures to support women in their career advancement, but also about areas we should address going forward. In the process of setting detailed KPIs, we also spent a lot of time going through all the input we received and reworking our plans. On the other hand, it was also suggested that we need to be flexible to some extent in our management. For example, we might need to reevaluate our approach when technology advances much faster than expected, or when it does not, or when it moves in a different direction. The diagram for the Vision 2030 also has a lot of different discussions and thoughts packed into it. Originally, we were thinking of putting "Foundation for sustainable management" as the base. But we already had "Diversity and Inclusion" as our foundation for realizing other themes, so we positioned the "Foundation for sustainable management" within that. We also showed "Innovation" as linked to all of the themes.

## Environmental initiatives as a comprehensive securities group

In June this year, we announced our investment and loan policy, the Environmental and Social Policy Framework. This policy includes a ban on investment and financing for projects that violate the Washington Convention, projects involving human rights abuses such as child labor, and new coal-fired power generation projects. It also includes provisions on carrying out ESG due diligence for projects that involve palm oil plantation development or deforestation.

As we formulated the policy, we gathered input by interviewing each relevant department. While the Group was later than some of our finance industry peers in Japan in announcing the framework, we did feel it was important to give the process the time it deserved. We wanted to make sure that the goals we set within the framework were ambitious but also achievable. Our Group has a conscientious personality, so there is an awareness that once we make a declaration, we are going to have to follow that up with solid execution. We will continue to review and improve our operation of the framework to make it more robust.

On TCFD, we are applying a more developed scenario analysis for FY2021 than last year. We want to enhance our disclosure each year to keep pace with changing global trends. Appropriate information disclosure is essential. With it, we earn credibility in the market. Without it, people will not believe us when we say we are doing something. Adapting to change is also a major priority for management. Any scenario analysis that we do on the impact of climate change is not likely to have a significant impact in the short term. We might not see our climate change efforts having much effect until 2050 or thereafter. But while looking toward 2050 and beyond, when our actions can start to have more impact, we have to act now. If various regulations and rules related to CO<sub>2</sub>, such as carbon taxes and carbon offsets, are put in place, that will help to further increase our impact. We must continue our efforts while monitoring these trends.

## What the Daiwa Securities Group can do for Japanese society

To realize our core concept "From savings to SDGs" in this era of increased longevity, financial education is vital. We must empower people to think for themselves about how they can build assets for their future.

In my view, Japanese securities companies and asset management companies need to do more to discover and evaluate domestic companies that are working to solve social issues from the perspective of ESG and the SDGs. This is especially true in the case of companies that are limited in terms of the resources



they can assign to dealing with ESG rating agencies. I have the sense that there is demand among Japanese investors to invest in achieving ESG and the SDGs, but that capital is flowing overseas. While there has been an increase in cases of domestic companies issuing green bonds and social bonds to raise funds, ESG-related funds also tend to be made up of many overseas companies. Rather than focusing only on overseas markets, Japanese securities companies and asset management companies should instead properly evaluate the ESG and SDGs initiatives of domestic companies, so that investment funds can flow to those businesses. Climate change, for example, is an issue that calls for global initiatives. At the same time, however, we should also be pursuing investment in Japan in technological development and innovation that is geared toward delivering solutions. In the same way, inequality and poverty are not only global issues, but also domestic ones, so we should channel money to those areas of need in Japan.

Innovation discovery is a key strength of Daiwa Securities—one that I hope that outside observers will appreciate. Daiwa Securities provides support to start-ups all across Japan. We have worked with various start-ups that had poor track records, in some cases for more than ten years, but whose businesses were then able to bring into the world through an IPO. At Daiwa Securities we value that patient approach of building relationships over a number of years. Daiwa Securities has backed companies in a wide range of industries, particularly in the IT and technology sectors, many of which have gone on to become major players in Japan. For many years, we have focused on supporting start-ups with the potential to build the future Japanese economy. We have conducted research and actively built contacts in these fields over a long history that has become an invisible asset—valuable experience as we work to create a cycle of funds for realizing the SDGs.

In recent years, there has been an increase in the number of young people starting their own businesses with the aim of solving social issues. Digital currencies and other regulatory changes in Japan may lead to changes in funding procurement or IPOs. But there are also more and more people who want to invest in companies and startups that solve social issues. On the flip side of my earlier point, there are many cases of foreign venture capitalists investing in Japan. I see a need there also for financial institutions to help Japanese companies enhance their information disclosure to domestic investors. As a Group, we will use the trust and skills we have cultivated through years of supporting start-ups to meet their social funding needs so that we can contribute to a healthy cycle of domestic funds.



## Previous Medium-Term Management Plans

### FY2012–FY2014 “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

#### KPI

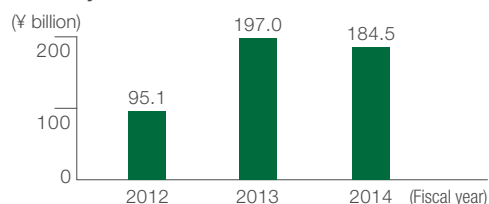
- ◆ Return to profitability in the first year
- ◆ Consolidated ordinary income of ¥120 billion in the final year
- ◆ Fixed cost coverage ratio\* of 60% or higher

#### Review

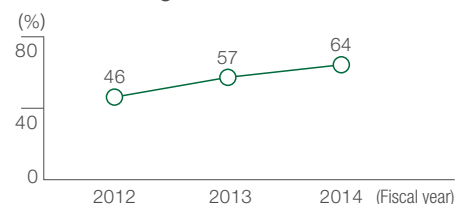
Reflecting on the ordinary loss in FY2011, the Plan targeted a return to profitability in its first year, ordinary income of ¥120 billion or more as a metric of earnings growth, and a fixed cost coverage ratio—the ratio of stable revenues to fixed costs—of 60% or higher as a metric of a robust business structure. In addition to achieving all numerical targets, the Group succeeded in building 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. This included contributions from Daiwa Next Bank, a new wrap account service, and real estate asset management, reflecting the diversification of stable revenue sources.

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

#### Ordinary income



#### Fixed cost coverage ratio



### FY2015–FY2017 “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

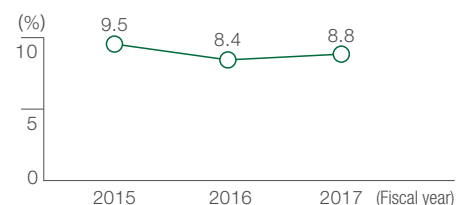
#### KPI

- ◆ Consolidated ROE of 10% or higher
- ◆ Fixed cost coverage ratio of 75% or higher

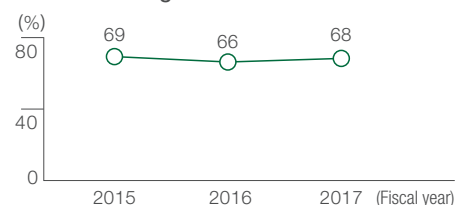
#### Review

The Plan's ROE goal was meant to clarify the stance of emphasizing management efficiency. In addition, the Plan aimed to increase the fixed cost coverage ratio to build a more robust business structure. Unfortunately, we did not see an explicit breakout from the deflationary trend, and fell just short of numerical targets at the time of the Plan's completion. On the other hand, we made progress in the direction we had established to lay the foundation for stable revenues, in terms of expanding stable revenue that is immune to market conditions, diversifying the business through a Hybrid Strategy to broaden revenue sources, and managing the business with constant reference to capital efficiency.

#### ROE



#### Fixed cost coverage ratio



## FY2018–FY2020 “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”
- ◆ Providing new value as an integrated securities group with a hybrid business model

#### KPI

(Targets for FY2020)

Customer  
satisfaction

NPS, etc.

Consolidated total  
capital ratio

ROE

10% or higher

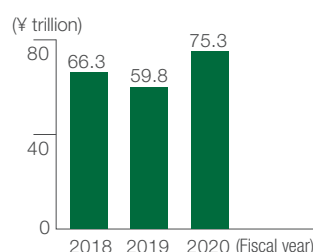
AUC at  
Daiwa Securities ¥80 trillion or more

18% or higher

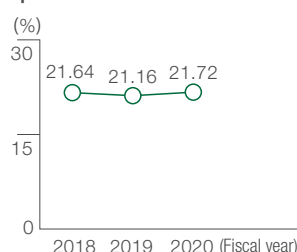
Ordinary  
income ¥200 billion or more

#### KPI

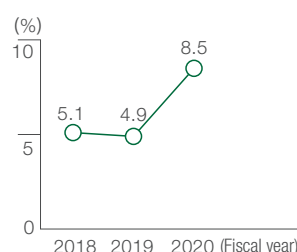
##### Assets under custody



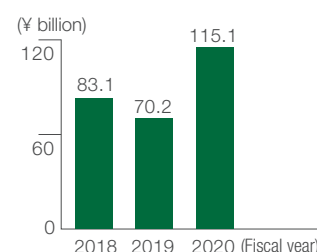
##### Consolidated total capital ratio



##### ROE



##### Ordinary income



#### Review

“Passion for the Best” 2020 established three categories of KPIs—customer-oriented, performance, and financial—aiming for sustainable growth by securing sound earnings from a customer-oriented perspective. The main thrust of the Plan was the customer satisfaction KPI, which was used as a metric for further evolving customer-oriented operations. In addition, assets under custody were set as a metric for gauging whether customers were truly satisfied with the Group and rated it highly. Regarding business performance, because the foundation for stable revenues was laid in “Passion for the Best” 2017, we were confident that we had entered the next stage of pursuing significant growth. To reflect this, in addition to ROE of 10% or higher, we set an explicit performance target of ordinary income of ¥200 billion or more. We set the consolidated total capital ratio as the Financial KPI to indicate that we were maintaining a sound financial foundation while stepping up investments under the Hybrid Strategy. We also used the fixed cost coverage ratio as a monitoring index, considering its importance unchanged from the perspective of expanding stable revenues.

The three-year period of “Passion for the Best” 2020 was rife with drastic changes in the environment, although stock market prices rose significantly as a result. In particular, the outbreak of the COVID-19 pandemic in FY2020 marked a major turning point in the Group’s business.

In the Customer-oriented KPIs, the most important metrics, we introduced the Daiwa version of NPS to all branches and sales offices to dramatically improve customer satisfaction. We took time to bring about a change in thinking among sales staff and instill a new corporate culture. The NPS score rose steadily in FY2020, even discounting the tailwind of

rising market prices. Assets under custody did not reach the target of ¥80 trillion, but net asset inflows were ¥9.1 trillion, exceeding expectations. The Financial KPIs remained at sound levels. Although we did not reach our Performance KPI targets, by promoting businesses responsive to drastic changes in the environment under the pandemic and by cutting costs, performance bottomed out in the first quarter of FY2020 and then recovered steadily. On a full-year basis, both revenues and income increased year on year across all divisions.

Additionally, the Group was able to lay much groundwork for future growth. We made steady progress in building a sales system to underpin the wealth management business model, identified priority areas in the Hybrid Strategy, and reduced costs.

#### Achievements



Customer First sales  
structure created



Key domain specification  
phase of the Hybrid  
Strategy completed



Steady progress made on  
cost reduction  
(Target: ¥15 billion;  
Results: ¥18 billion)

#### References

- Results of NPS  
▶▶ Page 44
- Asset-based revenues  
▶▶ Page 43
- Income from hybrid business  
▶▶ Page 18
- Real estate AM business  
▶▶ Page 30
- Cost reduction forecast  
▶▶ Page 36



# New Medium-Term Management Plan

## “Passion for the Best” 2023

Daiwa Securities Group launched a new three-year Medium-Term Management Plan covering FY2021 to FY2023. With the slogan, “The best partner for co-creating the future —Be with you—,” the Plan includes three Basic Policies: “achieving Customer First & Quality No. 1” operations and the “creation of a new capital recycling system through a Hybrid Strategy,” and a newly added policy of “pursuing the best mix of digital and real”.

As we build value in both financial and non-financial areas, we aim to be the best partner for all stakeholders by maximizing value and benefits not only for our customers but also society, shareholders, and employees.

▶ Page 13 New Medium-Term Management Plan, KPIs

## Business portfolio assuming ordinary income of ¥200 billion in FY2023

The new Medium-Term Management Plan sets out a target of ordinary income of ¥200 billion in FY2023.

The target for the Retail Division is ¥40 billion. We project a quarterly average of ¥10 billion, but expect that the quality of revenues will become increasingly more stable due to the expansion of asset-based revenues.

The Wholesale Division is aiming for further growth in earnings, with a target of ¥85 billion. This will come about as Global Markets (GM) strengthens its foreign equities business and businesses for middle market firms, while Global Investment Banking (GIB) reinforces its IPO and M&A businesses.

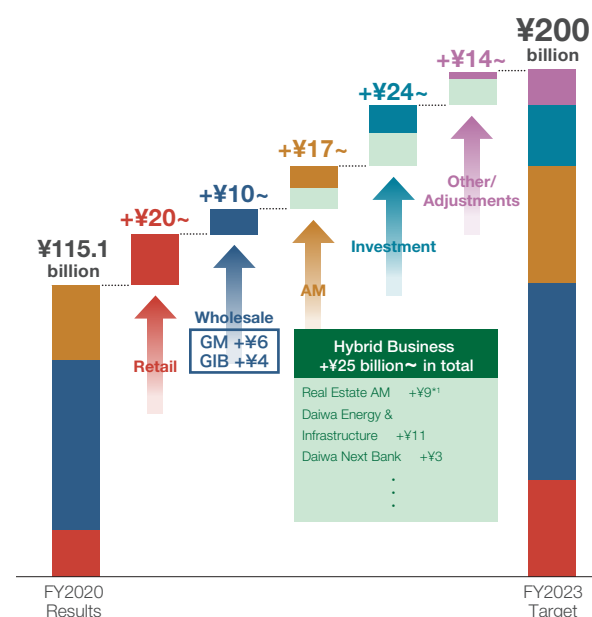
On top of this, the Group's revenue expansion will be

supported by hybrid businesses such as real estate asset management, Daiwa Energy & Infrastructure, and Daiwa Next Bank, which all project revenue growth.

In real estate asset management, the Group will steadily increase revenues by expanding assets under management. Daiwa Energy & Infrastructure will steadily grow revenues by increasing assets under management and targeting capital gains by creating funds to bring in external capital.

The goal of the new Plan is to build up revenues in a well-balanced manner across all segments, rather than being dependent on certain divisions. By doing so, the Group aims to sustainably achieve a higher level of ROE.

### Growth in Ordinary Income by Segment (Forecast) and Main Reasons



Environmental assumptions

Japan.....Real GDP growth rate: FY2021, 3.8%, FY2022, 2.3%, FY2023, 1.2% Nikkei Average: Average for FY2021, ¥31,500; Average for FY2023, ¥35,500 Long-term interest rate: Projected fiscal year range for FY2021-FY2023, 0.14%-0.20%

U.S. .... Economic growth rate: FY2021, 7.2%, FY2022, 3.1%, FY2023, 0.3% S&P500: FY2021 average, 4,075 pts; FY2023 average, 4,550 pts Long-term interest rate: FY2021-FY2023, forecast average fiscal year range, 1.70%-2.20%

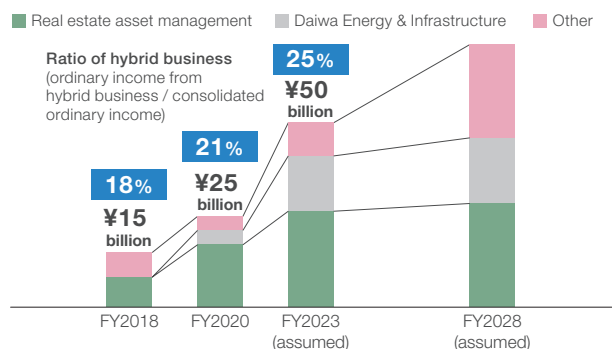
FY2023 Ordinary Income Target (Billions of yen)		Main Reasons for Increase in Ordinary Income
<b>Retail Division 40</b>		
Retail	40	<ul style="list-style-type: none"> <li>Revenue expansion on an AUM basis</li> <li>Solution business</li> <li>Cost reductions</li> </ul>
<b>Wholesale Division 85</b>		
GM	69	<ul style="list-style-type: none"> <li>Foreign equities business</li> <li>Business targeting middle market firms</li> </ul>
GIB	16	<ul style="list-style-type: none"> <li>IPO business</li> <li>M&amp;A business</li> </ul>
<b>AM Division 50</b>		
Securities AM	24	<ul style="list-style-type: none"> <li>Net asset growth and AUM expansion</li> </ul>
Real Estate AM	26	<ul style="list-style-type: none"> <li>AUM expansion</li> </ul>
<b>Investment Division 25</b>		
Investment Division (excluding DEI)	10	<ul style="list-style-type: none"> <li>Investment balance expansion and risk control</li> </ul>
Daiwa Energy & Infrastructure	15	<ul style="list-style-type: none"> <li>Investment balance expansion and risk control</li> <li>Implementation of a capital recycling model</li> </ul>
<b>Other/Adjustments*2 0</b>		
Daiwa Next Bank	6	<ul style="list-style-type: none"> <li>Expansion of foreign currency deposits</li> </ul>
<b>Total ¥200 billion</b>		

\*1 Including the impact of consolidating Daiwa Office Investment Corporation.

\*2 Total of Daiwa Next Bank, Daiwa Institute of Research, and head office, etc.

## Expanding the business portfolio through the Hybrid Strategy

### Breakdown of Ordinary Income from Hybrid Business



Notes: 1. Including the impact of consolidating Daiwa Office Investment Corporation.  
2. The profit outlook of hybrid business is based on the base scenario of each profit assumption.

Income generated by the Group's hybrid business is growing steadily, reaching ¥25 billion in FY2020, a ¥10 billion increase from the FY2018 level of ¥15 billion. This is expected to rise to more than ¥50 billion in FY2023. The ratio of hybrid income to consolidated ordinary income was 21% in FY2020, but is expected to be around 25% in FY2023.



Details of the Hybrid Strategy are explained on pages 37-53 of Integrated Report 2020, Expansion of Business Portfolio.

[https://ssl4.eir-parts.net/doc/8601/ir\\_material13/150137/00.pdf](https://ssl4.eir-parts.net/doc/8601/ir_material13/150137/00.pdf)

## Revenue restructuring

By the end of FY2020, the Group had achieved cost reductions of roughly ¥18 billion through revenue restructuring it had been working on since May 2019.

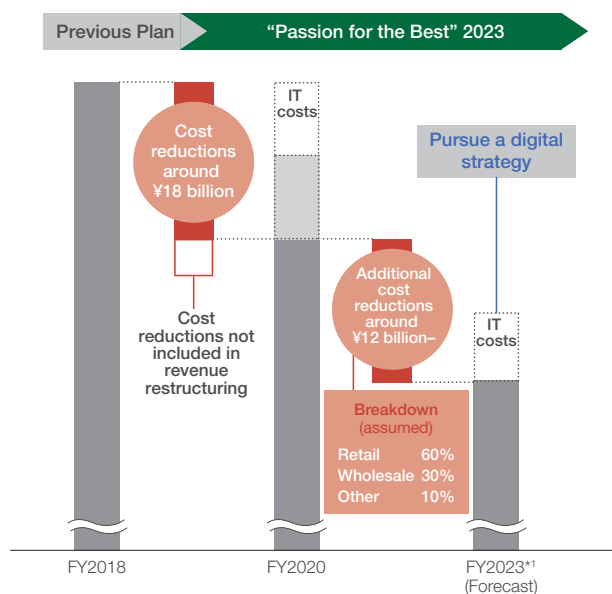
We are targeting an additional ¥12 billion in cost reductions by the end of FY2023. IT-related costs are on the rise, however, as we actively invest in IT for the purpose of improving customer convenience and boosting operational efficiency. Under the previous Plan we upgraded to next-generation office infrastructure to enable employees to work independent of location. In the new Plan, we will further promote digitalization, primarily in front-office systems. The Group is aggressively making such investments to contribute to both

future cost reductions and improvement in the top line.

Digital transformation initiatives have enabled greater paperless processing of documents such as various contracts and vouchers, significantly lessening the volume of paperwork at branches. Consequently, we are consolidating the middle and back office functions of each branch. Of the 1,600 middle and back office personnel working in sales offices, we will reallocate roughly 800 employees to front offices in the securities business or to other Group companies.

The revenue restructuring calls for shifting a total of about 1,100 employees. By April 2021, about 850 personnel had been reassigned.

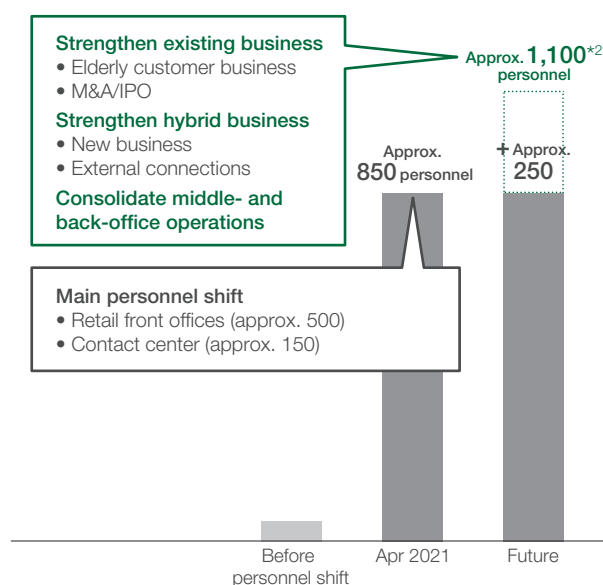
### Forecast Cost Reductions



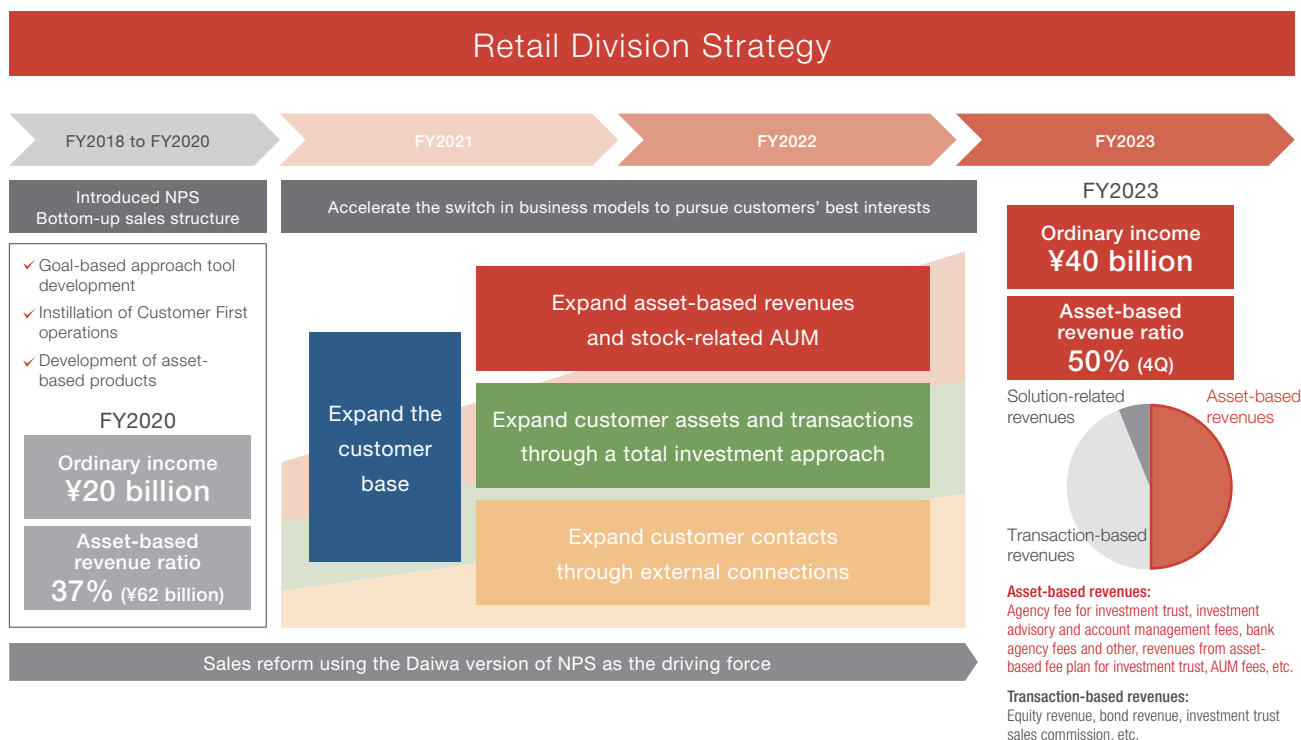
\*1 Forecast figures for FY2021 onward. Variable costs use actual values for FY2020.

\*2 Number including personnel shifts implemented through April 2021.

### Forecast Shift of Personnel



## New Medium-Term Management Plan “Passion for the Best” 2023



Going forward, we expect a full-fledged shift from savings to asset formation in Japan, and thus see room for expansion in the securities business of Daiwa Securities Group, whether face-to-face or online business. Moreover, in Japan, where the bulk of financial assets are concentrated among wealthy older people, increasing longevity is generating greater interest in securing post-retirement funds. As a result, we believe there is enormous potential for wealth management businesses and solution businesses such as inheritance, succession, and real estate sales. This gives us confidence that the Group, which excels in face-to-face consulting, faces tremendous business opportunities.

In shifting to a wealth management business model, the Retail Division is working to expand asset-based revenues linked to the balance of fund wraps, equity investment trusts, foreign currency deposits, or other products. We aim for an asset-based revenue ratio of 50% in the fourth quarter of FY2023.

As an initiative to build up the wealth management business model, we are working to realize comprehensive asset management consulting services. This will involve providing

sophisticated solutions that cannot be copied by online brokers or players in other industries, by drawing on investment planning tools we have introduced as well as our own resources and those of outside partners.

- 1 Expand the customer base through the use of DX and the sales office strategy
- 2 Expand stock-related assets under custody, such as investment trusts, fund wraps, and foreign currency deposits
- 3 Expand customer assets and trading through a total asset approach, by providing comprehensive wealth management consulting and sophisticated solutions
- 4 Expand contacts with a wide range of customers efficiently through external connections

By means of these efforts, the target for the Group's Retail Division is to double ordinary income from FY2020 to ¥40 billion in FY2023 and to evolve the business model so that more than half of this income is derived from asset-based revenue.

## Wholesale Division Strategy

### Global Markets

GM will provide customers with further transaction opportunities and liquidity by combining its strong trading and proposal capabilities and research, which continues to boast far and away the No. 1 position in the industry, with a global network.

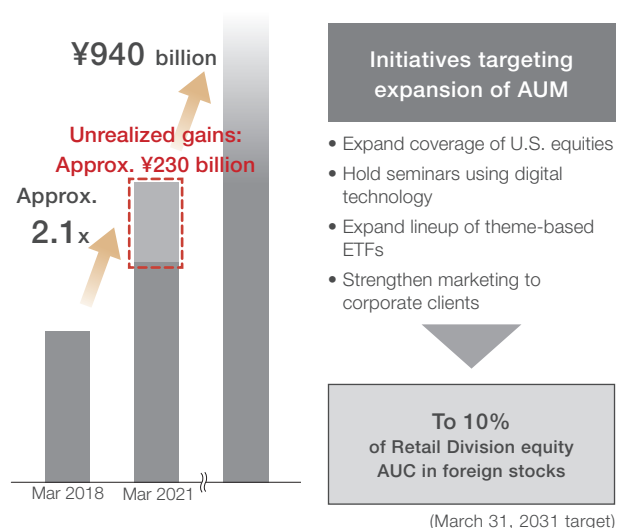
One strategic focus for GM is to enhance its support for the Retail Division's efforts to expand the balance of foreign equity.

As foreign currency-denominated assets account for less than 3% of personal financial assets in Japan, there is ample

room for expanding globally diversified investment. The Retail Division expects to increase the foreign equity proportion of total equity assets under custody to 10% by the end of FY2030. The strategic focus in the FICC area is on derivatives

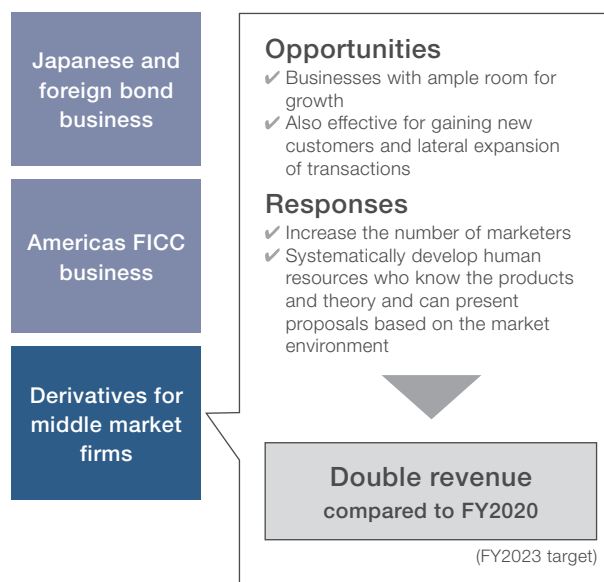
### Expansion of Retail Foreign Equities AUM

Foreign equities AUM roughly ¥940 billion as of March 31, 2021



for middle market firms, a market that promises strong growth potential. We will develop personnel who are experts in this market, gain new corporate customers, and expand transactions laterally.

### Key Areas of FICC Business Expansion



## Global Investment Banking

GIB will focus on promoting the high added value of companies by providing sophisticated solutions to help solve corporate management issues.

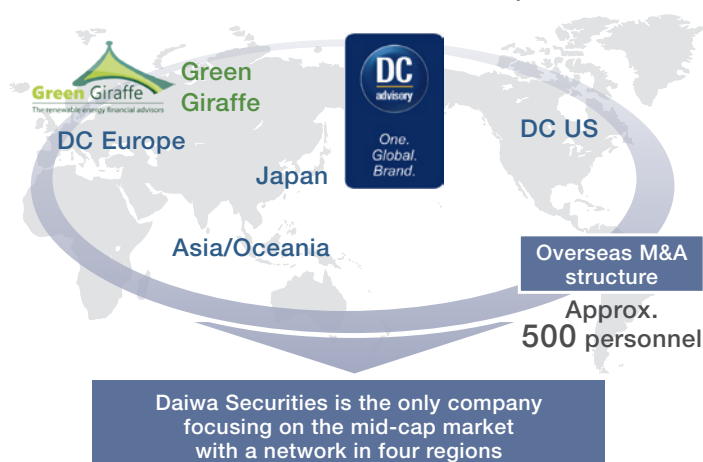
For companies with high future growth potential, the Group will strengthen its sourcing capability through collaboration with the Investment Division as well as various venture capital companies in Japan and overseas. With regard to the IPO platform, while consolidating the results of initiatives taken

so far, we are establishing a robust framework that can structurally preserve our competitive advantages as we continue to accumulate projects in the investment mandate business.

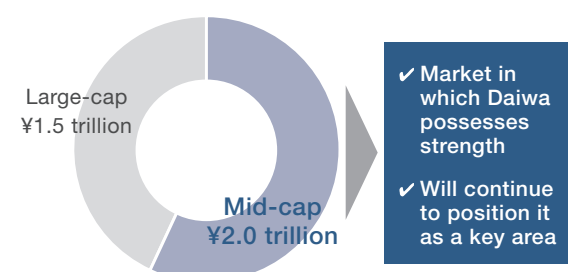
We are targeting significant growth in the M&A business as well, centering on the mid-cap market, including renewable energy and infrastructure. The target in the new Plan is annual revenues of ¥50 billion in this area.

### Strengthening the Global M&A Network

DC Advisory (Thailand) was established as a local joint venture in Thailand with 9 Basil and other investors in February 2021.



### M&A Fee Pool\*



\* Created by Daiwa Securities Group Inc. from REFINITIV, April 2020 to March 2021, JPY110/USD.  
Mid-cap deal size is less than \$1 billion; large-cap is \$1 billion or more.



## New Medium-Term Management Plan “Passion for the Best” 2023

### Asset Management Division Strategy

#### Securities Asset Management

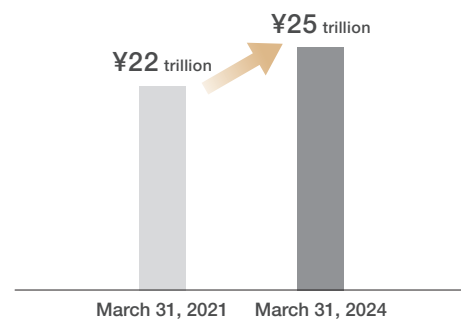
Investor needs will become more diverse than ever in line with increasing individual demand for asset formation. In the securities asset management business, by providing high-value-added products and services that pursue investor returns, the Group aims to expand assets under management to ¥25 trillion by the end of FY2023.

We expect a major industry trend going forward will be the greater presence of ETFs due to growing cost awareness among investors. Currently, ETFs in Japan are primarily linked to the movement of the stock market as a whole, while in the U.S., theme-based ETFs and other typical products are growing at a remarkable pace. With the mission of offering such services, the Group established Global X Japan in September 2019. We have recently listed ESG-related ETFs with investment themes

of governance and clean tech, and will continue to provide products that meet diversifying investor needs.

#### AUM Target

(Total amount, including private, discretionary, etc.)

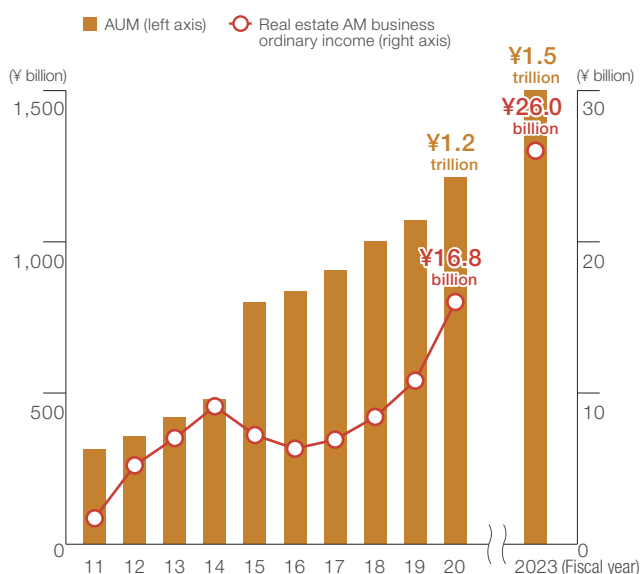


#### Real Estate Asset Management

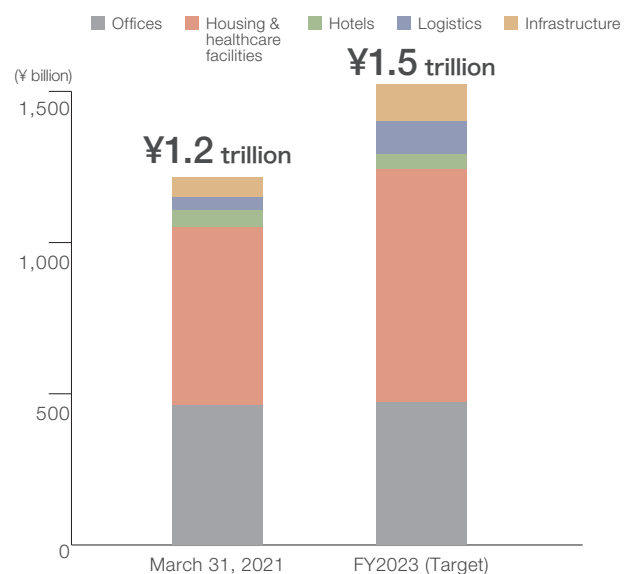
Over 10 years have passed since the Group entered the real estate asset management business. During that time, the balance of assets under management expanded to ¥1.2 trillion, and ordinary income in FY2020 reached a record high of ¥16.8 billion. In addition, since Daiwa Office Investment Corporation became a consolidated subsidiary, 100% of its earnings will be recorded in consolidated ordinary income starting in FY2021. We will continue striving for stable revenue expansion and the expansion of assets under management. We are targeting a balance of assets under management of ¥1.5 trillion in FY2023.

Two-thirds of the management and employees of Daiwa Real Estate Asset Management, an asset management company, are real estate professionals from outside the Group who possess advanced expertise and networks related to property sourcing and tenant leasing. By combining this expertise both with sourcing power arising from the flexibility to negotiate that comes with being independent and not tied to a corporate group, as well as with a property warehousing function, we are confident that it is possible to expand assets under management and stable earnings over the medium to long term.

#### Trend in AUM and Ordinary Income



#### Assumed Portfolio for the Target in FY2023



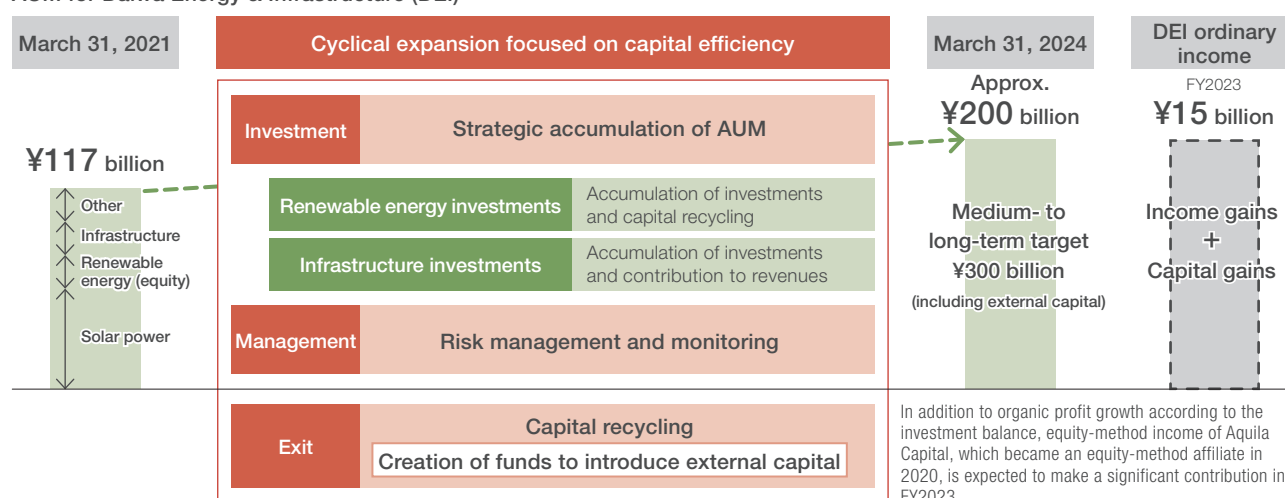
## Investment Division Strategy

The Investment Division will expand investment in renewable energy and infrastructure assets, which provide stable income gains, and create funds to introduce external capital, targeting ¥300 billion in assets under management. We project an average IRR of 5% or higher for all assets and 10% or higher ROE.

Moreover, given that revenues can be expected to be

proportional to the balance of assets under management, after thoroughly managing project risks, we will expand assets under management while acquiring capital gains by creating funds from portfolios to introduce external capital. In this way, we will establish a capital recycling model that makes effective use of capital.

### AUM for Daiwa Energy & Infrastructure (DEI)



## Digital Strategy

▶ Page 100

The digital strategy is one of the pillars of the new Medium-Term Management Plan. In a wide range of areas, from communication with customers to middle and back office work processes, we will pursue the best mix of digital and real approaches seeking to achieve greater efficiency and sophistication. Accumulated data will inform efforts to transition toward a data-driven business model to achieve improvement in the top line and greater business efficiency.

## Initiatives in Sustainability

▶ Page 104

For companies, ESG initiatives including governance, which is integral to the very heart of a company's business, as well as how their efforts are perceived, are becoming even more critical. Based on Vision 2030, the Group will promote specific SDG-related actions that contribute to our ESG evaluation.

## Corporate Strategies

### Overseas strategy

The overseas strategy rests on four pillars: SDG and ESG initiatives in Europe, business in China, business in the U.S., and M&A. Over the last decade, the role of overseas business has become increasingly vital to the Group in terms of both revenues and income. Going forward, we will continue to steadily increase revenues while appropriately controlling risks, as well as contributing to the expansion of Japan-related businesses.

### HR strategy

▶ Page 65

We will build on efforts taken so far, based on the concepts of supporting employee growth and career development, developing professionals who will create the future, promoting further reforms to enhance job satisfaction, and improving engagement and productivity.

### Financial and capital strategies, risk management strategies

▶ Page 36

Building on a strong financial foundation, we will strive to maintain a balance between efficient capital management, investment in growth that will contribute to enhancement of corporate value, and active shareholder return. In tandem with the risk management strategy, we will pursue business portfolio optimization that stresses capital efficiency and a more sophisticated investment risk management framework.

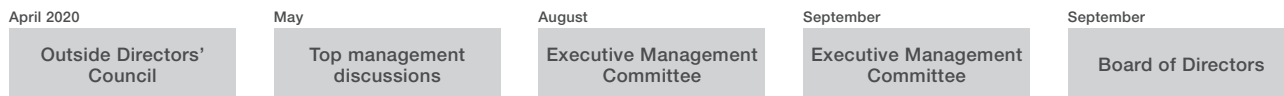
### Compliance strategies

▶ Page 101

We will continue to train sales staff to think independently and strengthen the capacity to respond to situations on the ground in pursuit of Quality No. 1. We will work to develop the internal control framework by using digital transformation to boost the efficiency of monitoring and training specialized personnel to achieve more sophisticated control functions.

# Opinions from Outside Directors on Formulation of Vision 2030

## Formulation Schedule



Clarification of direction and summary

Formulation of individual business strategies at each division and Group company

	Vision 2030 / Sustainability	Basic Strategy
Opinions from Outside Directors	<ul style="list-style-type: none"> <li>As Daiwa Securities Group, the establishment of a unique vision is preferable.</li> <li>It is a very good idea to backcast from 2030 in considering the direction of management, but the external environment, including technology, is expected to change significantly, so sustainability KPIs should be carefully considered.</li> <li>It should be a vision that clearly conveys to stakeholders what kind of company Daiwa Securities Group wants to aim for and what management wants to do.</li> <li>In the vision, it is good for the Group to show what it wants to achieve no matter what through its core securities business and the Group's commitment to that.</li> </ul>	<ul style="list-style-type: none"> <li>Since asset-based revenues expansion is a pillar of retail strategy, it is good to explain the prerequisite conditions for that externally.</li> <li>How will the KPIs and the executive compensation considered by the Compensation Committee be linked?</li> <li>The basic policies of Quality No. 1 and the Hybrid Strategy are supported by investors, and I think that direction for their continuation is correct. However, it is necessary to show stakeholders what the Group will be committing itself to over the next three years and how they will go about implementing the strategies.</li> <li>I understand that the Group was able to increase its assets under custody as a result of the improvement in customer satisfaction (NPS) adopted under the previous medium-term management plan. It would be good to monitor the trends in NPS even during the new Medium-Term Management Plan.</li> </ul>
Responses from Daiwa Securities Group	<ul style="list-style-type: none"> <li>Having formulated Vision 2030 based on the social role of the Daiwa Securities Group as well as on risks and opportunities, sustainability KPIs have been integrated into the Medium-Term Management Plan. Goals for the active participation of women and related to the environment have also been set. ▶▶ Page 31 HR strategy ▶▶ Page 62 Carbon neutrality initiatives</li> <li>In addition to disseminating information to executives and employees through in-house newsletters and CEO Plat*, the Company worked to promote understanding among its stakeholders in Japan and overseas through its website, briefing sessions for investors, and IR interviews. ▶▶ Page 106 Communication with shareholders and investors</li> </ul>	<ul style="list-style-type: none"> <li>Disclosure of product balance, which is a prerequisite for expanding asset-based revenues, at management strategy presentations. ▶▶ Page 28 Retail Division strategy</li> <li>Include sustainability KPIs in executive compensation. ▶▶ Page 87 Executive compensation</li> <li>Set KPIs that can check the progress of the wealth management business model and Hybrid Strategy. ▶▶ Page 13 New Medium-Term Management Plan</li> <li>NPS is continuously monitored as an internal indicator.</li> </ul>

\* CEO Plat: A bulletin board on the intranet where employees (anonymous) can write comments and react to posts and messages from the CEO

## Messages from Outside Directors

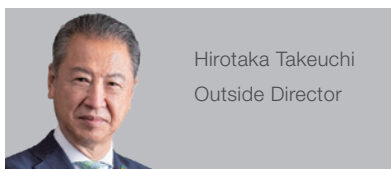


Michiaki Ogasawara  
Outside Director

The new Medium-Term Management Plan aims to deepen the customer first policy and Hybrid Strategy of the previous medium-term management plan and further strengthen the Group's earnings model.

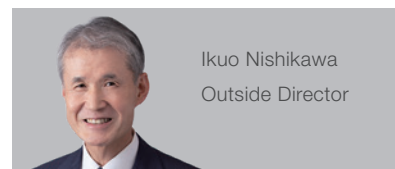
At the same time, no company can survive unless it can meet the demands of the society (earth) to which it belongs. Vision 2030 has clearly indicated the Group contributions to the realization of the SDGs.

In order to realize both Vision and the Plan, it is important to utilize the digital and the real, that is to say fully demonstrate the abilities of employees. I will support this as a member of the Board of Directors.



Hirotaka Takeuchi  
Outside Director

In putting into practice the Medium-Term Management Plan and Vision 2030, we must remember the words that Peter Drucker uttered 60 years ago, namely: "You cannot predict the future, but you can create it." In a VUCA (Volatile, Uncertain, Complex, Ambiguous) world like we have today, we do not know what will happen, so there is a need to keep confirming what kind of future we would like to create.



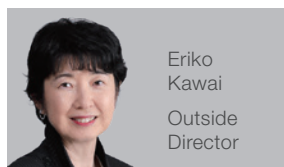
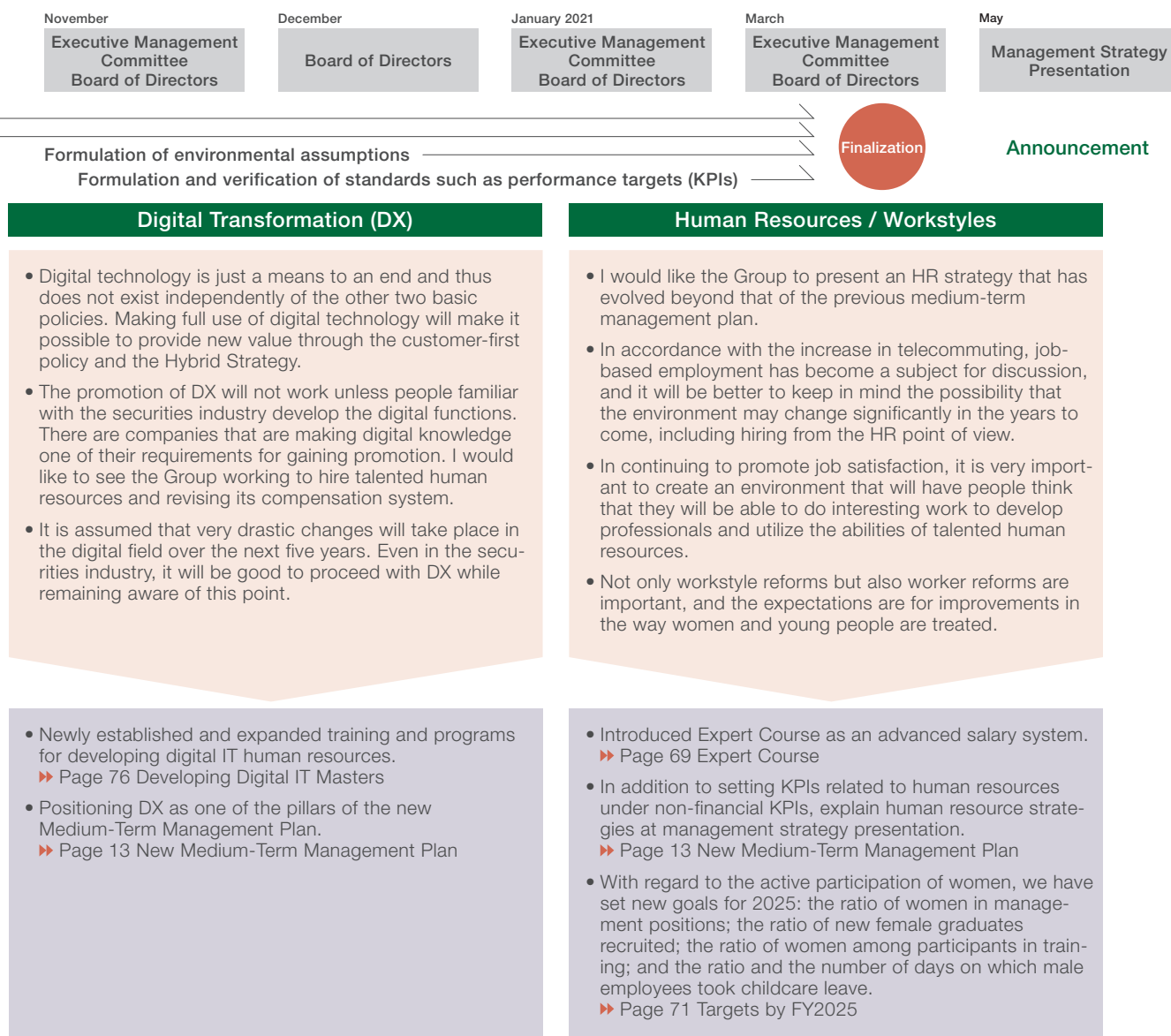
Ikuko Nishikawa  
Outside Director

In Daiwa Securities Group Medium-Term Management Plan 2023, pursuing the best mix of digital and real has been adopted as one of the basic policies. In addition to naturally leading the DX era, I think it is important to develop digital human resources and further accelerate diversity in the real (human work) field.

As the Group aims to quickly shift its model to wealth management business in the Japanese securities industry, it is expected to further promote customer-oriented management.

In contributing to resolving social issues through the promotion of the SDGs, I would like the Group to become a company for its wide-ranging stakeholders, not just its shareholders.

## and New Medium-Term Management Plan



Eriko  
Kawai  
Outside  
Director

This was the first time for me to participate in the formulation of the Medium-Term Management Plan as an outside director. We had many discussions, and I believe that consequently the opinions of us outside directors have been greatly reflected in the Plan. It was a meaningful opportunity to discuss medium- to long-term strategies and policies of the kind that would not get on to the normal agenda. Outside directors not only monitor management and strengthen corporate governance but also participate in medium- to long-term strategic planning from a multi-stakeholder perspective, thereby contributing to increases in corporate value.



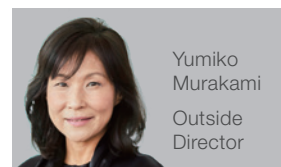
Katsuyuki  
Nishikawa  
Outside  
Director

Regarding the Retail business, Daiwa Securities Group's greatest asset, employees possessing a high degree of expertise and a high level of compliance awareness have won the trust of our customers, and I believe that among customers there are many of whom generational changes are expected in the years to come. While striving to pass on this trust from generation to generation, I think the Group should work to spread trust and broaden the base of investment by further utilizing digital technology for younger generations who are becoming interested in investment.



Toshio  
Iwamoto  
Outside  
Director

The COVID-19 pandemic is having a major impact on the world and bringing about a paradigm shift. As social structures undergo major change, the purposes required of securities companies are also changing. DX is one methodology to achieve this change. Since digital technology will continue to evolve exponentially in the years to come, we recognize the need to create mechanisms that while developing human resources will bring about innovation from the perspective of backcasting from social issues such as the SDGs.



Yumiko  
Murakami  
Outside  
Director

Through my many years of working overseas, I have gained a lot of insight by looking at Japan from the outside. Especially in recent years, however, by analyzing the OECD's international statistics, I have been blessed with the opportunity to objectively consider aspects of both the issues and growth opportunities. I am also convinced that promoting diversity, a theme that I am addressing as my lifework, represents a powerful key to increasing corporate value. I would like to do my utmost to ensure that Daiwa Securities Group continues to grow as a global company.



## Corporate Executive Officers

「正義」と「誠実」をモットーに、愚直に真摯に  
変革にチャレンジし続けます。

中田 誠司

With the motto "justice and integrity," taking on the challenge of reform, earnestly and with determined honesty.

Seiji Nakata

「貯蓄からSDGs」を掲げた2030 Visionのスタート、  
目標の実現に向けて着実に前進していきます。

田代 和子

"From savings to the SDGs"—Vision 2030 has kicked off. We will steadily press ahead to accomplish our goals.

Keiko Tashiro

証券ビジネスを通じて  
誰もが夢を叶える社会の実現に  
貢献していきたい

小松 幹太

Through the securities business,  
I want to help build a society  
where everyone can dream.

Mikita Komatsu

地球と人に優しい  
「新たな日常」を目指し  
社会全体のDXに貢献する

中川 雅久

Striving for a "new normal" that is hospitable  
to the earth and to people, we will contribute  
to digital transformation of the wider society.

Masahisa Nakagawa

近道はない。  
信念を捨てず愚直に改革を断行。

新井 信介

There are no shortcuts. Stay true to your  
convictions and earnestly press for reform.

Shinsuke Niizuma

経営戦略遂行に伴う様々な「リスクへの挑戦」  
を成功に導くリスクマネジメントを

荻原 淳一

Focusing on risk management to lead  
the "risk challenges" that go along with  
the pursuit of business strategies to  
successful outcomes.

Junichi Arihara

持続可能なエンゲージメントと  
企業価値は同じ方向を向くはず!

白川 香名

In the end, sustainable engagement and  
corporate value aim at the same things!

Kana Shirakawa

感謝の気持ちと忘れず、ステークホルダー  
の皆様へ喜びと感動を届けたい

佐藤 英二

Staying grateful, I want to deliver joy and  
excitement to all our stakeholders.

Eiji Sato

Seiji Nakata\*

President and CEO  
President,  
Daiwa Securities Co. Ltd.

Keiko Tashiro\*

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

Mikita Komatsu

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

Masahisa Nakagawa

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

Shinsuke Niizuma

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

Junichi Arihara

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

Kana Shirakawa

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

Eiji Sato

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

2030 Vision

実現へ

Our thought  
accomplishi

## Toshihiro Matsui\*

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



## Kazuo Takahashi

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



## Koichi Matsushita

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



変化を探し、変化に対応し  
変化と機会とく利用する。  
そういう企業家になりたい。  
松井 敏浩  
Seek out change, respond to change, use change as an  
opportunity. That's the kind of entrepreneur I want to be.  
Toshihiro Matsui

環境変化が激しいソリューション  
提供型ビジネスを目指す。  
高橋 一夫

Aiming to create solution-providing businesses amid  
drastic changes in the environment.

Kazuo Takahashi

積立・分散・長期投資  
により未来の投資家の  
資産形成を実現したい  
松下 浩一

I want to realize the asset formation of future  
investors through accumulation, diversification,  
and long-term investment.

Koichi Matsushita

# "Passion for the Best" 2023

## の想い hts about ng our goals

## 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.



ハイブリッド戦略を通じ  
新たな価値を創出し  
日本経済に貢献する  
荻野 明彦

Generating new value and  
contributing to Japan's economy  
through the Hybrid Strategy.

Akihiko Ogino

## Atsushi Mochizuki

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



社員一人ひとりの自信と誇り  
高い倫理感を磨き  
社会の期待に応える  
望月 享

We will meet the expectations of society by honing the self-  
confidence and proud ethical values of each and every employee.

Atsushi Mochizuki

## Yoshifumi Otsuka

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



変わることを恐れず、前に進み  
続ける  
大塚 祥史

Keep moving forward, unafraid of change.  
Yoshifumi Otsuka

各事業部門と協働し、デジタル技術と  
活用し、価値共創する  
村瀬 智之

Creating value by collaborating with each division and  
leveraging digital technology.

Tomoyuki Murase

## Tomoyuki Murase

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



日本と世界の明るい未来へ投資家の  
皆と共に取り組む。一時期からSDGsへ  
取り組む。村瀬 隆司

Moving together with investors toward a brighter future for Japan  
and the world: "From savings to the SDGs"

Takashi Hibino

## Takashi Hibino\*

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



\* Holds the position of Director on a concurrent basis.

## Message from the CFO



Maintaining an optimal balance between growth investments, capital management, and shareholder returns in aims of achieving sustainable expansion in corporate value with a focus on capital efficiency.

Eiji Sato

Executive Managing Director and CFO  
Daiwa Securities Group Inc.

### FY2020 Summary

Increased revenues and income in all divisions despite falling just short of achieving the performance KPIs. Steady progress in revenue restructuring.

In FY2020, net operating revenues were up 9.5% over the previous fiscal year to ¥466.6 billion, ordinary income grew 63.9% to ¥115.1 billion, and profit attributable to owners of parent increased 79.6% to ¥108.3 billion.

In the Retail Division, a widespread recovery in product sales and distribution value after having bottomed out during the first quarter coupled with progress in revenue restructuring led ordinary income to rise 3.1 times over the previous fiscal year. In the Wholesale Division, given the increase in customer flows against a backdrop of rising stock prices on global markets, both net operating revenues and ordinary income reached their highest levels since FY2010, when we began

disclosing segment information. In the Asset Management Division, expansion in the real estate asset management business contributed to income growth, as did Daiwa Energy & Infrastructure in the Investment Division.

At 8.5%, return on equity (ROE) unfortunately failed to meet the 10% target under the previous Medium-Term Management Plan “Passion for the Best” 2020. By steadily executing the basic policy and cost reductions as laid out in the new Medium-Term Management Plan “Passion for the Best” 2023, however, we will ensure an ROE that exceeds capital cost and aim to achieve sustainable growth in corporate value.

### Overview and Progress in Cost Reductions

Achieved cost reductions exceeding expectations, advancing further cost reductions during the new Medium-Term Management Plan period.

In FY2019, the Group began a far-reaching review of the cost structure of existing businesses with the goal of achieving sustainable growth over the medium and long term. At the same time, we advanced revenue restructuring with the aim of improving the top line, namely through strategic reassignment of employees from middle and back offices to front-line positions and hybrid businesses.

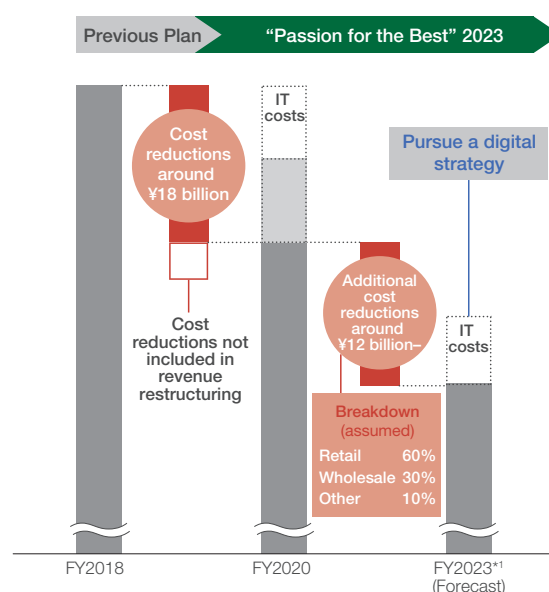
Specifically, for the two-year period from FY2019 to FY2020, we reassessed unprofitable businesses and services, slimmed down headquarters and division functions, improved the efficiency of sales branch functions, reassessed owned assets, and cut unnecessary SG&A expenses. The actual amount reduced through these efforts reached ¥18 billion, coming in above the ¥15 billion cost reduction target through FY2020.

As generally anticipated at the outset, the breakdown in cost reductions was 60% for the Retail Division, 30% for the Wholesale Division, and 10% for other areas.

#### Major cost reduction items through FY2023

- ✓ Relocation of branch offices from the ground floor to upper floors, branch consolidation
- ✓ Consolidation of middle- and back-office functions for branches
- ✓ Reassessment of unprofitable businesses and services
- ✓ Consolidation of Group company locations

#### Forecast Cost Reductions



\*1 Forecast figures for FY2021 onward. Variable costs use actual values for FY2020.



Going forward, we aim to establish a more robust business structure by working on additional cost reductions totaling ¥12 billion over the three-year period covered by the new Plan.

During the previous Plan covering the period through FY2020, in the Retail Division, we relocated sales offices from the ground floor to upper floors, eliminated ATMs, made some client communications electronic, and reassessed advertising costs. Among these efforts, cost reductions resulting from the relocation of sales offices will become evident during the new Plan. Therefore, significant cost reductions are already underway at this point.

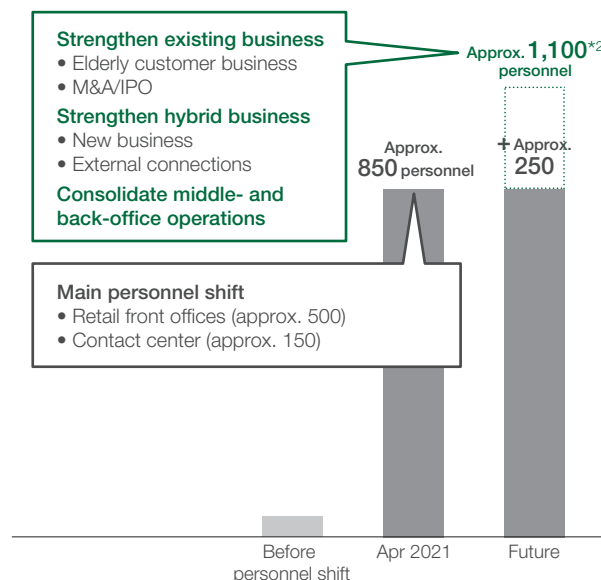
Although we will continue to focus efforts on cost reductions, we do not necessarily see absolutely minimizing costs as being of benefit. Instead, we recognize that along with continuing our efforts to reduce costs, we must also focus on expanding the top line in aims of achieving a sturdy management composition.

The IT investments needed to boost our competitiveness amid the rapid advance of DX will also contribute to future cost reductions as well as an improved top line, so we feel that we must aggressively implement these. Of course, we will strive to maximize the cost effectiveness of such investments.

We have also implemented initiatives to improve the top line by strategically reassigning employees from middle- and back-office departments to front-line positions and hybrid businesses. In this regard, our efforts to streamline the head office in step with advances in DX have progressed smoothly,

with reassignments already completed for 850 employees, among the planned target of approximately 1,100 employees, as of April 2021. We are currently aiming to reassign the remaining 250 employees.

#### Forecast Shift of Personnel



\*2 Number including personnel shifts implemented through April 2021

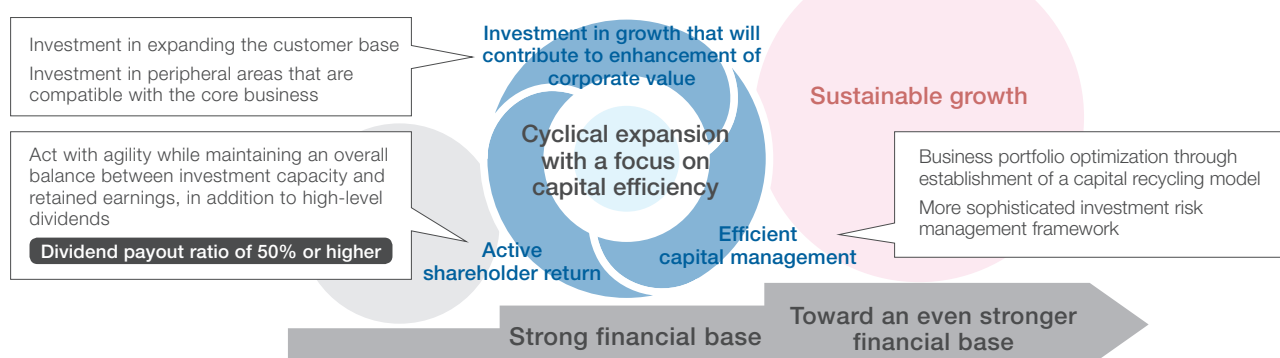
## Financial and Capital Strategy

**Aiming for cyclical expansion that ensures healthy profits and focuses on capital efficiency.**

The basic policy behind Daiwa Securities Group's financial strategy is to achieve cyclical expansion with a focus on capital efficiency by charting a balance between efficient

capital management, investments in growth that will contribute to greater corporate value, and active shareholder returns, built on a strong financial base.

#### Views on Financial and Capital Strategies



#### Ensuring a strong financial base

In terms of establishing a strong financial base, we feel it is important to maintain sufficient capital adequacy while responding to changes in the regulatory environment and securing the necessary resources for future growth investment. As under the previous Plan, the new Plan adopts the consolidated total capital ratio as a financial KPI, which stood at 21.72% as of the end of March 2021, indicating that our financial health remains firmly in place.

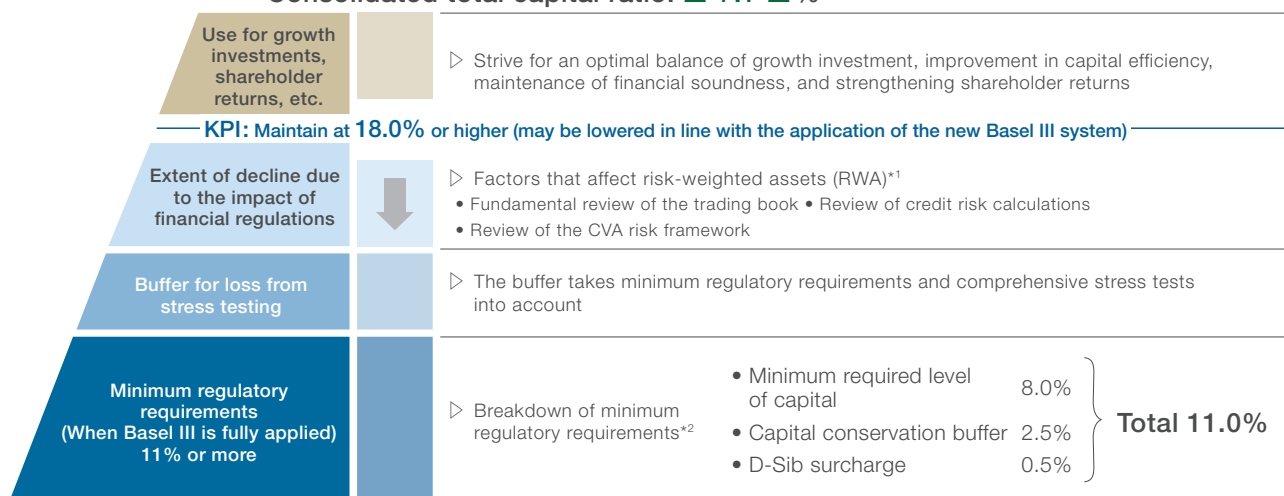
Given the potential that this ratio may decline three to five percentage points in the future after the Basel III capital accord goes into full effect, and with the addition of a capital buffer that can withstand a stress test equivalent to past financial crises, we have established maintaining a level of at least 18% (may be lowered in line with the application of the new Basel III system) as a KPI.



## Message from the CFO

### View on Financial KPI

Consolidated total capital ratio: **21.72%**



\*1 Finalization of the method of risk calculation and future regulatory rules remain elements of uncertainty, and the effects of such factors are subject to review in the future.

\*2 Excluding countercyclical buffer.

Under Basel III, liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) are being introduced as forms of regulatory liquidity.

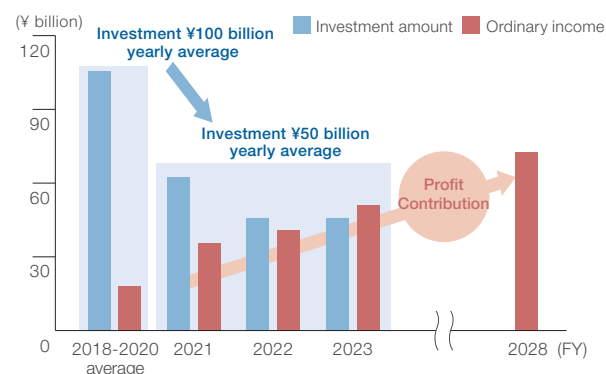
With the progressive introduction of LCR since 2015, financial institutions under Basel III are required to have enough liquidity to continue operations for at least 30 days under extremely stressful conditions. As a minimum, an LCR of at least 100% is required; the Group's figures for FY2020 (calculated by dividing high-quality liquid assets by total net cash outflows) substantially exceeded this requirement.

NSFR, which is another form of regulatory liquidity starting in September 2021, 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. Current preliminary estimates indicate that the Group's NSFR is well above the required level.

### Growth investments contributing to increased corporate value

In FY2020, as well, we made several key growth investments, including investments to boost the competitiveness of existing businesses and funding intended to diversify the business

### Investment Results/Plan and Profit Outlook of Hybrid Business

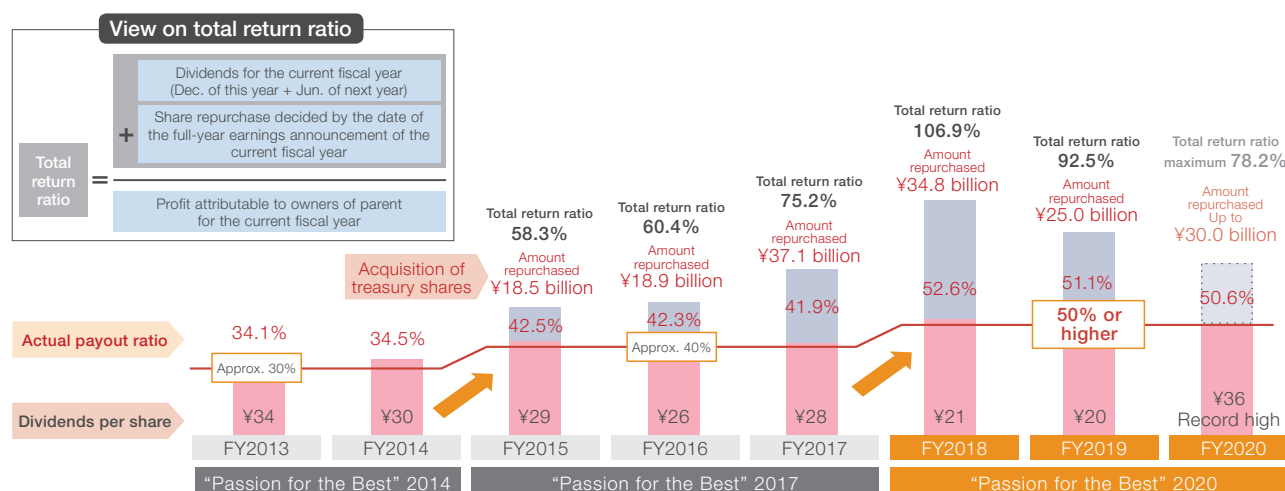


portfolio. In addition to paying close attention to capital efficiency, we are also working in unison with our risk management strategy to optimize our business portfolio and enhance our investment risk management structure when undertaking investments. With this investment phase nearly complete, the investments we plan to make through 2023 are targeted at hybrid business expansion, including renewable energy and the real estate asset management business. The total investment value, however, is expected to drop to approximately ¥50 billion per year, about half that during the previous Plan. Generally speaking, these investments would not be recorded as earnings when initially launched and would only emerge as earnings as time passes. Through this so-called J-curve effect, the new Plan will see profits enter an expansion phase.

### Enhance shareholder returns

In terms of shareholder returns, we changed our dividend policy in FY2018, when the previous Plan began, 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, and share price levels, all while monitoring our credit rating.

The Group paid a dividend of ¥36 per share in FY2020, our highest dividend to date. This represented a dividend payout ratio for the year of 50.6%. In order to provide a greater return on profit, on the same date we announced our FY2020 full year earnings results, we set up a share buyback program of 45 million shares to be repurchased (upper limit) at a total value of ¥30 billion (upper limit). The total return ratio for the full fiscal year, including dividends and share buybacks, may reach a maximum of 78.2%.



#### Credit Ratings for Daiwa Securities Group Inc. and Daiwa Securities Co. Ltd. (As of June 30, 2021)

	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

Reviewing the significance of ownership for all strategic shareholdings on a regular basis. Shareholding balance declined 11% from the end of March 2016 to the end of FY2020.

Both Daiwa Securities Group Inc. and Daiwa Securities hold shares of other companies only when we consider such holdings to be meaningful. We regularly examine whether shares held are of significance, and 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.

Based on the examination results at the end of March 2021, excluding shares held for the purpose of alliance, approximately 80% of client companies exceeded the target value on an individual basis. For the other approximately 20% which are below the target value, we 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 this does not improve in a certain period, we will consider selling such shares.

With regard to the exercise of the voting rights of strategic shareholding shares, we comprehensively determine whether or not each proposal should be approved, taking into account the need to enhance medium- to long-term corporate value of both the strategic shareholding company and the Group. Especially among election of directors or audit & supervisory board members, anti-takeover measures, organizational restructuring, distribution of dividends of surplus, and other important proposals that could significantly affect the corporate value or shareholder interests, we will exercise the voting rights through dialogue with the client company if necessary.

From FY2016 to the end of FY2020, the cumulative reduction in the book value balance of shares held as strategic shareholdings (excluding shares held for the purpose of alliance) reached ¥6.6 billion, down 11%. We will continue to address our strategic shareholdings in light of the intent of the revised Corporate Governance Code.

### Dialogue with Stakeholders

#### A central part of the mission of a CFO

In order to provide as many opportunities as possible for dialogue despite the impacts of COVID-19, in FY2020 I utilized phone calls and the Internet to speak with many of our individual investors, institutional investors, and analysts. I have also had an increasing number of opportunities to attend IR meetings specialized in ESG, and we reflected the suggestions that I obtained through discussions with our institutional investors during the Plan formulation period within the

non-financial KPIs for the new Plan. I believe that providing these suggestions acquired through conversations with investors to the Board of Directors and Executive Management Committee to be reflected in management decision-making 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 enhance sustainable growth and corporate value.

## 100 Years of Life

### Question 1

**What kind of added value can  
Daiwa Securities Group deliver  
to customers in an era  
of 100 years of life?**



## Answer 1

“ We enjoy strong relationships of trust with our customers built up through our face-to-face sales services. With the consulting capabilities we have cultivated over many years and an extensive lineup of products and services unique to our position as a comprehensive securities group, we are able to meet the diverse wealth management needs of customers in an era of 100 years of life. ”

KPIs in the Medium-Term Management Plan “Passion for the Best” 2023 (targets for FY2023)

### Retail Division Asset-based Revenue Ratio

50% or higher

(Target for fourth quarter of FY2023,  
37% at the end of FY2020)

### Assets under Custody at Daiwa Securities

¥90 trillion or more

(¥75.3 trillion at the end of FY2020)

### Strategy 1

Prior to the previous Medium-Term Management Plan, the Group was promoting a shift from conventional brokerage fee acquisition-type face-to-face sales toward consulting sales focused on the net increase of assets under custody. With the new Medium-Term Management Plan, we will further accelerate this momentum **as we shift to a wealth management business model, focused on expanding asset-based revenue** linked to the balance of assets under custody in products such as fund wraps, equity investment trusts, and foreign currency deposits.

### Strategy 2

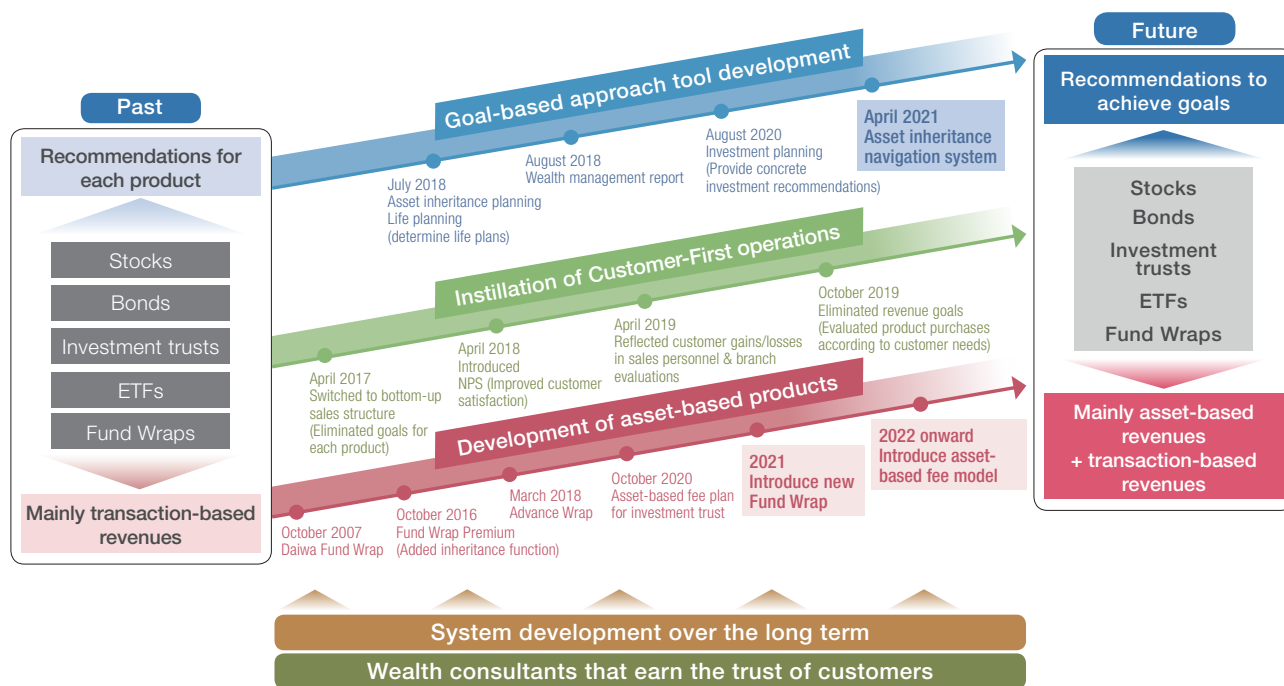
In tandem with the start of the previous Plan, the Group introduced the Daiwa version of NPS at all branches and sales offices. Through this initiative, we have succeeded in creating a customer-oriented sales system and transforming the mindset of sales representatives. In the new Plan, **we will further evolve the business model in pursuit of customer's best interests.**

## Establishing a wealth management business model

The shift to a wealth management business model cannot be achieved overnight. In FY2017, the Group did away with sales targets for each product and started a bottom-up sales system, following this up with the introduction of the Daiwa version of NPS to all branches and sales offices in FY2018. In FY2019, we abolished revenue targets for individual employees, and made product proposals that meet customer

needs the gauge of personnel reviews. Moreover, we are making steady progress in the process of reforming our sales system through initiatives such as designing and developing goal-based approach tools, developing products and related systems for the transition to asset-based revenue businesses, and cultivating human resources.





## Providing investment planning to support a goal-based approach

The ability to leverage investment planning is a powerful weapon in our efforts to provide optimal solutions to customers. The Group has introduced WealthBench, an analysis tool from MSCI Inc. that is widely used by leading private banks and institutional investors overseas. After customizing this tool for the Japanese market, we were first in Japan to begin offering this resource to retail investors. WealthBench enables investors to visually represent the management efficiency of their total financial assets, including assets managed by other companies. Our customers have given high ratings to this persuasive service, which other companies cannot rival.

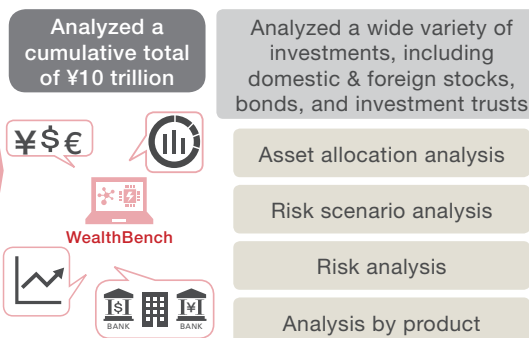
Increased efforts to offer investment planning feed into the extension of management advice across customers' entire portfolios, and are helping us accelerate the shift to a wealth management business model. Having introduced WealthBench in August 2020, we conducted an analysis of the more than ¥10 trillion in cumulative assets up to the end of March 2021, finding that the new service yielded a net asset inflow of ¥180 billion. In addition, in FY2020 we saw a 40% increase from FY2019 in the number of new corporate customers gained through referrals from existing customers.

### Analysis through Investment Planning

#### Challenges in Wealth Management

- You don't know whether the portfolio is optimal for achieving your goals
- The inability to analyze the many different investment products held at multiple financial institutions
- You don't know whether the return secured is commensurate with the risk
- You want an explanation of management results (corporations)
- You have a vague sense of unease with the current management

#### Visualizing asset status and investment risks



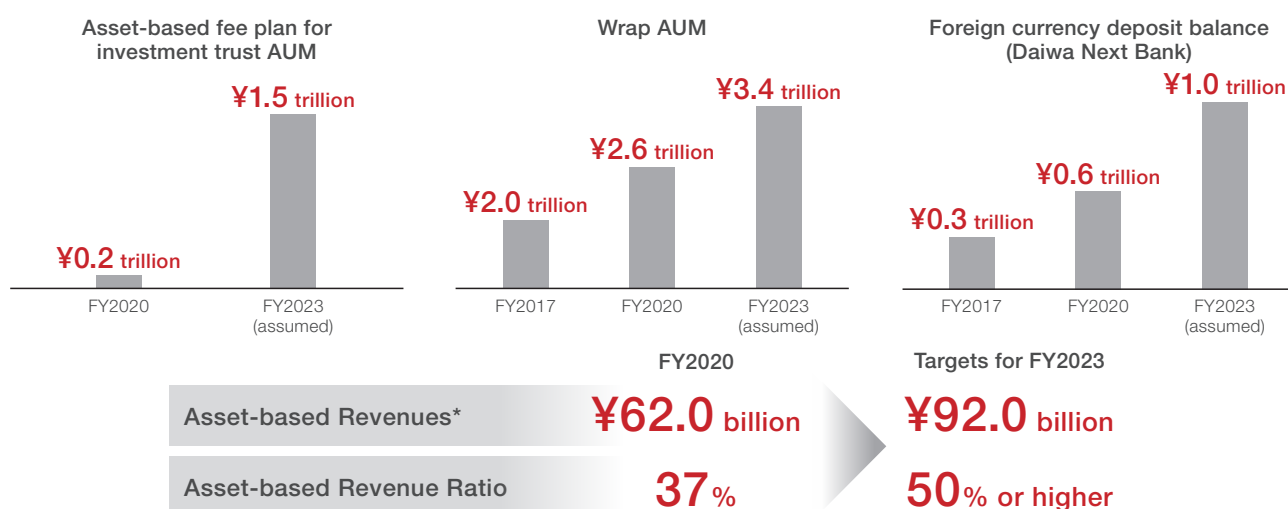
## Growing the balance of stock-related assets under management

Through the shift to a wealth management business model, the Group is working to expand asset-based revenue linked to the balance of assets under management in products such as fund wraps, equity investment trusts, and foreign currency deposits.

The Group aims to increase the ratio of asset-based revenue from 37% at the end of FY2020 to 50% or higher in the fourth quarter of FY2023. This assumes that the balance of assets under management by the end of FY2023 will be ¥1.5 trillion in an asset-based fee plan for investment trusts,

¥3.4 trillion in wrap account contracts, and ¥1 trillion in foreign currency deposits. We are also planning to introduce new asset-based fee services from FY2022. The model for these services is to offer customers portfolios that allow diversified investment across a wide range of asset classes, including stocks and bonds, and earn fees for advice and management. Since providing investment strategy-based advice necessitates a high level of quality, we are exploring the establishment of a new function to formulate investment strategies.

### Highlights of Asset-Based Revenue Expansion



\*Asset-based revenues: Agency fees for investment trust, Investment advisory and account management fees, Bank agency fees and other, Revenues from asset-based fee plan for investment trusts, AUM fees, etc.

### What is an asset-based fee plan for investment trusts?

It is a new fee plan the Group began handling in October 2020.



- ¥10 million or more per order for each stock
- Zero commission on purchase
- **Asset-based fee paid later** (Maximum annual rate: 0.99%; tax included, gradually reduced according to AUM)

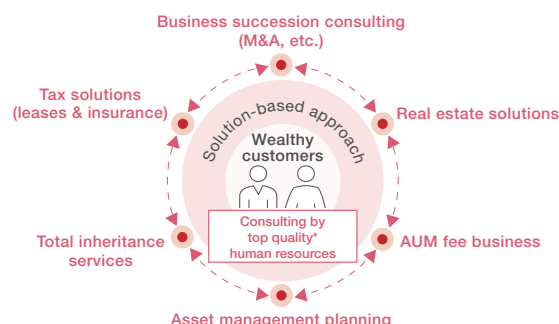
## Solution businesses

In Japan today, real estate properties and shares in family businesses account for about half of the assets of affluent people. The Group will provide solutions for these assets by augmenting its total asset approach. Based on interviews with customers about their business succession, real estate, and inheritance-related needs, Daiwa's wealth consultants and inheritance consultants offer advanced solutions that draw on the resources of the Group or those of external partners.

Solution business-related revenue was ¥5.5 billion in FY2020. The Group is aiming to more than double this amount in FY2023. As part of this effort, we established a new subsidiary, Daiwa Securities Realty, in April 2021. As real estate investment needs increase in Japan, especially among

individuals, we plan to package and sell new small-lot real estate products that differ from conventional REITs.

### Solution Business Revenues



\* Daiwa Securities ranked No. 1 in the financial industry for the number of CFP certification holders (No. of CFPs as of March 31, 2021: 1,165)



Daiki Araoka

Associate Director  
Hiroshima Branch  
Daiwa Securities  
(Wealth Consultant)

### Daiwa Securities' strength is its spirit of taking on challenges

I believe the strength of Daiwa Securities is its spirit of taking on new challenges. As the pioneer of wrap account services in Japan, and having started up Daiwa Next Bank and more recently started offering an asset-based fee plan for investment trusts, I feel we are in a stronger position than other companies when making proposals to customers.

When I am building a relationship of trust with a customer, what I always keep in mind is the need to listen attentively to them and see things from their perspective before making any proposal. I sense that this creates stronger trust with customers than before.

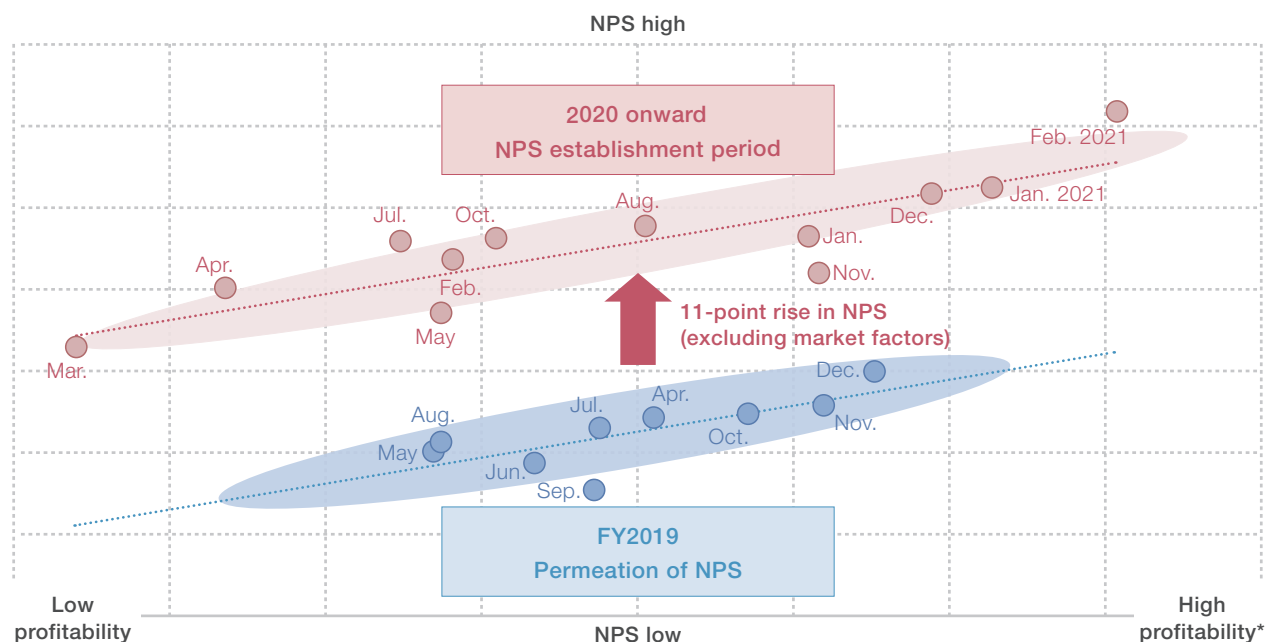
Going forward, I want to gain more knowledge in wealth-related services, operating leases, and other product areas that have recently come up often in my interviews with customers. I would also like to hone my knowledge and skills in stocks and bonds and aim for even larger corporate sales.

### Daiwa version of NPS

Offering consulting services based on a total asset approach has also contributed to a significant increase in the Group's NPS (customer satisfaction) scores. The Group introduced NPS across all branches and sales offices in FY2018. The front offices and headquarters have since worked together to build a system for improving both sales quality and products and services based on customer feedback, and instituting a PDCA cycle to achieve this. The Group has conducted ongoing customer surveys since introducing NPS. NPS scores have risen markedly since January 2020, likely reflecting the point when a series of new operations began to take root.

NPS outcomes and performance are highly correlated. Analysis shows that if the stance of 10% of customers changes from "detractor" to "passive" or from "passive" to "promoter," this leads to a cumulative increase in revenue of ¥9 to ¥18 billion over three years. In fact, the steady progress we have made in customer-oriented operations is reflected in longer holding periods for the investment trusts we offer and less frequent buying and selling of foreign equities. In addition, the proportion of referrals from existing customers in new account openings is growing.

#### NPS improved due to the firm establishment of NPS operations

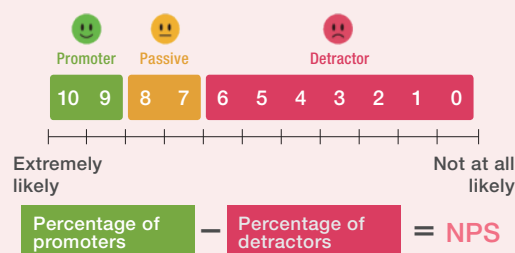


\* Total cumulative profit (loss) from individual customers from November 2018 onward

### 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.



### Always trying to get to know the customer

My sense is that the strength of Daiwa Securities lies in the diversity of human resources who can draw on their individuality to come alongside customers, and who have the resources (head office staff, systems, product lineup) to back them up. There is also extensive training for employee self-improvement.

As an Anshin Planner helping elderly clients, I always want to consider issues from the customer's point of view, and to do that requires really getting to know the customer. So, I have conversations with them not just about products but about their health and hobbies, and try to come alongside them like a daughter would. Going forward, I would like to put my energies behind trying to build up the Anshin Planner brand.

Miki Moro  
Director  
Kashiwa Branch  
Daiwa Securities  
(Anshin Planner\*)



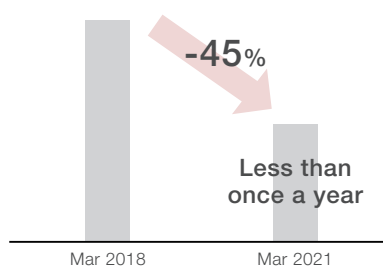
\*A service specializing in elderly customers which provides comprehensive consulting, including services tailored to customer needs

### Progress of Customer-based Sales System

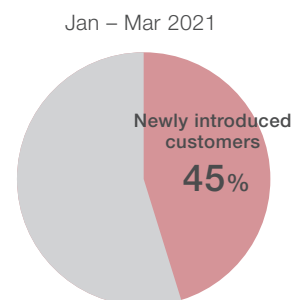
#### Holding period of investment trusts



#### Trading frequency of foreign equity



#### Percentage of newly introduced customers





## Fortifying Daiwa's research capabilities

Providing high-value-added information from a medium- and long-term perspective is becoming increasingly critical in supporting household asset formation as a means of realizing a more abundant era of 100 years of life. Daiwa Securities Group is fortifying its research capabilities to be better equipped to provide products and services that capture customer needs. Our efforts are being recognized: In addition to being No. 1 in the 2021 Nikkei Veritas Analyst Ranking by company for the third year in a row, Daiwa Securities also ranked No. 1 in Institutional Investor 2021 All-Japan Research Team survey of the U.S. financial magazine *Institutional Investor* for the second year in a row.

The research arm of the Group is one of Japan's most venerable equity research institutions. It has consistently maintained a fundamentals-oriented analytical approach. In addition, we are actively working to deliver research data on individual sectors and individual stocks from a more diverse perspective, such as being one of the first companies in the industry to focus on ESG research.

Nikkei Veritas  
Analyst Ranking 2021

**1st place for 3 consecutive years**

2021 Institutional Investor  
All-Japan Research Team

**1st place for 2 consecutive years**

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 (13 consecutive years)  
Institutional Investor 1st

### Construction, Housing & Real Estate



**Hideaki  
Teraoka**

Nikkei Veritas 1st (Two consecutive years)  
Institutional Investor 2nd

### Autos



**Eiji  
Hakomori**

Nikkei Veritas 1st (Five consecutive years)  
Institutional Investor 1st (Two consecutive years)

### Energy & Utilities



**Syusaku  
Nishikawa**

Nikkei Veritas 1st (first time)  
Institutional Investor 2nd

### Auto Parts



**Shiro  
Sakamaki**

Nikkei Veritas 1st (Three consecutive years)  
Institutional Investor 1st (Three consecutive years)

### Telecommunications



**Yoshio  
Ando**

Nikkei Veritas 2nd  
Institutional Investor 1st (Two consecutive years)

### Biotechnology & Pharmaceuticals



**Kazuaki  
Hashiguchi**

Nikkei Veritas 1st (Three consecutive years)  
Institutional Investor 2nd

### Broadcasting & Media



**Taro  
Ishihara**

Nikkei Veritas 1st (first time)  
Institutional Investor 1st (first time)

### Medical Technologies & Services



**Tomoko  
Yoshihara**

Nikkei Veritas 1st (first time)  
Institutional Investor 1st (first time)

### IT & Software



**Makoto  
Ueno**

Nikkei Veritas 1st (first time)  
Institutional Investor 1st (first time)

### Machinery



**Hirosuke  
Tai**

Nikkei Veritas 1st (first time)  
Institutional Investor 1st (Two consecutive years)

### Technical Analysis



**Eiji  
Kinouchi**

Nikkei Veritas 1st (Two consecutive years)

### Beverages, Food & Tobacco



**Makoto  
Morita**

Nikkei Veritas 1st (first time)  
Institutional Investor 1st (first time)

### Seeing veterans make efforts inspires younger staff

I believe there are two reasons why Daiwa Securities received the highest overall evaluation in the Nikkei Veritas Analyst Ranking. The first is that we have responded quickly to shifts in society. For example, we have made active use of webinars during the COVID-19 pandemic, and stepped up our ESG research. The second is that the whole department is full of energy. In particular, I feel that when veteran analysts really make concerted efforts, this inspires mid-career and younger staff and ends up spreading throughout the entire department. Achieving customer satisfaction demands that we always pursue Quality No. 1 in research. I myself am committed to working harder to raise the quality of our corporate analysis, including ESG research.

Hideaki Teraoka

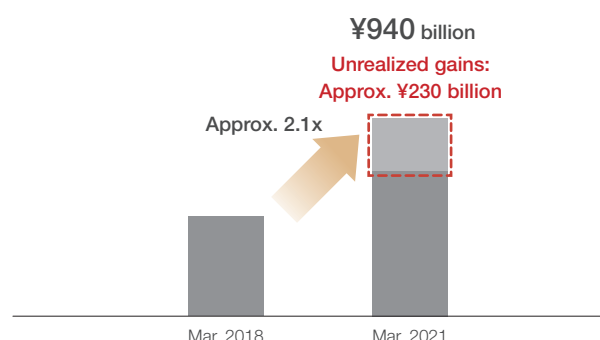
Chief Analyst  
Equity Research  
Department  
Daiwa Securities



### Expanding the balance of foreign equity for retail customers

As foreign currency-denominated assets accounted for a mere 2.7% of individual financial assets in Japan at the end of December 2020, there is still ample room for expanding globally diversified investment. With the support of the Wholesale Division, the Group's Retail Division will provide customers with diversified investment opportunities by broadening its research coverage of overseas stocks, expanding the lineup of theme-based ETFs, and holding educational webinars. The goal is to increase the foreign equity proportion of total equity assets under management to 10% by the end of FY2030.

#### Retail Foreign Equities AUM

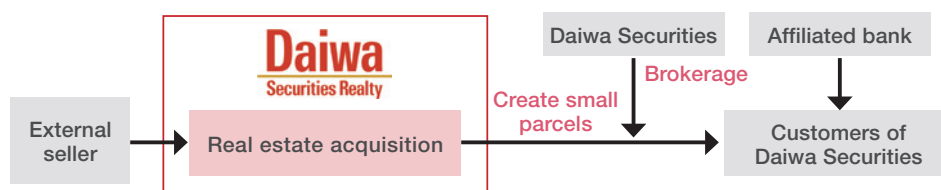


### Establishment of Daiwa Securities Realty

To date, the Group's real estate asset management business has mainly entailed the management of real estate investment trusts (REITs). However, the real estate investment needs of investors in Japan are growing increasingly diverse. To address these needs, the Group established Daiwa Securities Realty

on April 1, 2021 to proactively provide real estate investment products in product types other than REITs. Daiwa Securities Realty will hold real estate properties earmarked for new real estate investment products, as well as conduct property warehousing for REITs.

#### Real Estate-related Investment Products for Retail Customers



## Message from the Head of Retail



### Business model shift to pursue customers' best interests

Shinsuke Niizuma

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

In FY2017, we introduced a bottom-up sales promotion system centered on the sales branches closest to customers and had been working on changes to the sales system. In FY2018, we introduced NPS as an index to measure customer satisfaction to evolve into business operations from a thorough, customer-oriented perspective and achieve Quality No. 1 while further accelerating the flow of customer-oriented operations. To further deepen awareness of the customer-based sales system, in FY2019 we established a system that considers customer profits first, such as by including items related to customer investment performance (customer profit and loss) within the sales personnel evaluation system.

To provide high added value to our customers, in FY2020 we started investment planning, including portfolio analysis and risk/return analysis functions, as a service used by advanced global institutional investors. As an extension of the buy options for investment trusts, we have introduced an asset-based fee plan for investment trusts that does not require a purchase fee and allows customers to pay an assets under management fee according to the appraised value and holding period. Based on the current situation resulting from the spread of COVID-19 infections, in addition to providing information by e-mail and utilizing online video meetings, we are continuing efforts to improve customer convenience, such as by expanding online procedures.

In response to the trend for free trading fees that arose in the United States, in Japan these days we have been seeing a trend among securities companies to reduce trading fees, mainly for online securities. Amid the situation in which elderly customers own most of the ¥1,950 trillion of individual financial assets, it is expected that the traditional brokerage business fee pool, which receives a commission from the customer for each transaction, will experience further shrinkage. In contrast, more than 50% of individual financial assets are still lying dormant in the form of cash and deposits, so the market potential in the retail business remains high.

Daiwa Securities is devising further improvements to its sales quality and services to achieve its customers' goals. Based on customer trust and satisfaction, we will work to establish a new corporate culture and continuously improve NPS to accelerate the shift to a wealth management business model that charges fees from assets under custody, along with the expansion of both fund wrap services and the balance of the asset-based fee plan for investment trusts. In wealth management businesses, knowing your customers is a major prerequisite. It is indispensable to broaden points of contact with customers to have a deeper knowledge of more of them. Daiwa Securities is expanding its sales offices and streamlining existing stores to increase the number of its customer contact points.

Through the shift to a wealth management-type business model, we aim to increase the ratio of asset-based revenue geared to balances, such as fund wraps, stock investment trusts and foreign currency deposit balances, from 37% in FY2020 to 50% or higher in the fourth quarter of FY2023.



## Innovation

### Question 2

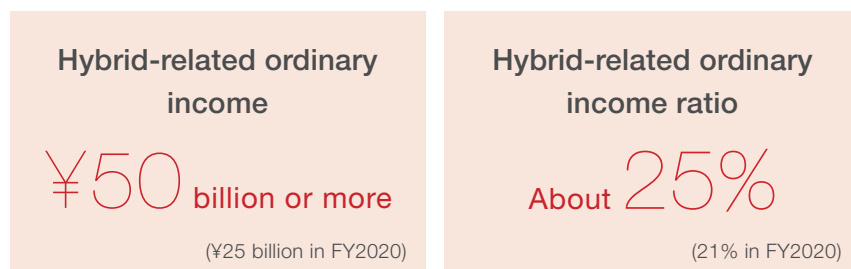
**What kind of innovation will  
Daiwa Securities Group pursue  
to create value?**



## Answer 2

“ For the sake of our customers as well as for society, in Japan and elsewhere, we will continue to draw on the financial and capital markets to provide new value and innovation. With a pioneering spirit, and backed by a history of creating unprecedented businesses, we excel at dealing adeptly with risk while taking on new challenges. ”

KPIs in the Medium-Term Management Plan “Passion for the Best” 2023 (targets for FY2023)

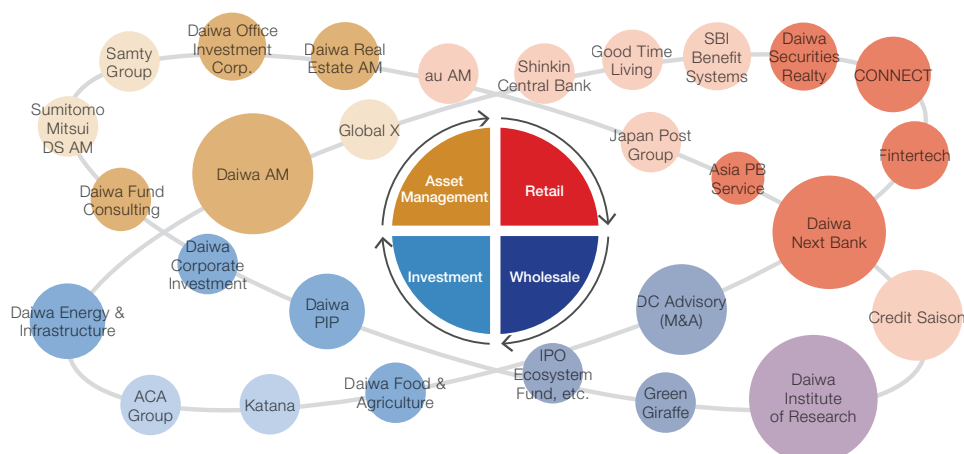


The history of Daiwa Securities Group is also the history of innovation. When the Group was founded in 1902, it broke new ground as a discount bill broker that acted as a go-between directly linking the capital markets to corporate financing needs without being dependent on any bank. Since that time, the Group has continued to drive development in the capital markets, such as offering Japan's first investment trusts (securities investment unions at the time) in 1937 and launching the country's first computer-based home trading service in 1986.

In recent years, the Group established Daiwa Real Estate Asset Management in FY2009 to enter the real estate asset management business; opened Daiwa Next Bank, an online bank without sales offices, in FY2011; and in FY2018

established Daiwa Energy & Infrastructure to invest in renewable energy and Daiwa Food & Agriculture to enter the agricultural business. Since then, the Group has continued to expand the business portfolio with a series of flourishing hybrid businesses.

The next goal of the Group is to transition to a wealth management business model. By building a revenue structure which does not depend on brokerage fees that are highly vulnerable to market conditions, but rather deriving fees based on the balance of customer accounts, we are working to build a business that can earn even higher trust and satisfaction from customers. Over the next 100 years as well, Daiwa Securities Group will continue to pursue innovation to always be a company that is indispensable to society.



## Dialogue on Innovation I

Hiroataka Takeuchi  
Outside Director  
Daiwa Securities Group Inc.



Toshihiro Matsui  
Deputy President and COO  
Daiwa Securities Group Inc.

### Continuously driving innovation through open-minded discussion

Daiwa Securities Group has to date undertaken various industry-leading initiatives. COO Toshihiro Matsui and Outside Director Hiroataka Takeuchi, an expert in competitive strategy and knowledge management, sat down to talk about the source of these efforts from a business administration perspective.

▶▶ Page 81 Directors (Members of the Board)

#### Initiatives of Daiwa Securities Group as a builder of future markets

**Matsui:** Daiwa Securities Group is proud to have caused a stir in Japan's capital markets by introducing various new, industry-leading services. One of these was the FAMICOM trade in 1988. This service allowed customers to use home computer game devices (FAMICOM), which were exploding in popularity at the time, along with cassette tape software to trade stocks. Given the complete lack of

any Internet-based information at the time, in many ways this service was unfortunately even less convenient than making orders over the telephone and never gained in popularity. I think that having executed this initiative seven years before the release of Windows 95 and eleven years before the launch of Japan's first internet brokers, however, illustrates the nature of the Group. Going back even further, we have contributed to the development of capital markets through cutting-edge initiatives that were ahead of their time, including being the first in Japan to work with

foreign bonds (UK and French sovereign bonds), investment unions (the model for today's investment trust funds), and cumulative investments.

**Takeuchi:** I define innovation as the creation of those elements that are currently lacking in order to achieve the future for which one aims. As Peter Drucker said, "You cannot predict the future, but you can create it." Having implemented many initiatives that were firsts for Japan, I believe that Daiwa Securities Group maintains a perspective that looks to what the future should be, and I feel that this



long-term future-orientation, so unlike the short-termism seen throughout the financial world, along with its human-centric orientation have become the DNA of the Group.

**Matsui:** Speaking of Peter Drucker, one of his statements that made an impression on me was that “entrepreneurs see change as the norm and as healthy. Usually, they do not bring about the change themselves. But—and this defines entrepreneur and entrepreneurship—the entrepreneur always searches for change, responds to it, and exploits it as an opportunity.” I believe that the Group has a culture that takes action upon considering the nature of the change and the opportunity that it presents, or, a culture that attempts to address change before anyone else.

Even today amid the COVID-19 pandemic, advancements in DX and the proliferation of telework are starting to drive significant transformations in the shape of society. The way in which people work, study, communicate, and live in general, as well as their mindsets, have changed greatly. It is therefore critical for us to capture how these changes will emerge as business opportunities for the Group as quickly as possible.

And work that creates new value is simply fun. The members in charge

of the Group's CONNECT smart-phone-based brokerage services launched in 2020 looked like they were truly enjoying their work. When Daiwa Next Bank was established in the past, we did not set out to create a full line of services like that offered by existing banks. Instead, we created a bank that delivered the most limited services of any bank in Japan, without bankbooks or ATMs, yet one that offered the highest deposit interest rate in the country. As a result, the bank attracted a huge deposit value. Although we also faced many hardships, all of the founding members seemed to really enjoy their work at the time.

**Takeuchi:** Looking at the strategy you took for Daiwa Next Bank as Michael Porter would have, you set out to clarify what the bank would not do\*<sup>1</sup>. In other words, you cannot satisfy every customer, so a certain number of customers might be unhappy. Clearly laying out a target gives rise to differentiated value. And the fact that this effort was fun just proves that innovation isn't only about technology, but that it is also about being human-centric.

**Matsui:** The most important mission of the new Medium-Term Management Plan “Passion for the Best” 2023 is making the shift to a wealth management business in the Retail Division. Securities brokerage firms in the U.S. have already seen significant results from this move, but unlike the U.S., where government bond yields were at least 4% when the wealth management business initially became popular, Japan offers a yield of 0%. So, we recognize that figuring out how to provide services that customers will be happy to select will be a challenge.

Japan's securities brokerage firms have also struggled with earnings instability for many years. And it will be impossible to escape this instability under a model whereby we receive trading commissions that track price movements in the markets. I therefore believe that

our real challenge is to achieve major innovation in Japan's securities industry. Our new service of asset-based fee plans for investment trusts\*<sup>2</sup> has gotten off to a smooth start. I believe that we have increased the Group's reputation among individual investors by continuously introducing these kinds of unprecedented new services.

### Innovative human resources and corporate culture

**Matsui:** It is human resources that generate innovation, and I believe that the Group has always had a corporate culture that allows for our employees to undertake new challenges. On the other hand, we require personnel with backgrounds in digital IT to serve as a foundation for supporting future innovation, so we have started implementing various systems to train these personnel. In April 2021, we opened a new Expert Course as part of our career-track position training program, and introduced a compensation system for personnel with advanced skill sets and expertise that offers compensation commensurate with their capabilities. In this way, we can now offer benefits that take the market value of our employees into account according to their position, role, and performance, regardless of rank or age. Our decision to also introduce this system for new graduate recruits starting in 2022 led us to receive many applications, primarily from highly specialized students. We are currently working to recruit individuals from among these applicants.

We are also advancing an initiative called the Daiwa Innovator Program, which calls for ideas regarding new business plans from within the Group. In addition, the final presentation themes used in the Daiwa Management Academy\*<sup>3</sup>, in which we have also asked Mr. Takeuchi to be involved, serve as new business and business plans aimed at developing the Group, and we are therefore constantly aware of innovation in critical areas of human resource development.

**Takeuchi:** A dialectic approach is an effective way of aiming to achieve greater heights. This approach provides an opposite opinion (antithesis) for each proposition (thesis), whereby heatedly arguing both sides leads to a higher order concept (synthesis). Over time, this synthesis becomes a thesis, and this process is repeated, with discussion giving rise to the next synthesis.

At Harvard Business School, students first listen to the opinions of others, after which they state “I disagree” to continue the discussion in pursuit of this synthesis. I feel that Daiwa Securities Group has a corporate culture that values this kind of open discussion to some degree. Although Japanese companies are often said to prioritize harmony, even a purely Japanese-style company like Toyota specifies the importance of unfettered discussions irrespective of position hierarchy within their code of conduct.

**Matsui:** The Group maintains a culture in which the responsible party must convince each level through the executives and president if they have an idea they want to realize. There are many cases where major decisions for the Group have been made in a bottom-up manner starting at the department head class, and the culture certainly does not tolerate employees surmising and avoiding what the president would dislike.

In addition, the Group also has a tradition of entrusting work to subordinates. Capital markets sometimes experience major events that kick-off a race against time, so when I was a department head there were times when my superiors entrusted me with the full authority of the company. Now that I serve as Deputy President, I constantly reflect upon myself to determine whether I have the same depth of character as the executives at the time who allowed me to freely conduct my work.

**Takeuchi:** One of my favorite terms is permissionless innovation. In general,

employees of Japanese companies spend too much effort trying to acquire the permission of their superiors. Yet the front offices always require judgements to be made here and now. Development of the HondaJet is an example that can be said to have proceeded in a permissionless manner.

In the paper that served as the origin of my research, I used the metaphor of a rugby scrum. Applying a relay race approach where employees hand over work in sequence requires time and makes it difficult to address change. So, I believe that a scrum approach in which all employees attack and defend is the right mode of business. This way of thinking blossomed as the concept of agile development in Silicon Valley. In this respect, a small, speedy organization is more effective. The amoeba management style used by Kyocera also falls under this concept. This approach enables companies to clearly ascertain profit or loss, and the problems of a business, while allowing them to rapidly discuss and take quick action towards improvement. For this purpose, each individual must have the freedom to act, and superiors must be able to accept this.

The Group currently maintains this type of culture. But we must be careful that the culture does not transform into its opposite—a corporate bureaucracy.

### The outside directors' role in enhancing corporate value

**Takeuchi:** I myself used to teach at the Harvard Business School AMP<sup>\*4</sup>, and I have fond memories of the time 20 years ago when Chairman Hibino traveled to Boston as the first participant in this program from the Group. Over the years since, 20 individuals, including Mr. Hibino, have participated. So, I believe I can continue to actively contribute to producing these kinds of global personnel.

The outside directors at the Group include individuals that have excelled in a variety of fields, and I enjoy very much



engaging with—and have often been inspired by—everyone at the Outside Directors Council<sup>\*5</sup> and other meetings. This year Yumiko Murakami joined the outside directors, and I hope to participate in an ever more active manner. Although it is our duty to maximize the corporate value of the Group, the Outside Directors Council is also truly unfettered, and acts with a strong spirit of love for the company.

**Matsui:** I humbly ask that Professor Takeuchi continue to comprehensively assess the Group's business, and provide his support for maintaining the Group's unfettered working environment, as well as for nurturing innovative employees.

<sup>\*1</sup> The Group has supported the Porter Award over the 10 years since its founding in 2001. The Porter Award is administered by Hitotsubashi University and is named for Professor Michael Porter, a leader in strategic theory at Harvard Business School.

<sup>\*2</sup> A commission plan in which the customer pays an asset-based fee corresponding to the total purchased investment trust valuation and holding duration instead of a commission charged at the time of purchase. This plan has been offered by Daiwa Securities since October 2020.

<sup>\*3</sup> A selective management training program for Group executives commenced in 2000.

<sup>\*4</sup> Advanced Management Program: A management training program for executives from global companies around the world.

<sup>\*5</sup> A council composed of outside directors and commenced in 2016 for the purpose of allowing outside directors to exchange information and opinions with each other.



## Dialogue on Innovation II



### Energizing Japan through innovation

Tsuyoshi Morioka

CEO  
Katana Inc.



Akihiko Ogino

Senior Executive Managing Director  
Daiwa Securities Group Inc.

In January 2020, Katana Inc. headed by CEO Tsuyoshi Morioka and Daiwa Securities Group entered into a capital and business alliance, and they are working to create and rejuvenate new businesses while revitalizing the Japanese economy through investment and marketing synergies. Their first project is a theme park in Okinawa. Katana CEO Morioka and Daiwa Securities Group Senior Executive Managing Director Akihiko Ogino shared their thoughts about each other's company.

#### Strong relationship of trust with a single vision

**Ogino:** Upon Seiji Nakata becoming President in 2017, the Group launched a Hybrid Strategy along with deciding to position SDGs targeted for 2030 as the foundation for management. As part of this strategy, we have carefully examined and developed businesses that contribute to SDG goals, such as Daiwa Energy & Infrastructure and Daiwa Food & Agriculture.

It was during this process that I had the opportunity to meet Mr. Morioka for the first time, a marketing professional with a particularly strong track record in attracting visitors to

facilities. I recall being impressed by Mr. Morioka's strong conviction and enthusiasm, as well as finding him charming and trustworthy.

**Morioka:** When we explained Katana and the Okinawa theme park business to Mr. Ogino and the rest of Daiwa Securities Group, I knew then that we would be able to forge a strong mutually trusting relationship because they conveyed a shared sense of purpose beyond immediate profit and loss and mere risk and return in a manner that reflects their company's purpose.

The business alliance with Daiwa Securities Group has provided us with credit support for project promotion as

well as a variety of financial advice that you will never receive from hired experts. A shared purpose and a relationship of trust are important for a long journey, and I would like to create businesses with Daiwa as a strategic partner that can be passed onto the next generation.

**Ogino:** Facilities that attract visitors enable the revitalization of local communities, which in turn leads to regional revitalization. I believe that direct finance plays a very important role in regional revitalization, but in reality, the level of involvement of direct finance in the tourism and entertainment sectors is still insufficient. This prompted me to think that there may be room for



#### Tsuyoshi Morioka

Strategist and marketer. Rehabilitated Universal Studios Japan in just a few years after introducing the Morioka method. After completing this mission, established Katana Inc., an elite marketing group. Guided by the vision to energize Japan via marketing and entertainment, the company is promoting a number of projects, including an Okinawa theme park business.

the Group to contribute. One of the Group's corporate principles is building trust. As we pursue joint businesses, many things happen on a daily basis that require a flexible response, so it is important to have a core sense of trust that cannot be easily shaken, and I think Katana indeed have that. We have seen tourism-related industries struggle amid the COVID-19 pandemic, yet I view this as a good opportunity because times like these enable us to look at things conservatively and cautiously rather than focusing on optimistic scenarios.

#### Local communities will drive growth in Japan

**Ogino:** The objective of the Group is to leverage its alliance with Katana to achieve regional revitalization. With branches and sales offices in all 47 prefectures in Japan, the Group has established a regional economic

network. Each region has many facilities that attract visitors, which can be referred to as a legacy. Revitalizing these facilities through marketing, financing support, and investor introductions would lead to regional revitalization in my view. I believe that Japan overly concentrating on Tokyo will not go well unless the local regions are energized.

This approach is shared by Daiwa Energy & Infrastructure and Daiwa Food & Agriculture based on the concept of managing individual assets initially with our own funds to a certain extent, eventually leading to securitization. While Japan is an advanced country, such alternative investments have gained absolutely no traction here, with assets being skewed toward traditional securities, stocks, and bonds. While Japan is said to have a variety of amazing technologies, I think that COVID-19 has exposed a number of relatively weak areas. There are ¥1,950 trillion in individual financial assets in Japan, and channeling some of these huge remaining assets into such alternative investments would enable the economy to run smoothly.

**Morioka:** I think that the growth potential of the Japanese economy lies in the rural areas, where there are opportunities to introduce marketing and reverse the flow of people. My mission is to create sustainable businesses in local communities in order to reenergize Japan. Daiwa Securities Group implementing these initiatives ahead of its competitors is a strength.

#### Innovation means providing new value

**Morioka:** The word innovation often refers to technological advancement but value creation is more appropriate.

In the world of marketing, we can find incredible value in the same old things by changing the way we view them. While it is great to be technologically oriented, it is always better to increase the number of customers with as little capital investment as possible from the perspective of investing in facilities to attract customers.

To be certain, people can develop more interesting things less expensively by combining their various expertise, including technology. In so doing, we should be able to generate interest in small local amusement parks and other facilities that attract visitors. I believe that the more choices consumers have, the richer the industry will be, and the richer the industry becomes, the richer society will be.

**Ogino:** I think the essence of the securities business simply boils down to getting customers to take risks. It goes without saying, however, that those of us who are involved in this process must also take risks. Starting a new business is synonymous with taking on new risks, but rather than avoiding risk out of fear, we need to establish systems to properly address risk. I believe that innovation in the securities business is created by continuously responding to risk while providing new value and investment opportunities to customers.



## Green & Social

### Question 3

**Why is Daiwa Securities Group  
seriously working to address  
environmental and social issues?**

## Answer 3

“ Because the power of investment is indispensable in solving a wide array of social issues. Environmental and social issues present significant business opportunities. At the same time, our mission is to contribute to society through the financial and capital markets. ”

KPIs in the Medium-Term Management Plan “Passion for the Best” 2023 (targets for FY2023)

SDG bond league table

In top 3

Balance of investment in  
SDGs-related businesses

¥150 billion or more

‘Ouen (Supporting)’  
term deposits balance  
(Daiwa Next Bank)

¥200 billion or more

(¥134.8 billion at the end of FY2020)

### Supporting and promoting SDG bond issuance

As a pioneer of impact investment bonds in Japan, Daiwa Securities Group has been working continuously to foster the ESG/SRI bond market in Japan and abroad. Following the formulation of the Green Bond Principles by the International Capital Market Association in 2014, the Social Bond Principles were released in 2017. Since then, the issuance of green bonds, which use capital for projects that contribute to solving environmental problems, and of social bonds, which contribute to solving social issues, has skyrocketed. In the Japanese market as well, public institutions, financial institutions, and companies have begun making active use of SDG bonds as a means of raising capital to address climate change and social issues.

Although SDG bond issuance has been on the rise recently, there is still a shortage of capital needed to achieve the SDGs. Utilizing its knowledge as a pioneer of impact

investment bonds, the Group is aggressively promoting the more widespread use of SDG bonds to ensure that projects are steadily carried out that lead to solutions for society.

In FY2020, Daiwa Securities served as bookrunner for the social bond issue of the University of Tokyo, the first public offering bond issue by a national university corporation in Japan. The company also served as bookrunner for the sustainability-linked bond issue of Takamatsu Construction Group, the first sustainability-linked green bond scheme in Japan; and for the green bond issue of Hungary, the first green bond issue by a government agency or other sovereign issuer. By building up a track record of lead managing such highly symbolic issues, Daiwa Securities is helping to vitalize the SDG bond market.



## Main SDG Bonds Underwriting from FY2020 Onward

FY	Issuer	Type of Issue	Issue Amount
2020	International Finance Corporation	Social bonds	AUS\$200 million
	Hungary	Green bonds (Samurai bonds; the first green bond issue for a government agency or other sovereign issuer)	Total: ¥20.0 billion
	University of Tokyo	Social bonds (first public offering bond issue by a national university corporation)	¥20.0 billion
	Central Nippon Expressway	Green bonds (first green bond issue for an expressway operator, structuring agent*)	US\$400 million
	European Bank for Reconstruction and Development	Green transition bonds (first in Japan)	AUS\$280 million
	Shinsei Bank	Sustainability bonds (structuring agent)	¥10.0 billion
	Takamatsu Construction Group	Sustainability-linked bonds (structuring agent, first sustainability-linked green bond issue in Japan)	¥10.0 billion
	Toyota Motor	Sustainability bonds	Total: ¥130.0 billion
2021	SCSK	Green bonds (structuring agent)	¥5.0 billion
	Tokyo Metropolitan Government	Social bonds (first for a local government)	¥30.0 billion

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

## Supporting and promoting SDGs-IPOs, Social POs

Daiwa Securities also supports equity financing to raise capital for businesses that contribute to solving social issues. In terms of the green recovery that will create the future of a post-pandemic world, the company is aiming to establish equity financing frameworks that contribute to the SDGs as

a financing method that can help address environmental and social issues. Based on its many years of expertise, Daiwa Securities is actively engaging in projects that lead the capital markets by gauging the needs of customers, both investors and companies.

## Poppins Holdings Inc. (SDGs-IPO, December 2020)

For more than 30 years since its establishment in 1987, the company has positioned the support of working women at the core of its business, and has expanded its business while working to solve social issues. In conjunction with its direct listing on the First Section of the Tokyo Stock Exchange, the company carried out a public offering for which Daiwa Securities served as lead manager. Funds from the capital increase will be used for the opening of new licensed nursery schools, capital investment in expanding floorspace, system development, and the repayment of debt related to the operation of existing nursery schools. This is the first public offering (SDGs-IPO) in Japan to obtain a second-party opinion on its compliance with the Social Bond Principles, its potential contribution to the SDGs, and the status of the company's ESG initiatives.



## Gakken Holdings Co., Ltd. (Social PO, March 2021)

The company issued new shares and disposed of treasury stock (social equity finance). Daiwa Securities supported the project as lead manager. The company intends to allocate the capital raised mainly for investment in and financing of consolidated subsidiary Gakken Cocofamp Holdings Co., Ltd., which establishes and operates assisted-living residences for the elderly and child-rearing support facilities, and to repay this subsidiary's debt. The framework for social equity finance of this PO meets the key requirements set out in the Social Bond Principles 2020, and the use of capital has also obtained a second-party opinion in terms of its positive social impact and potential contribution to the SDGs.



## I want to generate social impact without being bound by precedent

Having worked in the SDGs Promotion Office of Daiwa Securities Group Inc., I am currently involved with SDGs financing operations. The issuance amount of SDG bonds, which use capital for projects aimed at solving environmental and social problems, has been climbing in recent years, and my sense is that issuer and investor interest in ESG and the SDGs is mounting. While measures to address environmental problems are a hot topic, more emphasis is also being placed on dealing with social issues, and more and more issuers are contemplating issuing social bonds. The social issues facing countries and regions vary. Without being bound by precedent, I will continue to pursue financing operations with an awareness of how the issuers we support can generate social impact.

Eriko Kawasaki

Director  
Debt Capital Markets Dept. (III)  
SDGs Finance Section  
Daiwa Securities



## Stewardship activities and ESG investment initiatives

Having been a signatory to the UN Principles for Responsible Investment (PRI) in May 2006, Daiwa Asset Management (Daiwa AM) factors in the ESG initiatives of companies and other investment candidates when making investment decisions, believing that this will tie in with both the expansion of medium- and long-term growth potential and mitigating risk. In January 2020, Daiwa AM announced an ESG Investment Policy to clarify its approach to ESG, and apply this policy in principle to all investment strategies.

Daiwa AM is committed to proactively fulfilling its stewardship responsibilities on an ongoing basis, having announced its acceptance of the Principles for Responsible Institutional Investors (Japan's Stewardship Code) in May 2014. Based on its policy of engaging in constructive dialogue, Daiwa AM has pursued engagement with investees to accurately assess their situation and achieve a common understanding. Daiwa AM has revised this policy as appropriate, and in September 2020, announced a policy that newly incorporates the ESG issues

the company has defined as a priority.

Daiwa AM distributes its voting policy and reports on stewardship activities to investees, whether active or passive investments. In 2020, the company also sent materials discussing its approach to IR activities and diversity and inclusion. The company discloses its basic concept of stewardship in the Stewardship Policy section of its website. It also regularly reviews its voting policy, and at the end of March 2021, introduced voting standards that require the appointment of one or more female directors of the board for companies that have been selected by TOPIX100. Daiwa AM also considers that providing investment opportunities through the establishment and management of investment trusts with ESG and SDG themes is part of its stewardship activities.

The company has a rich lineup of SDG-related funds, including ETFs, which it aims to link to ESG indices and sustainability-themed investment funds.

### Balance of leading SDG- and ESG-related investment trusts provided by Daiwa AM (end of March 2021)

- Daiwa Society 5.0-Related Stock Fund (Asset Growth Type): ¥91.1 billion (combined total with Estimated Dividend Type: ¥119.6 billion)
- Daiwa/Value Partners China Healthcare Focus ¥28.5 billion
- Daiwa Women Supporter Fund ¥25 billion

## Vitalization of real estate financial markets

In light of the growing importance of the SDGs in corporate management, Daiwa Real Estate Asset Management (Daiwa Real Estate AM) established a Sustainability Office in June 2021 with the intention of further enhancing its sustainability efforts.

Daiwa Real Estate AM is promoting various initiatives, recognizing that a focus on ESG will contribute to improving corporate value over the medium to long term. The investment

corporations the company manages seek to bring about sustainability in the environment and in society through their business activities.

Daiwa Office Investment Corporation was the first investment corporation in Japan to issue green bonds, in September 2020. The issue sought to provide ESG investment opportunities to a wide range of investors through green finance. The capital

raised was used to repay the debt used to acquire the property for Daiwa Harumi Building, which is a green-qualified asset.

In addition, Daiwa Securities Living Investment Corporation formulated a social finance framework in May 2021. This will allow the company to begin drawing on capital raised through social financing to invest in high-quality healthcare facilities, with the aim of further expanding the supply of such facilities in Japan.

Society demands that companies work to achieve the SDGs, helping to bring about a more sustainable society through ESG-aware corporate activities. The Group believes that addressing such demands is an indispensable element when considering both the sustainable growth of Daiwa Real Estate AM and long-term returns for investors. The Group will continue to implement various measures from the perspective of sustainability.

#### SDG Bond Initiatives of Investment Corporations

FY	Issuer	Content
2020	Daiwa Office Investment Corporation	<ul style="list-style-type: none"> <li>Formulation of a green finance framework (obtained highest Green 1 (F) rating from Japan Credit Rating Agency)</li> <li>Green Bond issue (amounts: 5-year term = ¥1.5 billion, 10-year term = ¥2.4 billion)</li> </ul>
2021	Daiwa Securities Living Investment Corporation	<ul style="list-style-type: none"> <li>Formulation of a social finance framework (obtained highest Social 1 (F) rating from Japan Credit Rating Agency)</li> </ul>



Takahiro Mizunara  
Manager  
DOI Investment  
Management Dept.  
Daiwa Real Estate Asset  
Management

#### I want to invest and manage in a way that earns trust and support

The real estate asset management business requires a high degree of expertise. I was involved in real estate transactions in my previous job before joining Daiwa Real Estate AM in 2014. After joining the company, I was able to build up investment and management expertise and knowledge, and further sharpen my expertise in real estate securitization. I feel that the strength of Daiwa Securities Group is that there is a common understanding of the direction the Group should be aiming for.

In the real estate market, each individual asset class has to be looked at carefully. As a professional, I would like to offer my diverse experience in real estate and high level of expertise in financing, and continue to invest and manage in a way that earns even greater trust and support from investors.

#### “Ouen’ (Supporting) Term Deposits”: Deposits that contribute to society

When money is deposited in “Ouen’ (Supporting) Term Deposits” at Daiwa Next Bank, a certain percentage of the balance is calculated and the amount donated to more than 10 organizations chosen according to four themes: supporting healthcare for children, supporting children’s autonomy, supporting athletics for people with disabilities, and protecting the environment.

As of the end of March 2021, the balance of Ouen deposits was approximately ¥134.8 billion, with the cumulative amount of donations at approximately ¥41 million. In addition to donations, the bank also actively disseminates activity bulletins and other information about the organizations it supports. 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.



## Message from the President of Daiwa Energy & Infrastructure Co. Ltd.

Daiwa Energy & Infrastructure is committed to implementing climate change countermeasures and to help realize a sustainable society through investments in renewable energy and infrastructure.

Renewable energy accounted for just 18% of Japan's total power supply in FY2019. With this in mind, substantially increasing the contribution from renewable energy is essential to achieving carbon neutrality in 2050.

As far as infrastructure is concerned, while significant investment is inevitable going forward as roadways and bridges age and deteriorate, digital infrastructure such as fiber optics and 5G communication networks will require even higher amounts of investment.

The company is looking to invest in each of these areas, which will become increasingly important in the future, and accumulate assets that generate clean and high-quality cash flows.

One of our strengths is that we use our own funds to invest. This allows us to set a flexible strategy. Unlike normal financial investors, we are able to invest from the development stage, investing in technologies and products that are a half step ahead and yet to become mainstream. Moreover, our



**Morimasa Matsuda**

President  
Daiwa Energy & Infrastructure Co. Ltd.

ability to leverage the Group's network is our greatest strength. Recognizing the specialized nature of power generation and related facilities, these types of assets are not generally suitable for investment by institutional investors due to their low liquidity. Our strategy is to hold these assets until they are operating stably, and to then provide them to Daiwa Securities Group customers, for example, by forming a private placement fund.

In this regard, one significant feature of our Hybrid Strategy is to offer investment alternatives by taking assets that were not previously closely related to the securities industry and turning them into financial products.



Solar power plant (Nikko, Tochigi Prefecture)

### Investing in renewable energy and infrastructure

Daiwa Securities Group established Daiwa Energy & Infrastructure in July 2018, and transferred the energy investment functions that were previously undertaken by Daiwa PI Partners to the new company. In the past, the company has invested in the domestic renewable energy field centered on solar power, but is now expanding the scope of its investment to overseas renewable energy and infrastructure fields.

In FY2018, the company started a joint project with Biomass Fuel Co., Ltd., 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, it decided to invest in Electricity North West Limited, which conducts a power distribution business in the United Kingdom, and to enter into a strategic partnership with Germany's Aquila Capital Holding GmbH, which develops and manages renewable energy businesses.

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



## Carbon Neutrality Initiatives

### Daiwa Securities Group Net Zero Carbon Declaration

In May 2021, Daiwa Securities Group formulated Vision 2030, a management vision that firmly places the SDGs at its core. Guided by this Vision, every effort is being made to transition to a carbon-free society and realize a resilient society.

Against this backdrop, the Group also announced details of its Net Zero Carbon Declaration which entails achieving net zero greenhouse gas emissions within its operations by 2030 (Scope 1 and Scope 2) as well as net greenhouse gas emissions within its investment and loan portfolios by 2050 (Scope 3) in a bid to quickly realize a carbon-neutral society.

In order to achieve these goals, the Group will not only continue to ensure the efficient use of energy, but also actively consider carbon offsetting. Meanwhile, positive steps were taken to switchover to renewable energy for all of the electric power consumed at the head office building from April 2021 through the purchase of a tracking vested non-fossil fuel energy certificate.

Moreover, the Group is continuing to strengthen its engagement with investee firms in order to reduce the greenhouse gas emissions within its investment and loan portfolio. As far as Scope 3 is concerned, the Group will set intermediate targets to align with the Paris Agreement goals utilizing SBT, etc. in FY2023.

As a comprehensive financial services group, the Group will continue to help its customers decarbonize through its financial business and support new technologies that contribute to the delivery of a carbon-neutral society.

#### Daiwa Securities Group Net Zero Carbon Declaration

- ① Achieve net zero greenhouse gas emissions within our own operations\* by 2030 (Scope 1 and Scope 2)
- ② Achieve net zero greenhouse gas emissions within our investment and loan portfolios, etc. by 2050 (Scope 3)
- ③ Support the smooth transition to a carbon-neutral society through our business activities

\* The Group's emissions will be calculated on a consolidated basis.

### Daiwa Securities Group's main priority areas

#### Sustainable finance for the delivery of a carbon-neutral society

- ▶ Promote green finance / transition finance
- ▶ Expand business investment in the renewable energy sector
- ▶ Strengthen engagement with investee firms

#### Support new technologies and promote business solutions that contribute to the delivery of a carbon-neutral society

- ▶ Promote innovation (hydrogen, CCUS, etc.) and provide support for new technologies
- ▶ Expand our advisory business within the renewable energy sector

#### Provide investment opportunities that contribute to the delivery of a carbon-neutral society

- ▶ Expand our lineup of related products and services
  - Expand investment trusts with an environmental theme
  - Arrange SDG bonds, including green bonds
  - Promote SDGs-IPOs in the environmental sector

#### Reduce the Group's environmental footprint

- ▶ Shift to 100% renewable energy
- ▶ Continue efficient use of energy
- ▶ Consider carbon offsetting

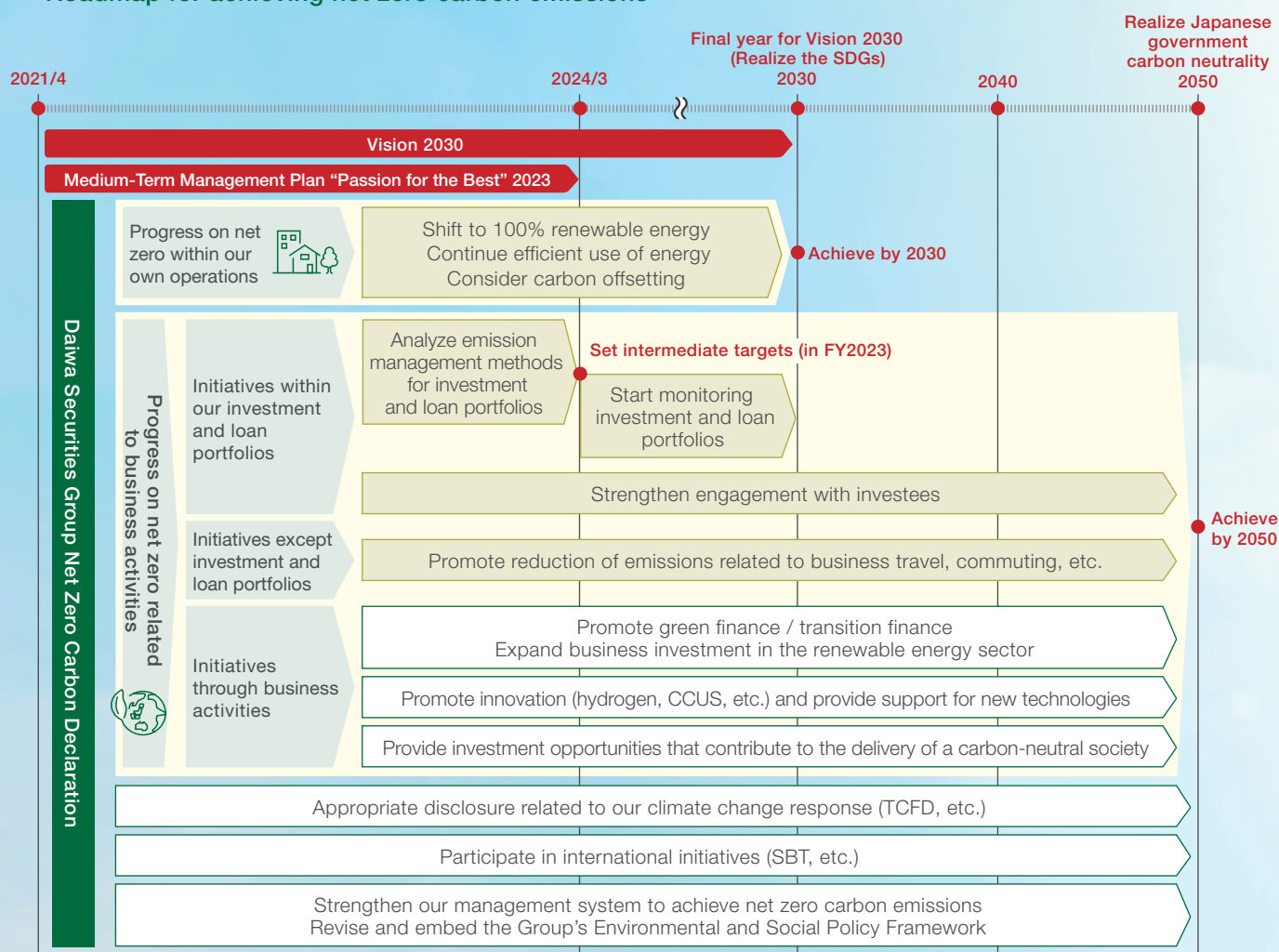
#### Set targets to align with the Paris Agreement goals and expand transparent information disclosure

- ▶ Analyze greenhouse gas emission management methods for investment and loan portfolios
- ▶ Set intermediate targets for Scope 3 to align with the Paris Agreement goals by utilizing SBT, etc. (in FY2023)
- ▶ Ensure appropriate disclosure related to our climate change response (TCFD, etc.)

#### Strengthen our management system to achieve net zero carbon emissions

- ▶ Revise and embed the Group's Environmental and Social Policy Framework
- ▶ Embed sustainability elements into corporate executive officers' compensation

## Roadmap for achieving net zero carbon emissions



## Glossary

<b>Scope 1</b>	Direct greenhouse gas emissions that occur from sources that are owned or controlled by the company
<b>Scope 2</b>	Indirect greenhouse gas emissions from the generation of purchased electricity, heat, and steam consumed by the company
<b>Scope 3</b>	Indirect emissions other than Scope 1 and Scope 2 (emissions of other companies related to a company's activities)
<b>Carbon offset</b>	A mechanism used to compensate for greenhouse gases by making efforts to reduce such emissions as much as possible and by investing in activities to reduce greenhouse gases that are commensurate with the amount of greenhouse gases emitted
<b>Non-fossil fuel energy certificate</b>	A certificate that separates the non-fossil value of electricity generated from non-fossil sources
<b>SBT</b>	Science Based Targets. An initiative established in 2015 to require companies to set greenhouse gas emission reduction targets consistent with the levels required by the Paris Agreement
<b>CCUS</b>	Carbon dioxide Capture, Utilization and Storage. A technology for utilizing separated and stored CO <sub>2</sub>
<b>TCFD</b>	Task Force on Climate-related Financial Disclosures. Established by the Financial Stability Board (FSB) in 2015, the TCFD requires companies to understand and disclose the financial impacts of climate change in the transition to a low-carbon economy.

## Diversity & Inclusion

### Question 4

**Why does Daiwa Securities Group  
attach such great importance to its  
human resources strategies?**



## Answer 4

“ Human resources are the source of our competitive strengths. We value our employees and seek to create a workplace where all employees can feel fulfilled. At the same time, we work to develop Quality No. 1 professionals and help them to be more productive. ”

KPIs in the Medium-Term Management Plan “Passion for the Best” 2023 (targets for FY2023)

### Number of Digital IT Masters

Over 200

### Number of CFPs and CMAs

Over 3,000

(Numbers as of the end of FY2020 CFP: 1,165, CMA: 1,490)

### Ratio of women on the Board of Directors

30% or higher

(Target by 2030. Following approval of the FY2021 Ordinary General Meeting of Shareholders: 28.6%)

### Ratio of women in management positions

25% or higher

(Target for FY2025. At the end of FY2020: 13.7% (consolidated basis); 16.3% at Daiwa Securities)

### Employee satisfaction

Maintain at 80% or higher

## HR Strategy (Basic Policy)

### Support employee growth and career development



- ✓ Visualize the skills, abilities, and experiences of each employee
- ✓ Offer training programs tailored to each person's career vision and aptitude
- ✓ Further expand career path options

### Develop professionals who will create the future



- ✓ Develop personnel who are chosen by customers through value-added solutions and consulting
- ✓ Raise the base level of overall employee IT literacy and develop/hire personnel to lead DX
- ✓ Create an HR and compensation system that can encourage advancement of personnel with extensive experience in finance and digital IT

### Promote further reforms to enhance job satisfaction



- ✓ Respond flexibly to change and establish an environment in which all employees can continue to work energetically
- ✓ Create a workplace in which “no one is left behind” by achieving a high degree of work-life balance that enables diverse personnel to advance

### Improve engagement and productivity



- ✓ Build a framework that enhances employee motivation and engagement and promotes a sense of trust and solidarity among employees
- ✓ Dramatically improve productivity by concentrating efforts on innovative work



## Dialogue on Diversity & Inclusion I



Under the new Medium-Term Management Plan, Daiwa Securities Group will further accelerate the pursuit of job satisfaction, increase engagement and productivity, and close the gender gap. Head of Human Resources, Kana Shirakawa, spoke with outside director, Eriko Kawai, who has a wealth of experience in overseas fund and pension fund management, about the Group's human resources strategy.

▶▶ Page 81 Directors (Members of the Board)

### Employee job satisfaction and health

**Shirakawa:** Efforts to promote job satisfaction at Daiwa Securities Group began in earnest in 2004 under then President Shigeharu Suzuki. After launching the Women Promotion Team in 2005, steps were taken to encourage all employees to leave the office before 7:00 p.m. in 2007. Each of these measures were groundbreaking in Japan at the time. This spirit has been carried forward by former President, Takashi Hibino, and current President, Seiji Nakata, and through trial and error, measures have been increased one after another, such as paternity leave, setting targets for the active participation of women, and health management.

**Kawai:** I was appointed an outside director of Daiwa Securities Group Inc. in 2018, and I appreciate that the Group's human resources strategy is both exceptional and innovative among Japanese companies. I believe the Group preceded the Japanese government's full-scale efforts to support women's activities in the workforce and promote workstyle reform by a decade. As a result, there are a number of female executives and managers in the Group, led by Deputy President, Keiko Tashiro.

However, I would assert that these efforts are still at an average level compared with overseas companies. I hope that the Group will remain mindful of the increasing need to solve problems, and set even higher goals, rather than merely pursue external awards and achieve numerical targets, such as the number of people taking leave.

**Shirakawa:** The Group places importance on personnel as one of its Corporate Principles. In this regard, the source of the Group's competitiveness lies in the capabilities of its employees. In my concurrent position as Chief Health Officer (CHO), I believe that the wellspring for maximizing employee productivity, participation, and job satisfaction, while improving corporate value, is the mental and physical health of employees.

The first step is for the employees to understand the status of their own health, the second step is for the Group to implement various support measures based on the health of employees, and the third step is for the Group to start addressing mental health issues. This includes, for example, incorporating the mindfulness program developed jointly with Keio University into the training program for new employees.

**Kawai:** In order for the Group to enhance its corporate value over the long term, while also ensuring above all that it meets the needs of customers, I believe it is important for employees to possess not only professional knowledge, but also to hold mental health and integrity as core values.

**Shirakawa:** What is important is that all employees approach their daily work with a strong sense of pride. Since the level of pride will differ from employee to employee, we will add employee satisfaction to the KPIs in the new Medium-Term Management Plan and also disclose figures externally. We will use this as the basis for a full-scale engagement survey. Clearly, a group of highly engaged employees will ultimately contribute to higher corporate value, and we recognize the creation of a corporate culture and structure that allows employees to continuously demonstrate their abilities as an essential prerequisite.

## Closing the gender gap

**Shirakawa:** While the percentage of women in management positions at Daiwa Securities, the core company of the Group, is 17.8%, our goal is to increase this to 25% or more by 2025 and 30% or more by 2030. Daiwa Securities Group Inc. has a target of increasing the percentage of female directors to 30% or more by 2030, with the current ratio 28.6%.

There is still a great deal of work to be done to close the gender gap. For example, there is substantial room for improvement in the percentage of women appointed to head each department, office, and branch. I would like to see more women move up the management ladder to become line managers and then line general managers, and play an even more active role in the Group. While we are already

working on measures to deepen the upper management pipeline, these measures need to be accelerated.

In order to draw out the potential of as many women as possible, not only from the upper management level, but also from an overall perspective, I think it is important to make known and thoroughly implement measures that take into consideration such life events as marriage, childbirth, and childcare, while at the same time addressing issues that may be hindering the advancement of women.

One such initiative is to eliminate unconscious bias. Unconscious bias is a factor in a wide range of areas, including the belief that it is difficult to join a male society (feeling alienated), the image of female leaders (only superwomen can succeed), the pressure to create value unique to women, as well as the issue that balancing work and home life is only a female concern. How can the Group eliminate the semi-conscious assumptions of both men and women? It would appear there is still a long way to go.

We will continue to provide opportunities to employees who have the will and ability to do so, regardless of gender or year of employment. We believe that such employees are highly engaged and have a positive impact on the people around them. In addition, we recognize that it is our responsibility to put in place a system to prevent life events from becoming a disadvantage.

**Kawai:** It is possible to achieve the numerical targets by hiring externally, but the Group is clearly taking steps to proactively create a system for internal promotion and to raise internal motivation.

As you so rightly say, we should provide employees who exhibit outstanding skills and performance with increased responsibility. This applies not only to women but also men, regardless of years of employment and career history. If a company adopts the attitude that it will appoint an employee

to a post of responsibility in another 10 years then it will surely lack innovation. Of course, age is an important criterion for measuring experience, but it should not be a prerequisite for promotion. In this era of great change, I think it is important to put in place a system that enables people with fresh ideas and opinions who are capable of generating innovation such as digital natives, or more recently the SDG native generation, to excel after they have been hired.

At the same time, I believe that we need to be more creative in our mentoring. In order for women to play a more active role in a minority environment, it is important to promote an understanding of both the minority and majority. For example, male employees can experience what it is like to be in a minority environment, and female employees can be assigned male mentors to make it easier for them to join the male network.

**Shirakawa:** Indeed, there are many occasions when female managers give lectures at training sessions for female employees at the Group. This in itself may in fact be a form of unconscious bias. In this regard, I will think again about what is the most effective way to conduct training. Mentoring is generally recognized as an effective form of training, depending on how it is done. I would therefore like to devise a way to incorporate it in our training programs.

**Kawai:** Of course, mentoring can be helpful. At the same time, employees can further enhance their individual capabilities, nurture a mindset, and gain the skills necessary to become a leader through coaching. When there are relationship issues, or an employee feels limited in his or her work, the opinion of an unrelated third party is very important to help that employee to reflect on his or herself objectively and expand his or her possibilities.

## Securing and developing talented human resources

**Shirakawa:** In April this year, we established a new Expert Course as part of our promotion program. For employees with advanced digital technology and highly specialized financial and mathematical knowledge, we have introduced a compensation system that is based on duties, roles and performance, regardless of grade or age, and that takes into account market evaluation. While the first course was for employees in the derivatives division, the same course will also be offered to new graduates from FY2022. At the same time, securing and developing talented human resources, including mid-career hires, is an issue of the utmost importance.

**Kawai:** I am also very excited about this personnel system. Generally speaking, students with doctorates have not been hired by general companies in Japan until now. In contrast, overseas companies consistently compete for the best talent. I believe that human resources that are not only highly specialized, but also take the initiative to identify issues and are trained to solve problems where others have failed, are the best suited to generate innovation. While conscious of the fact that the number of diverse human resources will increase in the future, I would hope that HR data will be used to properly monitor the skills

of employees and what they want to do. This is vital in creating career paths that meet employees' aspirations.

**Shirakawa:** As head of human resources, it is only natural that we help employees grow and realize their careers, which is part and parcel of improving corporate value. Moving forward, we will work even harder to visualize the attributes of each employee including skills, abilities, and experience. We will focus on who has what skills and what skills are lacking. At the same time, we will look closely at what kind of career vision and career path each employee has. It is vital that we fully understand the aspirations of our employees and avoid any mismatch. With this in mind, we are now considering revamping our human resources system to accommodate these changes.

Whether it is self-realization or contributions to the Group, we believe that accurate evaluations will increase the well-being and motivation of our employees.

**Kawai:** Exactly. The most important thing is to find out what work you really want to do and then to work on it seriously. This then becomes the source of both motivation and productivity. The more interesting a job is, the greater is the potential for further growth. If we can build an HR pool database not only for Japan, but also globally, I believe this will prove useful in internationalization efforts going forward.

**Shirakawa:** In the words of President Nakata, we will create a hybrid model by adding the essence of job-based employment to Japanese-style employment practices. I believe that we are now in the process of rebuilding Daiwa Securities Group by firmly incorporating its history and philosophy.

**Kawai:** While I recognize this is a major challenge, I also firmly believe that it is



a necessary reform. With this in mind, I would ask the Group to do its best. I think it is important to provide opportunities for seminars that incorporate the wishes of employees to further enhance their abilities. In addition, training and vacation programs to broaden employees' horizons are also vital from a personal growth perspective.

**Shirakawa:** Moving forward, how veteran employees can continue to demonstrate their abilities will become increasingly important. Against this backdrop, we will not only endeavor to provide a more comfortable workplace and additional welfare benefits to our employees, but also devise ways to ensure that each and every employee is able to go about his or her work with a high level of awareness.

**Kawai:** Daiwa Securities Group's human resources strategy goes beyond promoting the advancement of women. By also putting in place a workplace environment in which all employees, from the young to experienced, can continue to work with vitality, I would hope that the Group will challenge itself to take on new things. In this regard, the Group's corporate philosophy places importance on personnel and contributing to society through financial markets. It is important to note that the HR strategy is the foundation for everything that it does. I hope that I can make a contribution.



## Human resources measures to help realize the Medium-Term Management Plan

Amid advances in digital transformation and dramatic shifts in society and the economy, the Group is pursuing the best mix of digital and real businesses by fully capitalizing on data and digital technology in a wide range of areas and reinforcing its cultivation of digital professionals to support more sophisticated, more complex financial products and businesses (see p. 74). Moreover, in FY2021, the Group added an Expert Course, mainly targeting digital IT professionals and highly experienced financial professionals, to its in-house personnel program for employees in career-track positions. The revamped program combines the advantages of the existing general employment system, where employees move between departments and positions, with a job-based approach, where employees are assigned to specific jobs or roles.

In line with the revised Act on Stabilization of Employment of Elderly Persons, which went into effect in April 2021, the Group is enhancing its personnel programs to support the longer career spans of employees. Initiatives include a License Certification System and ongoing employment programs to empower experienced employees to acquire the new skills that are needed in contemporary contexts, motivating them to continue to play an active role. At the same time, the new system allows employees older than 60 to have second jobs or multiple jobs.

Furthermore, in April 2021, the Group expanded its flexible working hours and telecommuting systems, to put in place a working system that maximizes organizational productivity.

### Greater motivation as a highly experienced financial professional

My concentration was in physics at both university and in graduate school. Since joining Daiwa Securities, I have been engaged in exploring derivative valuation models and the management and operation of market value valuation systems as a derivatives quantitative analyst.

I agreed to enter the Expert Course certification program offered by the company because I was attracted to the fact that it enables an individual's achievements to be evaluated without being tied in with seniority. I am very pleased to be certified as a highly experienced financial professional by the Group. At the same time, I feel that this certification carries with it high expectations, which makes me even more motivated to work hard. It also makes me more eager to take steps to acquire further specialization on my own.

Mao Iwasa

Specialist Grade  
Derivatives Department  
Daiwa Securities



## 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 take on the challenge of difficult objectives. In order to become professionals, 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, the Group offers programs designed to support each employee in taking the initiative to build their careers. Specifically, it offers mandatory programs that are clearly defined and implemented as part of work and elective programs that help employees acquire the necessary elements for their futures.

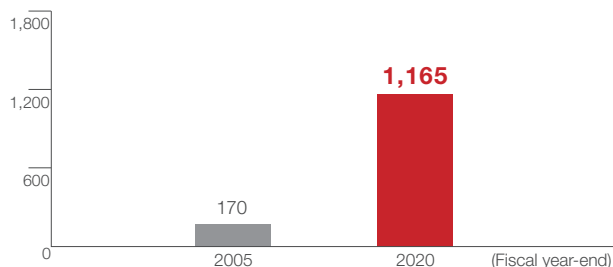




## Mandatory programs

The Group positions the first two years after entering the Group as a period of basic education for employees on the way to becoming professionals. Daiwa Basic program, which covers this period, sets the agenda and benchmarks for learning, organically combining group training, OJT, e-learning, and support for acquiring qualifications. The Group also introduced the Q-Road training program for employees in their third to fifth years of employment to enhance the knowledge, skills and techniques, and mindsets required to achieve Quality No. 1 and further encourage employee growth.

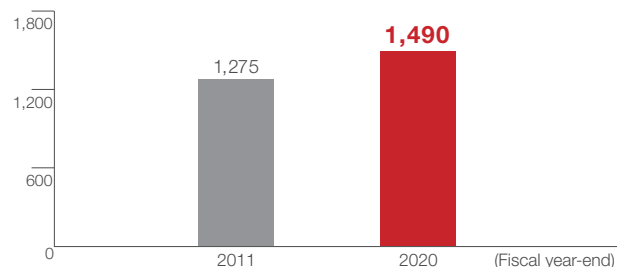
### CFP Employees



## Elective programs

The 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 Online University, and language-learning programs. In this way, all employees can choose and attend programs related to aspects required for their future careers.

### CMA Employees



## Diversity and inclusion

The Group is working to respond flexibly to change and establish an environment in which all employees can continue to work energetically, as well as to create a workplace in which “no one is left behind” by achieving a high degree of work-life balance that enables diverse personnel to advance.

The Work Life Balance Committee, co-chaired by the Chairman of the Board and the President and CEO, convenes quarterly. Under their strong leadership, the committee discusses a wide array of measures, including measures to

promote the active participation of women and dramatically improve productivity. Moreover, the committee carries out a multifaceted evaluation covering the status of diversity efforts on the part of all management, including executives. The purpose is to improve management capabilities and productivity across the Group by giving managers feedback from their subordinates about their daily management performance, and identifying and addressing issues through training.

## Encouraging women to succeed

The Group proactively appoints female employees to positions of responsibility, with an eye to producing leaders who can take Japan's financial industry forward. The Group is working to foster the environment needed to further expand the number of women in management positions. Initiatives such as the implementation of career training for women and the establishment of consultation desks regarding careers and working styles are helping to enable female employees to continue working energetically even after life events such as marriage and childbirth.

There are a total of 13 women in top management positions (directors, corporate executive officers, and executive officers) across the Group, including five executives (directors and corporate executive officers) at Daiwa Securities Group Inc. The number of women in management positions has

increased every year, totaling 747 at Group companies as of June 30, 2021. The ratio of women in management positions has risen from 2.7% (at the end of FY2005) to 14.7% for the Group, and from 2.8% to 17.8% for Daiwa Securities.

The Chairman of the Board and the President and CEO of the Group have been members of the 30% Club Japan since 2019. This organization aims to increase the ratio of women holding top positions among companies in Japan, and has set the goal of achieving a 30% ratio of women on the boards of directors of the companies that comprise the TOPIX100 by 2030. Chairman of the Board Takashi Hibino is participating in the Steering Committee, helping drive their activities forward.



## Our diverse team of professionals drives our growth

At DCMA, our goal is to provide a fair and inclusive corporate culture for all of our employees. We understand that our diverse team of professionals are the source of DCMA's competitive strength and drive our growth as an organization. We seek an atmosphere in which our employees understand, respect, and inspire each other and value their unique contributions. Our policies and initiatives provide a framework to support this environment, and it is our people who make diversity and inclusion a reality. It starts with bringing our authentic selves — our backgrounds, viewpoints, and experiences — to work each day.

We will continue to build a culture that encourages everyone at DCMA to take pride in their work. How we work — individually, with each other, and with our communities — is just as important as what we do and shapes who we are as an organization. That's especially true when it comes to diversity and inclusion.

Jessica Webster

Director  
Human Resources  
Daiwa Capital Markets  
America Inc.



## Targets by FY2025 (Daiwa Securities)

- 1 Ratio of women in management positions of 25% or higher, with a goal of at least 30% by the end of the decade
- 2 Continue to hire excellent personnel regardless of gender, with the ratio of women among new graduates recruited stable every year at 50%
- 3 Ratio of women among participants in training aimed at improving various skills and specialized knowledge of 50%
- 4 Maintain ratio of men utilizing childcare leave at 100%, with the number of days taken at 14 or higher

### Supporting career advancement

Ongoing recruitment, training, and promotion has yielded an increase in the number of female role models. This has spurred a rise in the number of women aspiring to advance their careers, with the total number of female employees switching to career-track and regional career-track positions now exceeding 1,500. In FY2019, the Group established a new broad regional career-track system that allows employees to be relocated within a certain area. In the two years since its introduction, more than 70 people have switched to this track and broadened their career options. Moreover, to further support career advancement, employees are also eligible for promotion even while on childcare leave.

### Systems for supporting balance

The Group is enhancing various support systems to enable a balance between work and both childcare and nursing care. Measures include extending the period and loosening the requirements of nursing care leave, as well as introducing various types of support and a nursing care travel home expense allowance. Moreover, all departments of Daiwa Securities hold an annual study meeting on how to respond to the aging society and balance work and nursing care. In these ways we are working to increase employee awareness and foster an environment that encourages use of these support programs.



**Makiko Mitani**  
General Manager  
Niihama Branch  
Daiwa Securities

### The personnel program helped me reach a position of responsibility

I joined Daiwa Securities at a regional branch office under the regional career-track system. After getting married and giving birth, I returned to work, and then switched to the career-track system before being appointed to my current position.

It required a great amount of mental preparation and determination both to go back to work after maternity and childcare leave, and when I wanted to switch career tracks when my child grew up. In both cases, I was helped by the company's flexible personnel program and ample employee benefits.

At these turning points, I have been blessed and supported by my family, bosses, colleagues in the workplace, and customers. Now I am in a position of responsibility that I never dreamed of when I joined the company, so I think it is my turn to bring out the potential of my subordinates and create opportunities for career growth.

### Support for employees raising children

In 2018, the Group established a Baby Salon at the Tama Training Center where preschool age children can be left during training periods. The Group is also strengthening its support system to allow employees to continue to sharpen their skills while raising children, such as enabling employees on childcare leave to participate in online elective programs starting from FY2021.

### Promoting understanding of LGBT issues

As an opportunity to deepen understanding of LGBT issues, LGBT themes are taken up in several mandatory programs. A total of about 5,000 employees have participated in this training to date. In addition, every year the Group holds a Human Rights Awareness Workshop for all employees to promote understanding of LGBT issues.

### Supporting the participation of employees with disabilities

The Group has introduced Daiwa LEAP Plan, a system that provides comprehensive support for employees with disabilities, 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 the Accessibility Consortium of Enterprises (ACE).

### Student loan repayment support system

The Group has a system to provide employees with outstanding student loans with repayment money in the form of interest-free loans, which serves to alleviate their interest burden. Moreover, with repayment deferred until the end of the fifth year after joining the Group and starting in the sixth year, the burden of repaying loans for younger employees is reduced.

## Health management initiatives

The Group believes it is vital to achieve a greater degree of health management in order to increase employee productivity and continue to demonstrate strong performance as an organization in the future. It has introduced various measures to this end. Initiatives to improve employees' health in earnest began 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, a Chief Health Officer (CHO) was appointed and a Health Management Promotion Section was established within the Human Resources Department.

In addition, the Group launched CHO-sponsored Health Management Promotion Meetings, which are held quarterly to recognize issues, evaluate efforts, make improvements, and implement a PDCA cycle for health management.

## Specific issues for women's health

As a measure to help address women's health, the Group began comprehensive support relating to women's menopause issues, improving health literacy, and balancing work and infertility treatments. Through these efforts, the Group hopes to help women remain healthy and to continue to work actively and energetically.

## Healthcare for Society 5.0

Since 2019, the Group has been working to enhance healthcare using IT. It introduced *first call*, a system which is available to employees for free and allows them to consult directly with a specialist for health consultations via chat or videophone. In 2020, the Group introduced a remote healthcare system that allows employees to receive health consultations online from a doctor at each department and office nationwide and allows medications to be sent by mail.

The Group has also been actively promoting employee health by making the fitness app BeatFit available to all employees for free. The number of users for this app has surpassed 3,800.

## Supporting a balance between work and cancer treatment

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

## Initiatives to support mental health

The growing number of people with poor mental health has become a serious issue in Japanese society. Believing it essential to expand the system to support mental health, the Group in 2019 began providing highly specialized counseling through close cooperation between occupational physicians and psychiatrists and clinical psychologists. In FY2020, the Group introduced online counseling and conducted mindfulness training for new employees to help prevent mental illness and to hasten recovery after illness.

## 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 seven 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 seven years in a row. In addition, the Group has been recognized as a Certified Health and Productivity Management Organization (White 500 company) for five years in a row.





## Dialogue on Diversity & Inclusion II

# IT professionals: Create the future of Daiwa Securities Group



CIO X Employees attending the Digital IT Skill Training Program

Left:  
Tomoyuki Murase  
Executive Managing Director and CIO  
Daiwa Securities Group Inc.

Center:  
Mayuko Yamashita  
(DX Planning Course)  
Director  
Global Markets Operations Department  
Daiwa Securities

Right:  
Ryohei Uchiyama  
(AI and Data Science Course)  
Director  
Investment Management Department  
Daiwa Securities

As the basic strategies of the Medium-Term Management Plan that kicked-off this fiscal year, Daiwa Securities Group added digital strategy to our existing Quality No. 1 and Hybrid Strategy. Tomoyuki Murase, CIO (Chief Information Officer) in charge of promoting this digital strategy, spoke with two employees who are attending the Digital IT Skill Training Program in aims of acquiring the Digital IT Master certification launched in 2019.

**Murase:** In order to promote this matter as CIO, I have raised two pillars as the basic policy for our digital strategy.

The first is Business Process Digitalization. This initiative seeks to evolve every aspect of the value chain, starting with our customers through digitalization, including expanding points of contact with customers among front office sales staff, enhancing solutions in the Product Division, and

raising the quality and efficiency of operations in the middle- and back-office departments.

The second is Transformation to a Data-driven Business Model. In the coming age where business processes and communication will become digital, and all manner of information will be stored as data, this effort will transform our business model into one whereby we make decisions based on the analysis,

study, and employment of this data.

As part of the Digital IT Skill Training Program, Ms. Yamashita, you are attending the DX Planning Course, which pursues Business Process Digitalization, and Mr. Uchiyama, you are attending the AI and Data Science Course, which supports Transformation to a Data-driven Business Model. Tell me about why you applied for this program.



**Yamashita:** I used to be involved in duties related to forming structured bonds when I was previously assigned to the Structured Products Department. At the time, although I was aware that there were issues in terms of the significant room for systematizing pricing patterning and data base conversion, for example, I was swamped with my regular duties and was unable to get a start on this work.

When my spouse was later reassigned to the US, however, I decided to take advantage of the Group's Spouse Work Reassignment Leave System and use this chance as a limited-time self-improvement period. So, I took programming classes at a university in the U.S. with a focus on my duties after returning to work. This was a great experience because it offered me the opportunity to try out applications that had not been introduced in Japan yet and cutting-edge digital technologies on a daily basis.

After returning to Japan and work, I was assigned to my current position in the Global Markets Operations Department. The external environment is drastically evolving, however, and the future of the financial industry and the details of my own work are also starting to change. Given this situation, I recognized the risks and challenges in regard to the lack of systematization with an eye to the future. So, I applied because I wanted to be actively involved in improving this situation.

**Uchiyama:** I have a background in economics, and virtually no experience

in anything like programming, so I originally joined Daiwa Securities in the hopes of being assigned to the Retail Division in sales. I was initially assigned to the Atsugi Branch and later transferred to the Investment Management Department, where I began to study programming because my duties were involved in asset management as part of our discretionary investment services. I was surprised at the advanced skill level of my seniors when I saw how they made their own order-placing tools. At the same time, I became increasingly interested in data analysis as I managed Advance Wrap, wondering what would happen if we had a lot more data or if we introduced machine learning and so on. I applied for this course because I thought it would be best to study these areas in depth.

I also felt it would be possible to build a management system that would stand alongside those of overseas financial institutions if we skillfully applied digital technology to exceed the limits on the scale of our staff and budgets. This is now my personal dream.

**Murase:** It seems that you both have a strong awareness of the issues and a resolute will. As we increase the consciousness of those of you in the front-offices, we are also advancing cross-organizational projects. Even within the Global Markets of the Wholesale Division, for example, the systems and operational methods used by FICC and Equity have their own respective strengths and weaknesses, which provides significant room for optimization. In addition, even the asset management methods used by the Retail Division and the Wholesale Division each rely on different knowledge sets, so we must also construct data management mechanisms to which they can apply their respective know-how.

Speed and flexibility are essential for DX. Until recently, IT would create 100 functions over the course of 100

days, but amid the drastically changing external environment in the age of DX, we must now take an approach whereby we build one function every day and rapidly refine these functions upon observing the reactions of our customers and end-users.

Moreover, data science serves to transform every corporate activity, from addressing customer wishes to product development and communication, not just management models, by continuously polishing the logical thinking that determines the types of information to the huge volume of internal and external data.



**Uchiyama:** Thanks to this training program, I was able to interact with employees from different departments. And as I pursue programming more deeply, I have come to realize that studying knowledge on selecting data is potentially more important than the algorithms themselves.



**Yamashita:** Because I had been very busy with my practical duties, I had few opportunities to converse with others even if I was aware of issues. This training program has provided me

with opportunities to share and discuss future directions and those issues that we must get started on, and has allowed me to meet those who sympathize with and understand my interests from other departments. This will help raise my motivation as I work in the future. And acquiring a basic knowledge of IT has increased my execution speed and chance of success in tackling issues.

**Murase:** The Group's digital strategy does not aim to achieve its goals by inviting outside IT experts or entrusting the work to consultants. Instead, it aims to provide those employees in the front office who know our business best with digital skills as a means of creating extensive value that cannot be imitated by other companies. For this purpose, we plan to raise the IT skill level of all employees in stages.

Specifically, we have established the training of 200 high-level IT personnel as a KPI, and I hope that the two of you work hard in becoming members of this group.

What do you think the Group will look like ten years from now?

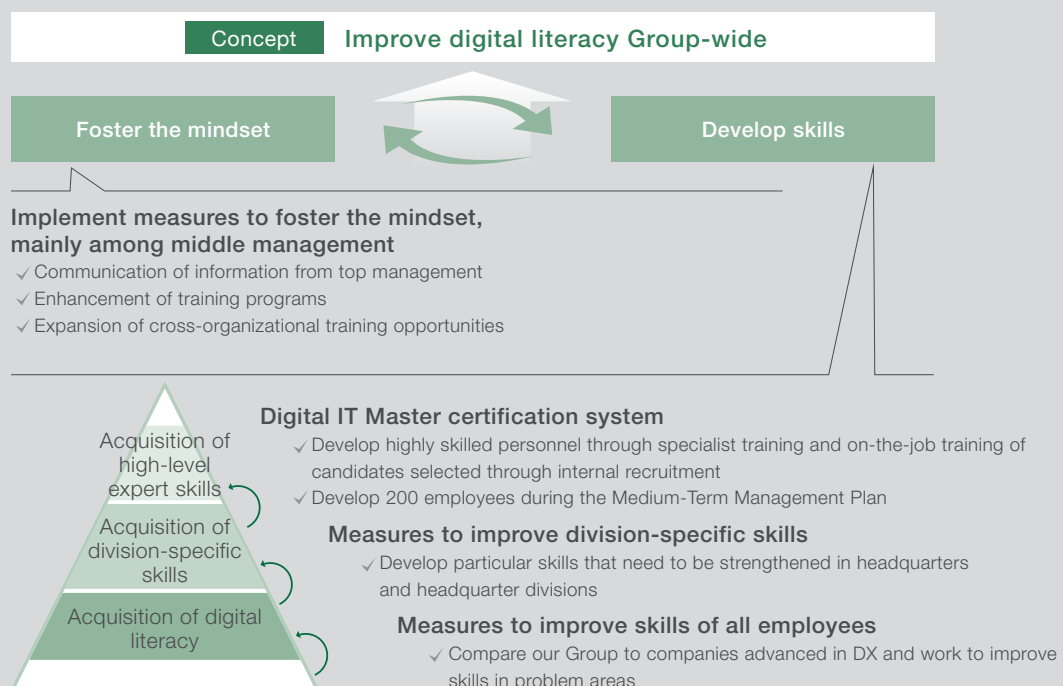
**Yamashita:** The introduction of IT technology will likely bring about significant changes in financial product pricing and contract matching in the future. And I think it will also strengthen our contact points with customers, as well as enable us to provide new services that are not limited to finance based on the behavioral patterns of customers. Moreover, I think we will be able to provide virtual branches and virtual visits, and will be able to offer greater added value based on customer preferences as we expand the customer base.

**Uchiyama:** Although this may happen sooner than 10 years from now, I think everyone will be able to use data as freely and effectively as they use spreadsheet software, which will allow the Group to steadily give birth to new businesses. Even with the same data and skill sets, different people will come up with different ideas, so I intend to convey what I am learning now to those around me in aims of increasing the number of personnel with experience in IT however possible. I think this will also make my work more interesting and accelerate business transformation.

**Murase:** In the near future, I expect that you will both become IT influencers that lead the enhancement of IT skills among the Group's employees. Do your best.

## Developing Digital IT Masters

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.



# Foundation of sustainable management

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## Message from the Chairman of the Board



Optimal governance system  
represents a never-ending journey.

Takashi Hibino  
Chairman of the Board  
Daiwa Securities Group Inc.

### Engaging in continuous governance improvements

I believe that corporate governance should not be pursued to excess in terms of its form. It does not mean that a company will grow automatically if its form is fixed, but on the other hand, if sudden changes are made to governance, there is also the concern that these might cause harm. Looking back on the past, I am proud that Daiwa Securities Group Inc. has been steadily improving governance since becoming the first to transition to a holding company structure in 1999. Building an optimal governance structure based on elements that include the history, culture, type of business and scale of the Company, represents as it were a never-ending journey.

In FY2020, we enhanced the support system for the Board of Directors by establishing a Corporate Secretariat Office, and results are arising from that. For example, the Company's own Outside Directors Council, which is chaired by director Michiaki Ogasawara, was held on seven occasions last year, and exchanges of opinions took place on a wide range of topics, such as DX, the new Medium-Term Management Plan, emerging risks, governance, and sustainability.

The Board of Directors having also decided upon our Corporate Governance Guidelines, which summarize and clarify our ideas on the subject, we published them in April 2021. The Company's policy is clearly stated in these guidelines, which include: the role of the Board of Directors as a monitoring board; what is required of outside directors and the role of each committee; the CEO successor plan; the facts that the majority of directors do not concurrently serve as corporate executive officers; the ratio of outside directors is one-third or more; the chairpersons of the three committees are outside directors; and that the numerical target for female directors has been set at 30% or higher by 2030.

At the 2021 General Meeting of Shareholders, the number of female outside directors was increased, and the ratio of outside directors on the Board of Directors increased to 50%. The ratio of non-executive directors to the Board of Directors is 64.3%, and the ratio of women 28.6%. We have four female directors, and we believe the fact that two of those are internal directors is a feature unique to Daiwa Securities Group Inc.

I feel that things have settled down from the viewpoint of our governance format due to these efforts. Going forward, we will make up for any shortcomings, but to have more open discussions within the limited time available for Board of Directors' meetings, I would like to continue to implement inventive ideas from the operational aspect that will improve the efficiency of physically and time-limiting factors.

We asked a different consulting firm to conduct the Board of Directors effectiveness evaluation for FY2020. By seeing things through their fresh eyes, we were able to reconfirm the validity of the evaluations up to now.

### ESG, sustainability initiatives

Typified by GAFAM\*<sup>1</sup>, the number of giant companies is increasing and having a great impact on society that transcends nations. The role that companies play in building a better society has been increasing in recent years, and I think that ESG and stakeholder capitalism\*<sup>2</sup> represent inevitable trends.

Daiwa Securities Group recently formulated its Vision 2030 to coincide with the deadline year for achieving the SDGs. We also announced the new Medium-Term Management Plan as the first three-year plan toward the achievement of Vision 2030. With regard to climate change and social issues, there are both risks and opportunities, and there are transitions occurring on a worldwide basis toward the realization of a zero-carbon society, but in the processes being advanced by corporate efforts and new investments the power of the financial and capital markets will be needed. As its position from which to support these processes, the Group regards the ESG trend, and in particular the growing awareness of E (environment) and S (society) issues, as a major growth opportunity.

In the case of G (governance), since the Group is a securities business and its business performance fluctuates greatly depending on market trends, management has long been focusing on sustainability and strengthening its governance system. As a Hybrid Strategy, we are also promoting the expansion of our business portfolio other than in the traditional securities business, and accordingly have also rapidly advanced the strengthening and enhancement of the management of new forms of risk. In the meantime, in the traditional securities business, we must simultaneously strengthen compliance to achieve Customer First & Quality No.1. The compliance awareness of all employees is improving, and we will also make considerable use of the power of digital technology to prevent exceptional incidents.

Since outside directors also attach great importance to the sustainability point of view in terms of sound growth, the awareness that risk management and compliance should be rock solid remains strong. I am expecting to receive various suggestions from Ms. Yumiko Murakami, who was newly appointed as an outside director in 2021, based on her experience of global financial institutions and insights into international organizations.

## My expectations of outside directors

A skill matrix was inserted in the notice of convocation for the June 2021 Ordinary General Meeting of Shareholders. There was a similar one internally, but this was compiled again by the Nominating Committee and disclosed from this year. The best role to expect from outside directors is to have them check the Group as a monitoring board so that we do not head off in the wrong direction and, as shown in the matrix, we also ask for advice from their various backgrounds. If it were merely outside advice, you might arrange to outsource this to a consultant, but as people on the inside and as a section that contributes to growth, what I expect from outside directors is their being able to kindly give personal advice after having gained thorough knowledge in actuality.

The Company's top management possesses strong leadership, and I see this as a good thing. On the other hand, if the direction of management were seeming to deviate from common sense in a major way not adhered to by the industry, it would be necessary to create a corporate governance system and to refine that system so that this situation would be corrected. At the same time, I feel that it is the role of the chairman of the board to strike a balance so that the leadership and entrepreneurship of top management is not diminished. As a result of having been engaged in this over a period of time, I do not think there are any major problems at present, as the outside directors also receive advice based on such a philosophy. For Daiwa Securities Group Inc., however, since the building of an optimal governance system represents a never-ending journey, we will pursue that goal without being careless, negligent or arrogant.

\*1 Abbreviation that takes the first letters of the five giant IT companies (Google, Amazon, Facebook, Apple, Microsoft)

\*2 The idea that companies should take into consideration not only the interests of their shareholders but also of their employees, customers, business partners, local communities and all other stakeholders. Business Roundtable of major U.S. companies in August 2019 and the World Economic Forum in Davos in January 2020 indicated that they would support this idea.



## Directors (Members of the Board)

### Internal Directors



Chairman of the Board

#### 1 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.



#### 2 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.



#### 3 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.



#### 4 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.



#### 5 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.



#### 6 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.



#### 7 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.



(As of July 2021)

Outside  
Directors

8

**8 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 six years.

**Significant concurrent positions**

Advisor of Sumitomo Corporation; Outside Director of Tokyu Fudosan Holdings Corporation; Chairman of Foundation for MultiMedia Communications; Advisor of Fujitsu Future Studies Center Ltd.; and Outside Director of Koei Tecmo Holdings Co., Ltd.

9

**9 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 five years.

**Significant concurrent positions**

Professor of Harvard Business School; Outside Director of Integral Corporation; Senior Advisor of P&E Directions, Inc.; Outside Director of BrightPath Biotherapeutics Co., Ltd; Member of the Board of t-lab; Principal of Global Academy K. K.; Co-founder and Special Advisor to the Board of GlobalTreehouse Inc.; and Chair of the Board of Trustees of International Christian University

10

**10 Ikuro 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 five years.

**Significant concurrent positions**

Outside Director of MEGMILK SNOW BRAND Co., Ltd.; Guest Professor of Graduate School of Keio University, Faculty of Business & Commerce; and Outside Audit & Supervisory Board Member of Tokio Marine & Nichido Fire Insurance Co., Ltd.

11

**11 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 three years.

**Significant concurrent positions**

Outside Director of CMIC HOLDINGS Co., Ltd.; Outside Audit & Supervisory Board Member of Yamaha Motor Co., Ltd.; Professor of Graduate School of Advanced Integrated Studies in Human Survivability, Social Innovation Center, Kyoto University; and Senior Advisor of International Management Forum Co., Ltd.; Outside Director of Mitsui Fudosan Co., Ltd.

12

**12 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 two years.

**Significant concurrent positions**

Attorney at Nishikawa Katsuyuki Law Office; and Outside Audit & Supervisory Board Member of Aeon Hokkaido Corporation

13

**13 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 extensive knowledge about IT nurtured throughout his career in providing management advice. He has been a director for one year.

**Significant concurrent positions**

Advisor of NTT DATA Corporation; and Outside Audit & Supervisory Board Member of IHI Corporation

14

**14 Yumiko Murakami**

She worked for the United Nations, Goldman Sachs Japan Co., Ltd. and Credit Suisse Securities (Japan) Limited, and Head of Organization for Economic Cooperation and Development (OECD) Tokyo Centre, etc. Based on her significant global experience and knowledge about corporate management and understanding of the securities business, she was newly appointed as an outside director at the Company's 2021 General Meeting of Shareholders.

**Significant concurrent positions**

General Partner of MPower



## Nominating Committee Report



### Comment from Committee Chairman

In FY2020, after having reaffirmed the roles demanded of the Group's Board of Directors, the Committee made further improvements to the policies regarding the composition of the Board of Directors and the appointment of directors from the perspective of strengthening oversight functions and enhancing diversity.

Going forward, to ensure transparency and objectivity with regard to crucial decisions about the appointment and dismissal of directors and the formulation of a CEO succession plan, the Nominating Committee will continue to appropriately carry out the required processes while striving to appoint suitable people.

**Michiaki Ogasawara**

Outside Director

Chairman of Nominating Committee

Consisting of five outside directors, including the Chairman, and two internal directors, the Nominating Committee of Daiwa Securities Group Inc. decides on proposals for the appointment and dismissal of directors. In order to nominate directors from multiple points of view, the specialized expertise of outside directors is taken into consideration.

Meetings of the Nominating Committee are held once a year or more. In FY2020, there were six meetings in total. The Committee examined basic concepts with regard to the composition of the Board of Directors and the nomination of director candidates, giving consideration to corporate governance, and discussed the selection of director candidates and the CEO succession plan.

The Committee reflected on the Board of Directors' composition from the perspectives of members' knowledge, experience, and abilities, as well as the size of the Board of Directors, its global-mindedness, gender ratio, and the proportion of executive to non-executive members, and discussed the roles of the Board of Directors. With regard to the CEO succession plan, the Committee considered basic concepts and methods of disclosure, as well as which key officers might be considered as candidates.

The matters to be taken up and decided by the Nominating Committee have been newly disclosed in the Corporate Governance Guidelines.

### Composition of Board of Directors

- ▶ In principle, two or more persons, and equal to or more than one third of the Board of Directors, are to be appointed as independent outside directors. Moreover, the majority of directors may not concurrently serve as corporate executive officers
- ▶ To ensure a balance of knowledge, experience, and abilities, as well as the diversity, including gender and global-mindedness, of the Board of Directors overall, and to aim to increase the proportion of female members of the Board of Directors to 30% or more by 2030

### Policies for nomination of candidates to serve as directors

Director candidates are nominated based on the following policies.

- ▶ 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.

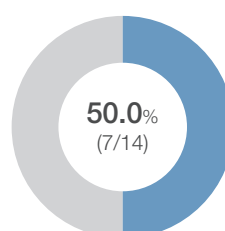
In addition to the requirements above, outside directors must also fulfill the requirements for independence listed below.

(Policies for nomination of outside directors)

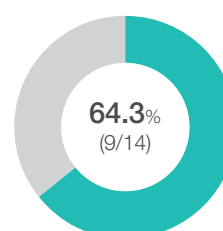
- ▶ Should have no work experience as an executive director, corporate executive officer, executive officer, or any other person equivalent to these or an employee of Daiwa Securities Group
- ▶ Should not be a director, corporate executive officer, manager or employee of a company whose major shareholder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

### Composition of the Board of Directors

Ratio of independent outside directors

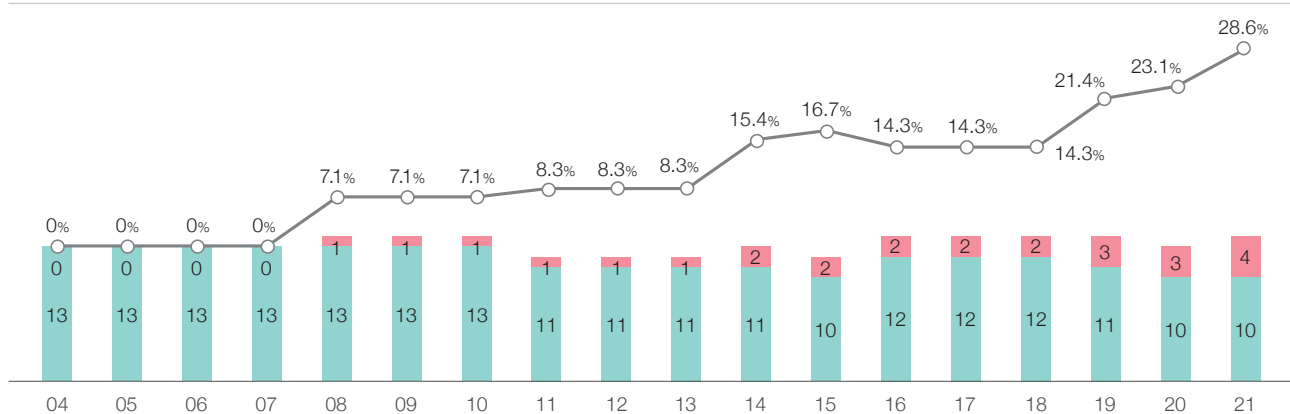


Ratio of non-executive directors



### Changes in the Ratio of Female Directors

■ Male ■ Female ○ Ratio of female directors (%)



Notes: 1. Figures are shown after FY2004 when the company adopted a committee system of corporate governance.  
2. Number of people after the annual General Meeting of Shareholders

### Outline of FY2020 Nominating Committee Activities

April 2020	<ul style="list-style-type: none"> <li>Appointment of director candidates</li> </ul>	December 2020	<ul style="list-style-type: none"> <li>Status report on key officers who can be considered as candidates for succession</li> <li>Basic concepts about the Board of Directors</li> <li>CEO succession plan</li> <li><b>Disclosure of the knowledge, experience, abilities (skill matrix) of directors, etc.</b></li> </ul>
June 2020	<ul style="list-style-type: none"> <li>Selection of the Chairman of the Committee, etc.</li> </ul>	January 2021	<ul style="list-style-type: none"> <li>Deliberation about disclosure</li> <li>Selection status of candidate directors</li> </ul>
October 2020	<ul style="list-style-type: none"> <li>Policies for nomination of candidates to serve as directors</li> <li><b>Composition of the Board of Directors</b></li> <li><b>CEO succession plan</b></li> <li><b>Training on executive compliance and governance</b></li> <li>Selection status of candidates for directors, etc.</li> </ul>	March 2021	<ul style="list-style-type: none"> <li>Decision on policies for nominating candidate directors</li> <li>Appointment of director candidates</li> <li>Content disclosed in the Guidelines for Corporate Governance</li> </ul>

### FY2021 Committee Members

(Committee attendance status in FY2020, held six times)

Outside Director	Michiaki Ogasawara (Chairman)	(6 / 6)
	Takashi Hibino	(6 / 6)
	Seiji Nakata	(6 / 6)
Outside Director	Hiroataka Takeuchi	(6 / 6)
Outside Director	Eriko Kawai	(6 / 6)
Outside Director	Katsuyuki Nishikawa	(6 / 6)
Outside Director	Toshio Iwamoto	(5 / 5)*

\* Attendance status given is that for Nominating Committee meetings held since appointment as a director of the Company in June 2020.

## Audit Committee Report



### Comment from Committee Chairman

The Daiwa Securities Group pursues Customer-Oriented Operations while observing strict compliance. The Group also seeks to make proper decisions through an investment decision-making process that is in accordance with governance standards. The Audit Committee monitors these activities, which are integral to the very heart of the Group's business. To fulfill this role, five outside members (one more in FY2021), including the Chairman, together with two full-time members, engage in thorough discussions based on interviews with each division and site visits, and make recommendations to management as necessary.

**Ikuo Nishikawa**

Outside Director  
Chairman of Audit Committee

The Audit Committee of Daiwa Securities Group Inc. consists of five outside directors, including the Chairman, and two internal directors (the number of outside directors was increased from four to five in June 2021). 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 15 times in FY2020, the Audit Committee carried out audits with the following as priority issues:

- ① Initiatives to put Customer-Oriented Operations in practice
- ② Progress and management of the Hybrid Strategy
- ③ Effectiveness of internal controls and the risk management system in each of the domestic and overseas Group companies

### FY2021 Committee Members (Committee attendance status in FY2020, held 15 times)

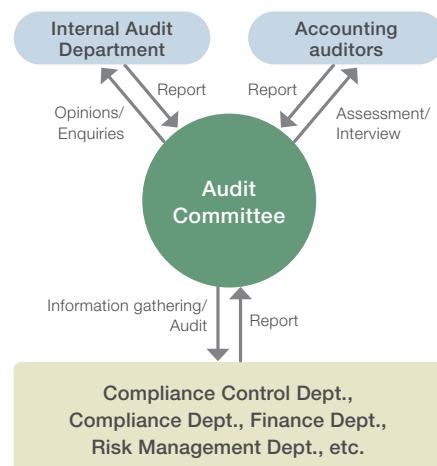
Outside Director	Ikuo Nishikawa (Chairman)	15 / 15	Outside Director	Michiaki Ogasawara	15 / 15
	Sachiko Hanaoka	15 / 15	Outside Director	Eriko Kawai	15 / 15
	Hiromasa Kawashima	12 / 12*	Outside Director	Katsuyuki Nishikawa	15 / 15
			Outside Director	Yumiko Murakami	Newly appointed

\* Attendance status given is that for Audit Committee meetings held since appointment as a director of the Company in June 2020.

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 Control Department, the Compliance Department, the Finance Department, the Risk Management 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 Priority Issues and Specific Audit Points

Initiatives to put Customer-Oriented Operations in practice	Progress and management of the Hybrid Strategy	Effectiveness of internal controls and the risk management system in each of the domestic and overseas Group companies
<b>Retail Business</b> <ul style="list-style-type: none"> <li>Establishment of a principle-based sales system</li> <li>Efforts to pursue customers' best interests</li> <li>Sales reforms utilizing IT</li> </ul> <b>Wholesale Business</b> <ul style="list-style-type: none"> <li>Providing products and services that respond to customer needs</li> </ul>	<ul style="list-style-type: none"> <li>Sophisticated investment risk management</li> <li>Post-merger integration of new group companies</li> </ul>	<b>External factors</b> <ul style="list-style-type: none"> <li>Disasters and pandemics like COVID-19</li> <li>Regulatory and legal compliance in each country and response to authorities</li> <li>Efforts to enhance compliance at overseas bases</li> </ul> <b>Internal factors</b> <ul style="list-style-type: none"> <li>Progress of revenue restructuring</li> <li>Management of confidential information</li> </ul>

## Main Audit Activities

Attend important meetings and view important documents	<ul style="list-style-type: none"> <li>Attendance at important meetings by full-time audit committee members</li> <li>Inspection of decision and approval documents</li> </ul>
Listening to reports from management and each division	<ul style="list-style-type: none"> <li>Interviews with the Chairman, President, corporate executive officers, etc.</li> <li>Listening to reports from each department and Head Office of Daiwa Securities</li> </ul>
Collaboration with domestic and overseas Group companies	<ul style="list-style-type: none"> <li>Listening to reports from executive officers resident at overseas subsidiaries</li> <li>Concurrent positions of Group company corporate auditors, receipt of audit plans and audit reports</li> <li>Exchanging opinions with corporate auditors from major Group companies and liaison meetings with full-time corporate auditors of Group companies</li> </ul>
Collaboration with internal auditing departments and accounting auditors	<ul style="list-style-type: none"> <li>Consent to internal audit policy and audit plan, listening to reports of audit results</li> <li>Listening to reports from accounting auditors, and evaluations of accounting auditors (quality control systems, confirmation of independence, etc.)</li> </ul>
Reporting to Board of Directors	<ul style="list-style-type: none"> <li>Preparation of audit reports</li> <li>Report of job execution status</li> </ul>



Visiting the sales floor of the Yokohama Station West Exit Branch (now Yokohama Branch)



Audit Committee members listening to an explanation from sales staff at the Shinjuku Branch



## Compensation Committee Report



### Comment from Committee Chairman

I believe 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 enhance incentives for executives. The Committee has strengthened the performance-linked remuneration system to increase the motivation of executives to improve their performance over the medium and long term. We will continue to strive to motivate executives.

Hirotaka Takeuchi

Outside Director

Chairman of Compensation Committee

The Compensation Committee of Daiwa Securities Group Inc. consists of four outside directors, including the Chairman, and two internal directors (the number of outside directors was increased from three to four in June 2021), who decide the director remuneration policy and the individual compensation for directors and corporate executive officers.

The Compensation Committee is to convene at least once a year. In FY2020, the Compensation Committee convened five times and 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.

In determining compensation, the Compensation Committee decides the Policies for Determination of Remuneration of Directors and Corporate Executive Officers and determines compensation after confirming its consistency with the policies. In addition, the amount of remuneration is calculated based on indicators determined in advance by the Compensation Committee to ensure transparency.

### FY2020 activities of the Compensation Committee related to determining the amount of compensation for directors and corporate executive officers

May 2020	Deciding of performance-linked remuneration
June 2020	Selection of the Chairman of the Committee Deciding of stock-linked remuneration, etc.
October 2020	Interim performance evaluation review Verification based on executive compensation survey data from external research organizations, etc.
January 2021	Performance-linked remuneration and evaluation of executives with reference to the new Medium-Term Management Plan
March 2021	Deciding of standard amount of performance-linked remuneration Deciding of the Policies for Determination of Remuneration of Directors and Corporate Executive Officers Deciding of base remuneration Regarding the executive evaluation system, etc.

### FY2021 Committee Members (Committee attendance status in FY2020, held five times)

Outside Director	Hirotaka Takeuchi (Chairman)	(5 / 5)	Outside Director	Ikuo Nishikawa	(5 / 5)
	Takashi Hibino	(5 / 5)	Outside Director	Toshio Iwamoto	(4 / 4)*
	Seiji Nakata	(5 / 5)	Outside Director	Yumiko Murakami	Newly appointed

\* Attendance status given is that for Compensation Committee meetings held since appointment as a director of the Company in June 2020.

## 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

As stipulated by Japan's Companies Act, the Compensation Committee has determined 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.

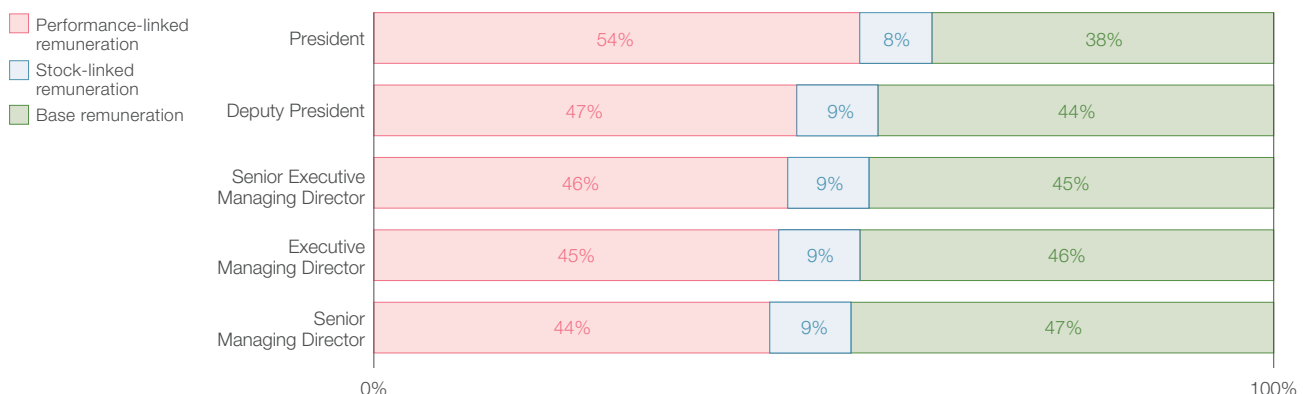
- ▷ To create effective incentives, which contribute to the increase of shareholder value through sound business development and also lead to the improvement of business performance in the short term as well as the medium and long term.
- ▷ To maintain a remuneration level which is competitive enough 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 determined by the Compensation Committee and consists of base remuneration, performance-linked remuneration, and stock-linked remuneration. Specifically, these are as follows :

<b>Base remuneration</b>	▷ A fixed amount calculated based on his/her position, duties and role, and paid monthly in cash.
<b>Performance-linked remuneration</b>	<p>▷ 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 other relevant factors, and paid annually at a fixed time.</p> <p>▷ A certain upper limit is set on performance-linked remuneration that is paid in cash based on business performance. If such remuneration exceeds the limit, the excess amount will be paid in Restricted Stock instead of cash.</p> <p>▷ Does not apply to directors who do not serve as corporate executive officers.</p>
<b>Stock-linked remuneration</b>	<p>▷ To increase the link between remuneration and shareholder value, granted by the Company as Restricted Stock, etc., the value of which corresponds to a certain percentage of base remuneration, as non-monetary remuneration annually at a fixed time.</p> <p>▷ Does not apply to outside directors.</p>

Regarding individual remuneration, etc. for directors and corporate executive officers in FY2020, the Compensation Committee decided on the content of such remuneration after confirming the consistency of the Policies for Determination of Remuneration of Directors and Corporate Executive Officers. Therefore, the Committee judges that the remuneration is in line with the guiding policies.

### 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

In calculating performance-linked remuneration, the Compensation Committee makes reference to individual KPIs established as Group numerical targets in the Medium-Term Management Plan "Passion for the Best" 2023.

For the performance evaluation used to calculate performance-linked remuneration, the evaluation of financial performance based on Performance KPIs (included in the Financial KPIs) reflects a comprehensive quality evaluation of the KPIs of each strategic target. 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 and reflecting the degree of individual contribution. Performance evaluation applies the same calculation formula to all positions.

		Financial performance evaluation (100)		±	Quality evaluation (-10~+10)	
Financial KPIs	Performance KPIs		Points	Reference value		
		Consolidated ROE	50	10%		
		Consolidated ordinary income	50	¥200 billion		
	Hybrid KPIs				Hybrid-related ordinary income	¥50 billion or more
	Financial KPI				Hybrid-related ordinary income ratio	Around 25%
Non-financial KPIs	Quality No. 1 (Customer-First) KPIs				Consolidated total capital ratio	Maintain at 18% or higher
	Digital KPI				Retail Division asset-based revenue ratio	50% or higher (4Q, FY2023)
	Sustainability KPIs				Daiwa Securities AUC	¥90 trillion or more
					Number of Digital IT Masters	200 personnel or more
					Number of CFPs and CMAs	3,000 personnel or more
					Balance of investment in SDGs-related businesses	¥150 billion or more
					SDG bond league table	In top 3
					‘Ouen (Supporting)’ term deposits balance	¥200 billion or more
					Ratio of women on the Board of Directors	30% or higher (by 2030)
					Ratio of women in management positions	25% or higher (FY2025)
			Employee satisfaction	Maintain at 80% or higher		

In FY2020, the Compensation Committee made reference to the Performance KPIs, Customer-Oriented KPIs, and Financial KPIs established as Group numerical targets in the Medium-Term Management Plan "Passion for the Best" 2020. In calculating performance-linked compensation, the evaluation of financial performance based on Performance KPIs reflected a comprehensive quality evaluation of Customer-Oriented KPIs and Financial KPIs.

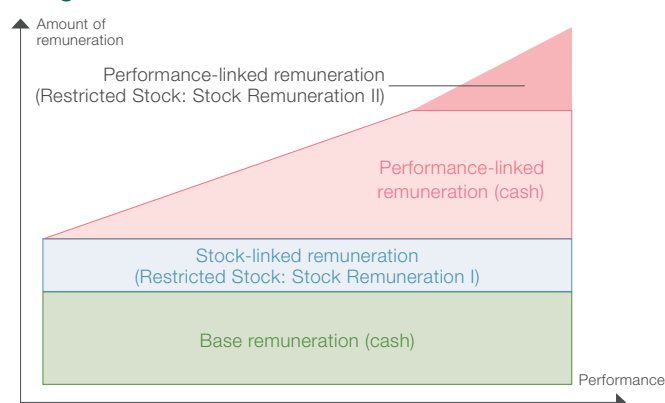
### Reference value and results of indicators for performance-linked remuneration in FY2020

Financial performance evaluation for FY2020 year is as follows:

	Reference value	Result
Consolidated ROE	10%	8.5%
Consolidated ordinary income	¥200 billion	¥115.1 billion

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

### Image of remuneration



In order to create a system where incentives for long-term performance improvement and sustainable growth work better, if performance-linked remuneration exceeds a certain upper limit, the excess amount is provided as Restricted Stock. The amount of Restricted Stock (top of graph) is steeper.

## Major revisions in 2021

- Referenced KPIs revised based on the New Medium-Term Management Plan
- Change of the degree to pay Restricted Stock when performance-linked remuneration exceeds the upper limit, aiming for a system where incentives for long-term performance improvement are more effective
- Executive evaluation structure enhanced to reflect the qualitative evaluation of each executive in performance-linked remuneration

## Restricted Stock Compensation Plan

Daiva 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.

<p><b>Stock Remuneration I</b> (Stock-linked remuneration)</p>	<p>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, officer, etc., of the Company and its subsidiaries and affiliates.</p>
<p><b>Stock Remuneration II</b> (Performance-linked remuneration)</p>	<p>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.</p>

### Compensation by Type of Officer, Remuneration, and Number of Eligible Officers (FY2020)

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	68	55	12	—	—	2
Corporate executive officers	1,307	556	203	546	—	16
Outside directors	126	126	—	—	—	7

Notes: 1. Five 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 (FY2020)

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	225	Corporate executive officer	The Company	69	23	85	—
			Daiwa Securities	46	—	—	—
Seiji Nakata	264	Corporate executive officer	The Company	69	23	124	—
			Daiwa Securities	46	—	—	—
Toshihiro Matsui	181	Corporate executive officer	The Company	61	17	77	—
			Daiwa Securities	25	—	—	—
Keiko Tashiro	133	Corporate executive officer	The Company	46	13	53	—
			Daiwa Securities	20	—	—	—
Kazuo Takahashi	131	Corporate executive officer	The Company	19	13	—	—
			Daiwa Securities	46	—	52	—
Mikita Komatsu	131	Corporate executive officer	The Company	19	13	—	—
			Daiwa Securities	46	—	52	—

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.

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

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

Daiwa Securities Group Inc. practices group management based on a holding company structure, establishes a highly transparent and objective governance structure that conforms to international standards, realizes highly efficient oversight of group companies and builds a unified group management system that elicits synergies among group companies.

The Company has adopted a company with Three Committees System as an institutional design in order to supervise management through the following (1) and (2).

- (1) 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;
- (2) Improving transparency and fairness of the management by establishing three committees: the Nominating Committee, Audit Committee and Compensation Committee with highly independent outside directors as a majority of their members.

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.

As its corporate governance structure, the Group has established the Board of Directors and the three committees (Nominating Committee, Audit Committee and Compensation Committee) as supervisory functions; the Outside Directors Council as a subcommittee under the Board of Directors; the Executive Management Committee, in which business execution functions are embodied, 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; and the Group Internal Audit Committee as an internal audit organization that reports directly to the Chief Executive Officer (CEO).

In order to have a variety of views in group management, the Company has assigned five females as directors and corporate executive officers. The Company group has also assigned 12 females as directors, corporate executive officers and executive officers.

### 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
June 2020	The majority of directors shall be non-executive directors Shall be composed so that no corporate executive officer who is head of a specific business division concurrently serves as a director

#### Initiatives in FY2021

- Have elected one additional outside director and seven out of 14 Board of Directors as outside directors since FY2021.
- Corporate Governance Guidelines\* formulated by the Board of Directors (April 1, 2021)



Corporate Governance Guidelines  
[https://www.daiwa-grp.jp/about/governance/corporate\\_governance.html](https://www.daiwa-grp.jp/about/governance/corporate_governance.html) (In Japanese only)

\* These Guidelines stipulate the basic framework and policy for Daiwa Securities Group corporate governance. They organize and concisely outline the purpose of the Group's corporate governance; the institutional design; the roles and composition of the Board of Directors and each committee; the roles and requirements of the outside and internal directors; CEO successor planning; the management and support systems for the Board of Directors; information disclosure; engagement with shareholders, investors, and other stakeholders; and the commitment to ensuring shareholder equity, among others.

## Corporate Governance Guidelines Overview

### ■ Board of Directors' composition

- Two or more and one-third or more of directors shall be independent outside directors
- A majority of directors will not concurrently serve as corporate executive officers, in principle
- Target 30% or higher percentage of female directors by 2030

### ■ CEO successor planning

- The CEO will formulate a CEO successor plan and report it to the Nominating Committee
- The Board of Directors will approve appointment and dismissal of the CEO, based on discussion in the Nominating Committee
- The Board of Directors will dismiss the CEO when the Board determines that the CEO is unable to fulfill the role of CEO and deems dismissal as the appropriate action

### ■ Committee composition

- Each committee shall consist of a majority of outside directors
- The Committee Chair of each committee will be selected from among the outside directors

### ■ Outside Directors Council meetings

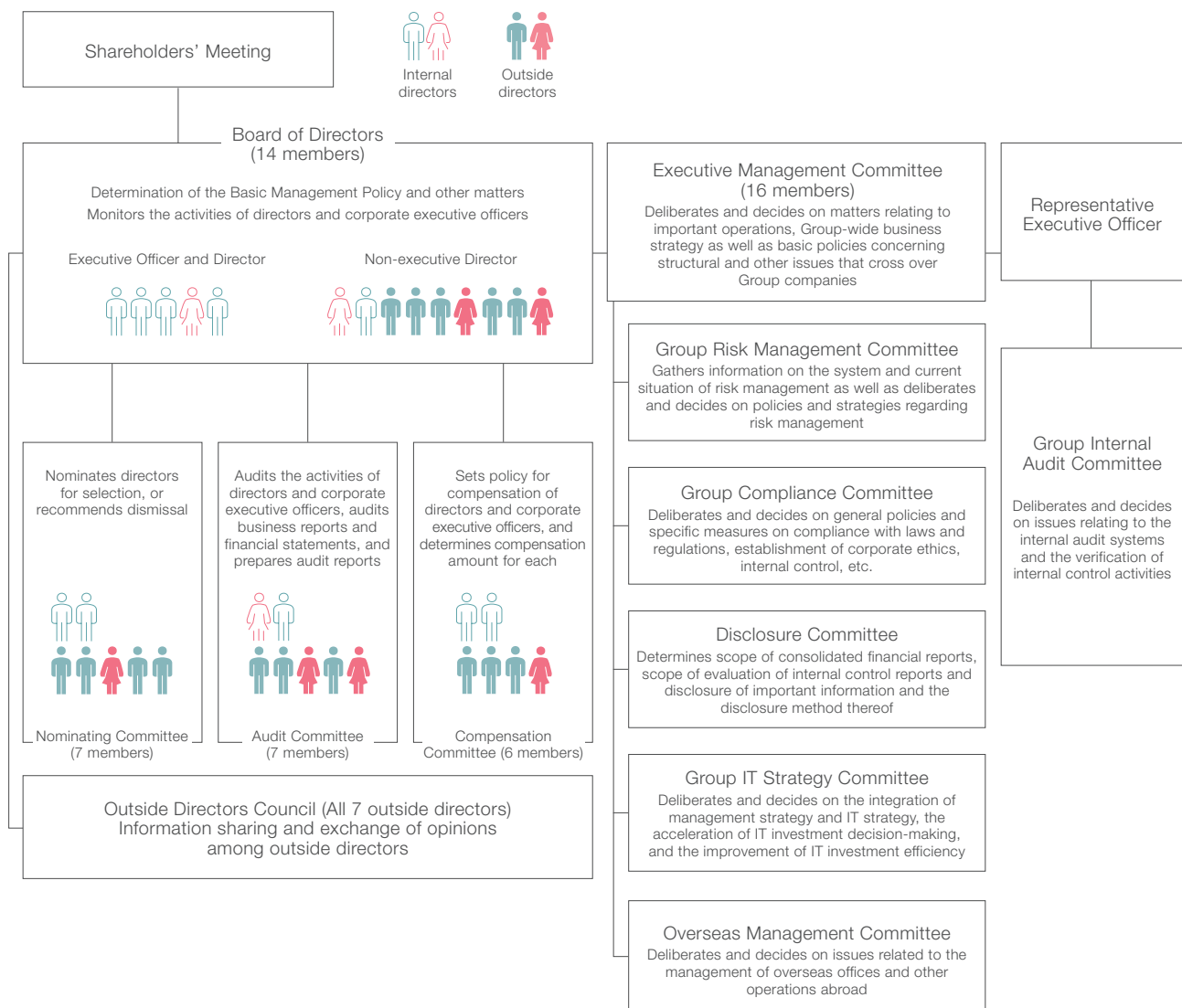
### ■ Supporting system for directors

- Support for director training as well as for acquisition of information and knowledge
- Sharing of internal information with outside directors
- Coverage of expenses required for outside directors to fulfill their roles
- Establishment of the Corporate Secretariat








The status of compliance with the Corporate Governance Code is disclosed in the Corporate Governance Report  
[https://www.daiwa-grp.jp/english/about/governance/pdf/corporate\\_governance\\_report.pdf](https://www.daiwa-grp.jp/english/about/governance/pdf/corporate_governance_report.pdf)

## Corporate Governance System at Daiwa Securities Group



## Corporate Governance

### Skill Matrix of Outside Directors

	Committee responsibility	Years on the Board	Corporate management 	Global business 	Finance/Accounting 	Legal/Compliance 	DX/ICT 
Michiaki Ogasawara	Nominating ★ Audit	6				●	●
Hiroataka Takeuchi	Nominating Compensation ★	5	●	●			
Ikuo Nishikawa	Audit ★ Compensation	5			●		
Eriko Kawai <span>Female</span>	Nominating Audit	3		●			
Katsuyuki Nishikawa	Nominating Audit	2				●	
Toshio Iwamoto	Nominating Compensation	1	●	●			●
Yumiko Murakami <span>Female</span>	Audit Compensation Newly appointed		●	●			

★ indicates committee Chairman

### Status of Attendance of Board of Directors' Meetings in FY2020

Takashi Hibino (Chairman of the Board)	12 / 12	Akihiko Ogino	9 / 9*	Outside Director	Ikuo Nishikawa	12 / 12
Seiji Nakata	12 / 12	Sachiko Hanaoka	12 / 12	Outside Director	Eriko Kawai	12 / 12
Toshihiro Matsui	12 / 12	Hiromasa Kawashima	9 / 9*	Outside Director	Katsuyuki Nishikawa	12 / 12
Keiko Tashiro	12 / 12	Michiaki Ogasawara	12 / 12	Outside Director	Toshio Iwamoto	9 / 9*
		Hiroataka Takeuchi	12 / 12	Outside Director	Yumiko Murakami	Newly appointed

\* Attendance at the Board of Directors meetings since being appointed in June 2020

## Evaluating the Effectiveness of the Board of Directors

Daiwa Securities Group Inc. has conducted effectiveness evaluations of the Board of Directors each fiscal year since FY2014 for the purpose of identifying any issues hindering the greater effectiveness of the Board of Directors and for making 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.

### ■ Addressing the opinions of the FY2019 evaluation

Based on the issues pointed out in the evaluation of the effectiveness in FY2019, many improvements were made and measures taken, including those listed below, in working to enhance effectiveness.

### ① Enhance support for the outside directors

Support for the outside directors was enhanced by promoting information sharing, along with conducting discussions on various themes and exchanging opinions between the outside directors and the responsible departments through the Outside Directors Council (held seven times in FY2020) and offsite meetings. In particular, as part of the deliberations regarding the new Medium-Term Management Plan, more opportunities for discussion were provided to ensure the outside directors could participate from the initial stages.

### ② Strengthen Group governance

Reports regarding major risk-takings by Group companies and governance of overseas locations were made to the Board of Directors, and the major issues and status of response to such were confirmed.

### ③ Confirm the response to and actively discuss important issues

Customer-oriented business operations and SDGs/ESG initiatives were confirmed and promoted to a greater degree, and DX (digital transformation), the COVID-19 pandemic, and potential risks for the future were actively discussed.

#### ■ Overview of the results of the effectiveness of the Board of Directors for FY2020

Regarding the evaluation of the effectiveness of the Board of Directors in FY2020, the Company evaluated the following items with reference to the advice of an external third-party organization and confirmed that the effectiveness is ensured.

Evaluation Items	<ol style="list-style-type: none"> <li>1. Strategy and its execution</li> <li>2. Risk and crisis management</li> <li>3. Corporate culture</li> <li>4. Performance monitoring</li> <li>5. Investment and business alliance, etc.</li> <li>6. Engagement with stakeholders</li> <li>7. Composition and operation of the Board of Directors</li> </ol>
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Directors pointed out that it is necessary to strengthen monitoring of the new Medium-Term Management Plan and risks, and to hold ongoing discussions regarding DX and SDGs/ESG. Furthermore, there was an opinion that it is necessary to further deepen the common understanding of the functions and roles of the Board of Directors and to further streamline the operation of the Board of Directors. The Company will continuously endeavor to enhance the effectiveness of the Board of Directors to earn the trust of various stakeholders and improve 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.

#### Major Agenda Items Covered by the FY2020 Board of Directors

Major discussion topics covered by the FY2020 Board of Directors	
Major resolution items	New Medium-Term Management Plan formulation (including Vision 2030), current Medium-Term Management Plan review
	Management policy
	Risk appetite statements (first-half, second-half)
	Corporate Governance Guidelines formulation
Major reporting items	Deliberation status for the new Medium-Term Management Plan, annual plan monitoring
	Progress updates on customer-oriented business operations
	Revenue restructuring
	Risk monitoring
	COVID-19 response
	Important new businesses, investments, and business alliances, and group restructuring
	New human resources system
	Engagement status with shareholders and investors, etc.
	Response to/evaluation of SDGs/ESG

#### ■ 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 shareholdings 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.



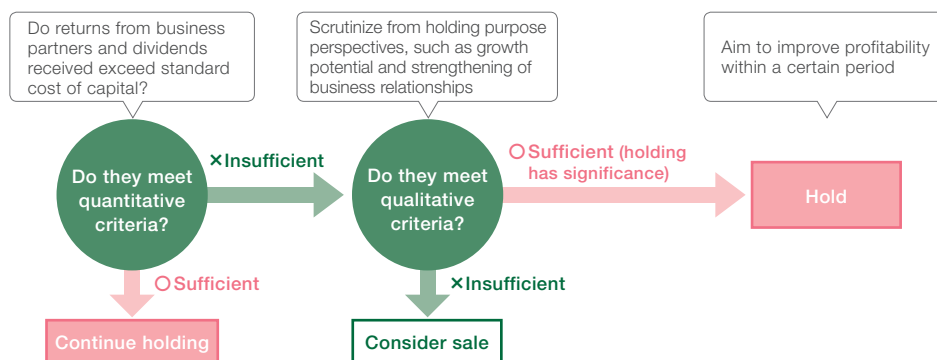
## Corporate Governance

In verifying the significance of the shareholdings, 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 2021 are as follows:

Of the Company's strategic shareholdings of listed companies, excluding stocks that are held for the purpose of tie-ups, 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 the 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	115	17,121
Stocks other than unlisted stocks	109	118,576

#### (Companies for which shares were added in FY2020)

	Number of companies	Total amount acquired as added shares (millions of yen)	Reasons for adding shares
Unlisted stocks	1	59	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 business partners.
Stocks other than unlisted stocks	5	12,318	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. It also acquired shares in one new company in Asia with the goal of maintaining and strengthening its currently strong relations with a partner in the securities-related sector. It acquired additional shares in two companies with the goal of maintaining and strengthening its relationships with these existing partners in the securities-related sector. In regard to one of these companies, shares were acquired through the exercise of stock acquisition rights associated with convertible bond-type bonds with subscription rights to shares.

#### (Companies for which shares were reduced in FY2020)

	Number of companies	Total amount sold as decreased shares (millions of yen)
Unlisted stocks	3	310
Stocks other than unlisted stocks	12	3,785



Note: See the Company's Securities Report for the fiscal year ended March 31, 2021 for information regarding each specified investment stock issue.  
[https://ssl4.eir-parts.net/doc/8601/yo\\_ho\\_pdf/S100LLQZ/00.pdf](https://ssl4.eir-parts.net/doc/8601/yo_ho_pdf/S100LLQZ/00.pdf) (In Japanese only)

### ■ Exercise of voting rights associated with strategic shareholding shares

With regard to the exercise of the voting rights of strategic shareholding shares, the Company integrally determines whether or not each proposal should be approved, taking into account the need to enhance medium- to long-term corporate value of both the strategic shareholding company and the Company group. Especially for the important proposals of the following proposals that could significantly affect the corporate value or shareholder interests, the Company will exercise the voting rights through dialogue with the client company if necessary.

- Election of directors or audit & supervisory board members
- Anti-takeover measure
- Organizational restructure
- Distribution of Dividends of surplus, etc.

In addition, if there is a possibility of a conflict of interest in exercising the voting rights, the Company will take appropriate measures in accordance with the Management Policy for Conflict of Interest of the Company.

## Internal Control System and Internal Audits

### ■ Internal control system

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.

In consideration of the above, the Board of Directors makes decisions regarding systems for ensuring the appropriateness of the Group's operations, and works to enhance the internal control system.

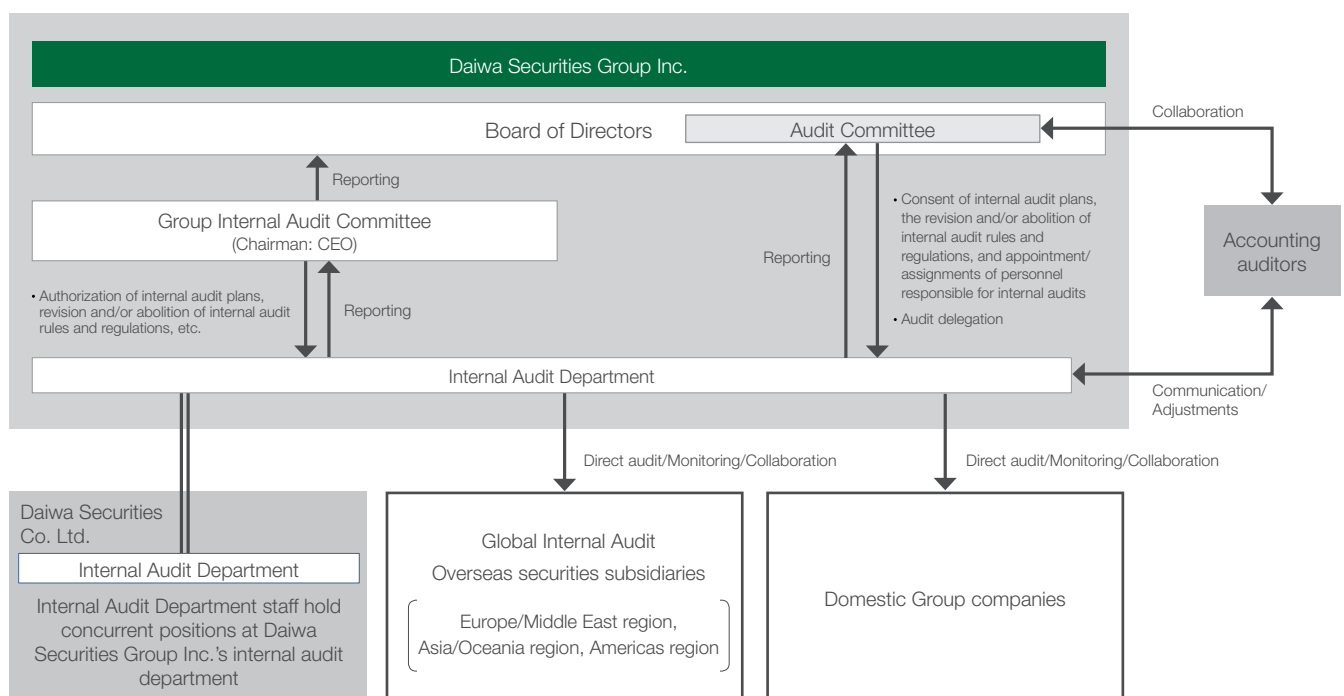
### ■ Internal audits

The Group positions internal audits as serving a critical function as part of the internal control system, and has assigned a dedicated corporate executive officer responsible for internal audits within the Company. The Internal Audit Department functions independently from all other departments in verifying the internal control system.

#### Examples of issues that internal audits focus on regarding the Group's business activities

- ▶ Internal control systems at Daiwa Securities Co. Ltd. and overseas offices as a global financial instruments business operator
- ▶ Status of operations at Group companies and status of control by the Company

Diagram of Daiwa Securities Group's Internal Auditing System



More information regarding the Group's internal control and internal audit can be found on the website.  
[https://www.daiwa-grp.jp/english/about/governance/corporate\\_governance.html](https://www.daiwa-grp.jp/english/about/governance/corporate_governance.html)

### ■ Whistleblowing system (Corporate Ethics Hotline)

Daiwa Securities Group operates a Corporate Ethics Hotline through which employees can report problems in the workplace directly to a corporate ethics officer of Daiwa Securities Group Inc. or outside lawyers. The system mainly aims to detect corporate misconduct—which includes violations of the Financial Instruments and Exchange Act and other laws, regulations and rules that include bribery and

corruption—in its early stages, and to prevent such misconduct from occurring.

When the hotline is contacted, the corporate ethics officer, in cooperation with the internal control officers at each Group company, carries out a factfinding investigation, while taking steps to protect the caller. In FY2020, 57 reports were received through the whistleblowing system.

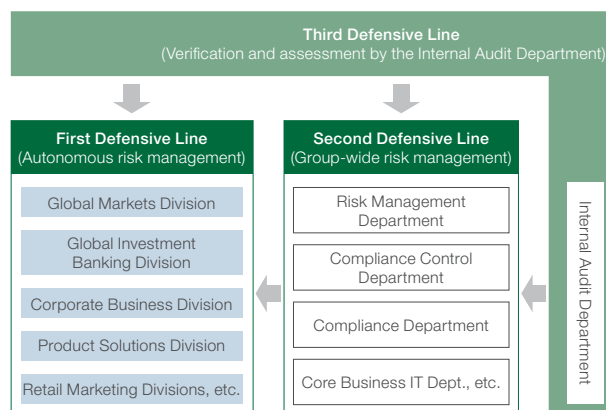
Structure and achievements of the whistleblowing system (Corporate Ethics Hotline)  
<https://www.daiwa-grp.jp/english/about/governance/compliance.html>

## Corporate Governance

### ■ Three Defensive Lines

In order to establish an effective risk governance system, the Group has created guidelines for Three Defensive Lines and a comprehensive structure for risk management.

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

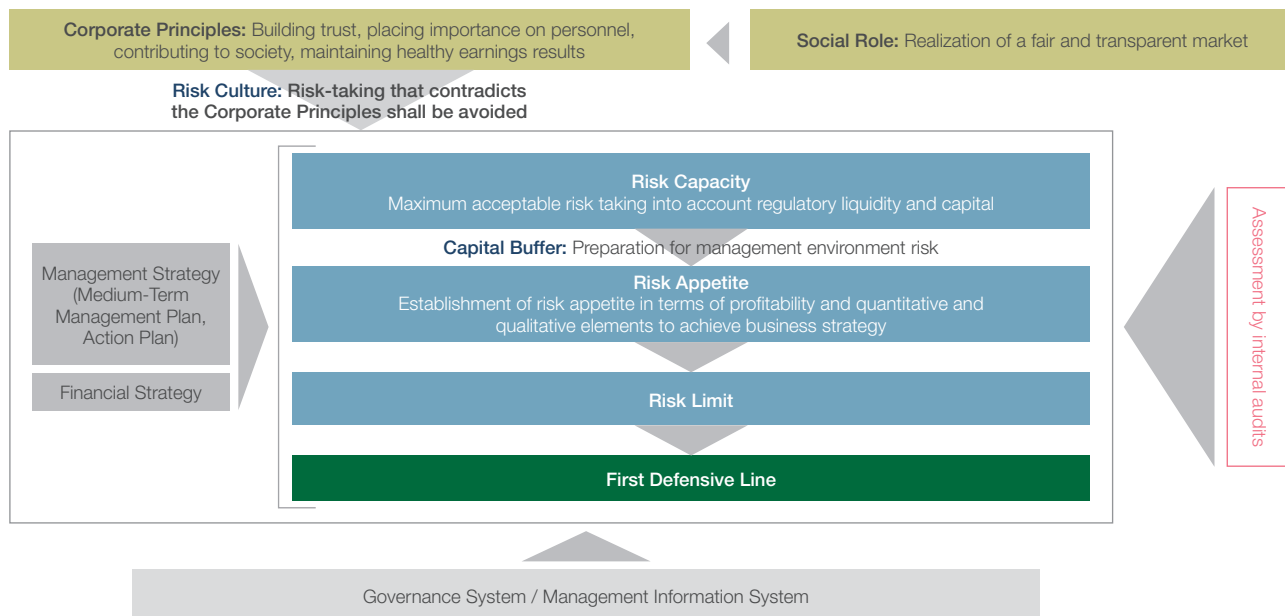


### Risk Appetite Framework

International financial institutions are increasingly required to exhibit sufficient soundness to operate their functions as financial intermediaries during times of stress. In addition, the Group is required to 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). The Group has documented this framework in its Risk Appetite Statement, which the Board of Directors has deliberated and decided on, and is working to spread this Group-wide while raising the level of its management system.

### RAF Concept Chart



In the Risk Appetite Statement, the Board of Directors deliberates and makes decisions on such matters as the quantitative risk appetite index. 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.

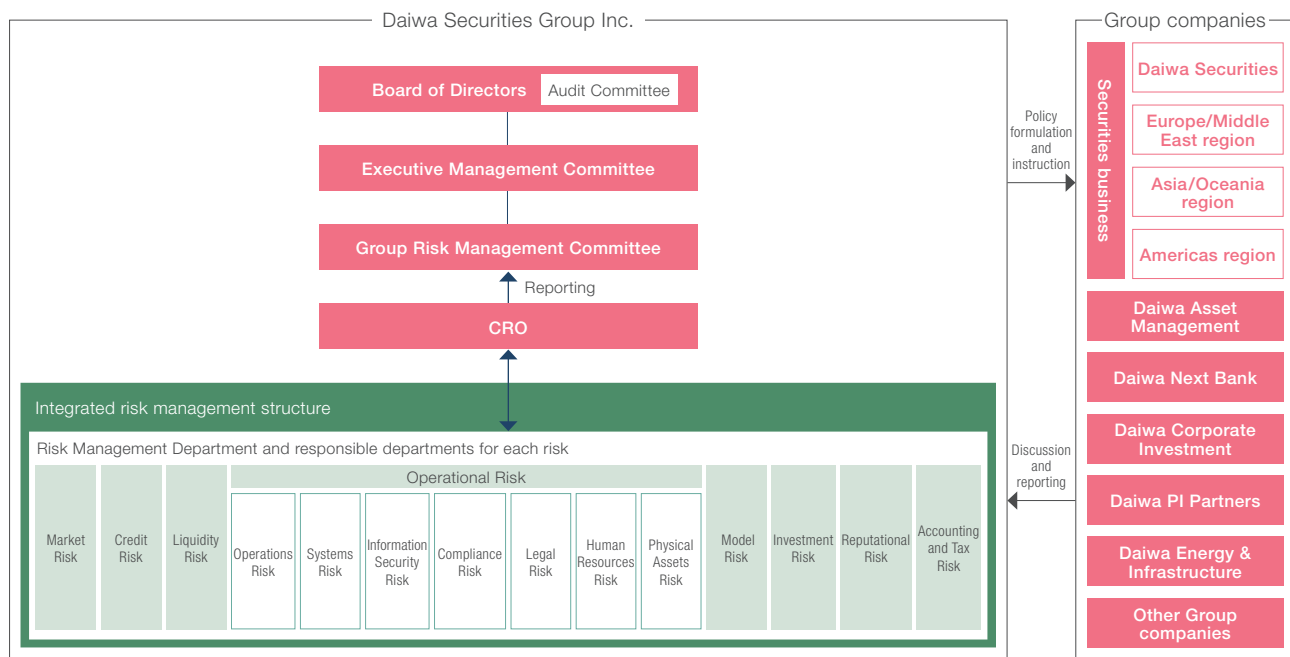
RAF-related audits of the Board of Directors and management business execution are conducted by the Audit Committee.

# 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



#### 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 departments responsible 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.

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 and risk for which hedges do not function, foreign currency and other liquidity risk, credit risk related to counterparties and issuers, operational risk that naturally occurs through the execution of business, and model risk stemming from the use of decision-making models.



## Risk Management

The Group is also subject to investment risk due to deterioration in the business performance and credit status of investees, as well as to changes in the market environment, that coincide with the execution of growth investments through a Hybrid Strategy. The Group utilizes stress tests<sup>\*1</sup> and top risk management<sup>\*2</sup> to manage risk on an integrated basis, including measuring the impact on capital and liquidity within the Group from a forward-looking perspective.

<sup>\*1</sup> 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.

<sup>\*2</sup> 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. (The primary top risks as of the drafting of this report are foreign currency liquidity depletion, insider trading, involvement with anti-social forces, money laundering and the funding of terrorism, cyberattacks, information leaks with a significant impact on customers and the Group, and labor issues due to overwork.)

### 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)<sup>\*1</sup> and loss estimates under various types of stress test<sup>\*2</sup> to ensure that they are within the scope of equity capital, after taking into consideration financial conditions and such factors as the business plans and budgets of subject departments. The Group also sets limits on such facets as position and sensitivity.

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.

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

<sup>\*2</sup> 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.

### 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.

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 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.

#### 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.

The Group classifies operational risks into the seven categories of operations risk, systems risk, information security risk, compliance risk, legal risk, human resources risk, tangible fixed assets risk, and monitors them by assigning departments responsible for individual risks. As the Group's business becomes more sophisticated, diversified, and systemized, the accompanying risks become more varied. As a result, the importance of managing operational risk has grown each year.

Major Group companies strive to reduce operational risk according to the nature of their own business by measures including risk control self-assessments (RCSAs), in accordance with rules on operational risk management set by Daiwa Securities Group Inc.

##### 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.

#### 5 Model risk management

Model risk refers to the risk that the Group will suffer direct and indirect losses resulting from errors in the development and implementation of models, or from their misuse.

In order to effectively manage model risk, the Group has clarified the roles and responsibilities of those involved in the models, and has established a mechanism to systematically manage models throughout their lifecycle. Specifically, the Group has prepared model verification and approval processes to manage models prior to use and during updating, and conducts monitoring and regular checks to manage models during use.

#### 6 Investment risk management

Investment risk refers to the risk that the value of an investment made by the Group will be damaged, or that additional funding will be required, and to the risk that the return on investment will be lower than expected due to deterioration of the business performance and credit status of the investee, and to changes in the market environment. This risk is managed at the portfolio level and at the individual investment level.

In terms of portfolio level management, the Group has set Group-wide risk limits on a per industry basis in order to appropriately manage the investment concentration condition,

and regularly monitors this situation. In terms of individual investment level management, along with verifying risk prior to making the investment based on a certain standard, the Group monitors the risk condition following investment on an ongoing basis.

#### 7 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.

#### 8 Accounting and tax risk management

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

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

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



Tax policy

[https://www.daiwa-grp.jp/english/about/governance/tax\\_policy.html](https://www.daiwa-grp.jp/english/about/governance/tax_policy.html)

## IT Strategy and the Management of Systems Risk

Daiwa Securities Group has raised pursuing the best mix of digital and real as one of its basic policies for the Medium-Term Management Plan “Passion for the Best” 2023. Based on this basic policy, the Group is advancing a digital strategy intended to achieve a higher top line and more sophisticated, efficient business by fusing the respective strengths of its people and data/digital technologies starting from those of data.

### IT Organization and 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 subcommittees serve to deliberate and decide upon matters for accelerating decision-making involving the integration of management and IT strategies, as well as involving IT investments, and for enhancing the efficiency of IT investments.

Amid a rapidly changing and difficult-to-predict business environment, the Group believes it is important for those employees on the frontlines who interact with customers to take the initiative on fully utilizing data and digital technologies in an effort to improve the experience of the customer (CX: Customer eXperience). Similarly, the Group believes it must heighten the experience of the employee (EX: Employee eXperience) so that each employee can focus their efforts on enhancing CX. In order to achieve a higher order of balance between business model reform and optimization for the entire Group, the Group has established and is strengthening a digital transformation (DX) promotion system that includes training for digital professionals, the establishment of a new Digital CoE\*, and other avenues that are unique to Daiwa.

\* An organization that provides knowledge and know-how associated with data and digital technologies in support of the business departments. CoE stands for Center of Excellence.

### 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 FY2020, we worked toward implementing Investment Planning\*<sup>1</sup>, an asset-based fee plan for investment trusts\*<sup>2</sup>, and a web service for stock-based compensation and benefit plans\*<sup>3</sup> all of which are provided by Daiwa Securities Co. Ltd. In addition, by utilizing mobile business devices, the Group worked on digitizing a series of processes related to customers' services, and on increasing the sophistication of risk management such as by strengthening cybersecurity and compliance.

\*<sup>1</sup> A customized portfolio risk analysis solution service WealthBench provided by MSCI Inc. Daiwa Securities is the first company in Japan to provide WealthBench to individual customers.

\*<sup>2</sup> A new plan in which there is no purchase fee for investment trusts. Instead, a management fee is charged based on the appraised value of the fund.

\*<sup>3</sup> An Internet service that manages stock compensation plans, company benefits utilizing shares, etc., such as stock ownership plans, Workplace NISA, defined contribution pension system.

### 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. We recognize the importance of cybersecurity as a group management issue, and continue to work toward improving its resistance and resilience to ever-more sophisticated cyberattacks. At the same time, we also collaborate with outside organizations in an effort led by a dedicated organization (Daiwa-CSIRT\*) that works throughout the Group.

In line with the proliferation of telecommuting, full-fledged use of cloud services, and advancements in system coordination with partners and other outside companies, the locations of and access routes to data assets have become increasingly diverse. This change has led the Group to revise those conventional countermeasures intended to defend the boundaries between internal networks and the Internet included in the new Medium-Term Management Plan, and to advance the development of a zero trust security infrastructure that verifies the authenticity of every access request.

\* Computer Security Incident Response Team: The organization that manages cybersecurity 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.

## Fostering 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 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 FY2021

- ▶ Enhance information security
- ▶ Strengthen efforts to eliminate relationships with anti-social forces
- ▶ Reinforce measures to prevent insider trading
- ▶ Enhance countermeasures against 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. Within the Group Compliance Committee, the Group deliberates and decides general policies and specific measures related to legal and regulatory compliance, the establishment of corporate ethics, and internal control for the Group.

## Compliance System

At Daiwa Securities Group, the compliance system focuses on three key issues: securing the fairness and transparency of the market, eliminating any relations with anti-social forces (including countermeasures against money laundering and the funding of terrorism), and maintaining information security. With these issues in mind, the system is designed to support Daiwa Securities and other Group companies.

One of Daiwa Securities' strengths is that all sales branches have a full-time internal control manager attached to the Compliance Department who functions as the Compliance Manager. In addition, the Compliance Department monitors transactions and solicitations, provides guidance, and conducts on-site inspections at sales branches. It also dispatches personnel directly to headquarters departments to identify problems and provide training support. Online tools are used in cases where COVID-19 makes face-to-face meetings difficult.

Established within the Compliance Department, the Customer Support Center is responsible for collecting customer opinions and complaints, as well as using them to improve customer satisfaction. In FY2020, the Center received 3,930 calls. Based on customer feedback, Daiwa Securities has made improvements such as simplifying forms filled out by customers, making product information listed on the website easier to understand, and redesigning the website reservation page to make it easier for customers to input information.



Additional compliance initiatives are disclosed on the Company website.  
<https://www.daiwa-grp.jp/english/about/governance/compliance.html>



## Messages from Corporate Executive Officers

### CRO and CDO



**Junichi Arihara**  
Executive Managing Director  
Daiwa Securities Group Inc.

#### **Contributions to greater corporate value over the medium to long term 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.

The Group conducts business that holds various risks. This fact makes appropriately managing these risks an extremely important part of management. 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.

Current initiatives are increasing the sophistication of risk management systems and management methods to address international financial regulations. In addition to addressing climate change and other risks based on the TCFD's recommendations, enhancing the ability to continue business in the event of a cyberattack or the spread of infectious diseases is another important issue for management. In particular, we are working to maintain an effective cybersecurity management system, as cyberattacks are likely to become more prevalent with the advancement of digitalization.

#### **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, in regard to situations for which laws and regulations 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, we are required 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 investigating risks from various perspectives and by quantifying risk to the greatest extent possible.

The Group has adopted a Hybrid Strategy in its Medium-Term Management Plan and is strengthening investment risk management as it expects to continue investing in growth in new business fields. The Group is also working to identify potential risks in entering areas with different risk profiles and to develop a forward-looking risk management system accordingly.

## Head of Compliance



**Atsushi Mochizuki**  
Senior Executive Managing Director  
Daiwa Securities Group Inc.

### **Toward firmly achieving the basic policy of Customer First and Quality No. 1**

In FY2020, sales branches, head office departments, and compliance departments worked in unison to pursue customers' best interests. The environment surrounding financial institutions is changing drastically toward a principle-based approach. It has become increasingly important to have a deep understanding of the meaning of laws and regulations, and to act with integrity in light of ethical and social norms. Developing employees who are prepared to take the initiative, know their customers well and can think and act first will not only improve customer satisfaction but also reduce compliance risks.

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, while responding to the DX era, we will work to further promote the advancement of compliance through the use of IT and AI, and aim for the best mix of digital and human resources. Coupled with efforts to strengthen the overseas office compliance framework based on extensive communication with each overseas base, I will support Group companies in a variety of business lines under the Hybrid Strategy from the stance of compliance.

## Head of Internal Audit



**Yoshifumi Otsuka**  
Executive Managing Director  
Daiwa Securities Group Inc.

### **Toward enhancing the sophistication of internal audits in response to changes in the business environment and business strategies**

The environment in which we operate is undergoing dramatic change owing to sudden shifts in people's behavior as a result of the COVID-19 pandemic, as well as the rapid progress of digital transformation and transition toward carbon neutrality. As far as the Group as a whole is concerned, while the rising uncertainty associated with social change represents a new business opportunity, the risks that must be managed are becoming more diverse and complex, with a growing need to upgrade risk management.

Internal audit departments play a role in ensuring that the Group responds appropriately to change. In addition to verifying and evaluating risk management systems, we provide recommendations and advice for improvement. The Group's current key initiatives include an unwavering path toward the principles of customer-first and Quality No. 1, the creation of a new capital cycle through a Hybrid Strategy, and the realization of the best mix of digital and real. Internal audit departments monitor the status of operations and risk management, including measures aimed at achieving the goals of each business area throughout the year. Based on a risk assessment of its findings and other endeavors, we plan and implement audits.

In order for the Group to become the best partner for co-creating the future with its stakeholders, internal audit departments will continue to transform themselves and support the foundation of the Group's sustainable management by contributing to the establishment of an appropriate risk management system.

## Sustainability Promotion Structure

Corporations are now expected to act as the driving force behind the solutions to social issues. In order to contribute to the realization of a sustainable society, Daiwa Securities Group incorporated an SDG perspective into the root of its business strategies. The Group thereby actively promotes initiatives that contribute to the SDGs through its business activities.

### SDG Promotion Structure

Chaired by the president and CEO, the SDGs Promotion Committee was established by Daiwa Securities Group in 2018 as the decision-making organization for its SDG promotion policies.

This Committee regularly reports the details of its discussions regarding SDG promotion and ESG initiatives to the Board of Directors and the Executive Management Committee, which deliberate on these where appropriate. The Board of Directors also makes decisions on important policies regarding the SDGs and ESG. The Group will continue to enhance the Board of Directors' supervisory functions covering the status of the Group's response to the SDGs and various ESG-related issues.

The Group invites external experts to the Committee on a regular basis, which enables it to utilize the experience and insights of those experts in its discussions.

Based on decisions made by the Committee, the Corporate Planning Department's SDGs Promotion Office works to deploy SDG promotion initiatives throughout the Group, and endeavors to strengthen collaboration and raise awareness of the SDGs within the Group.

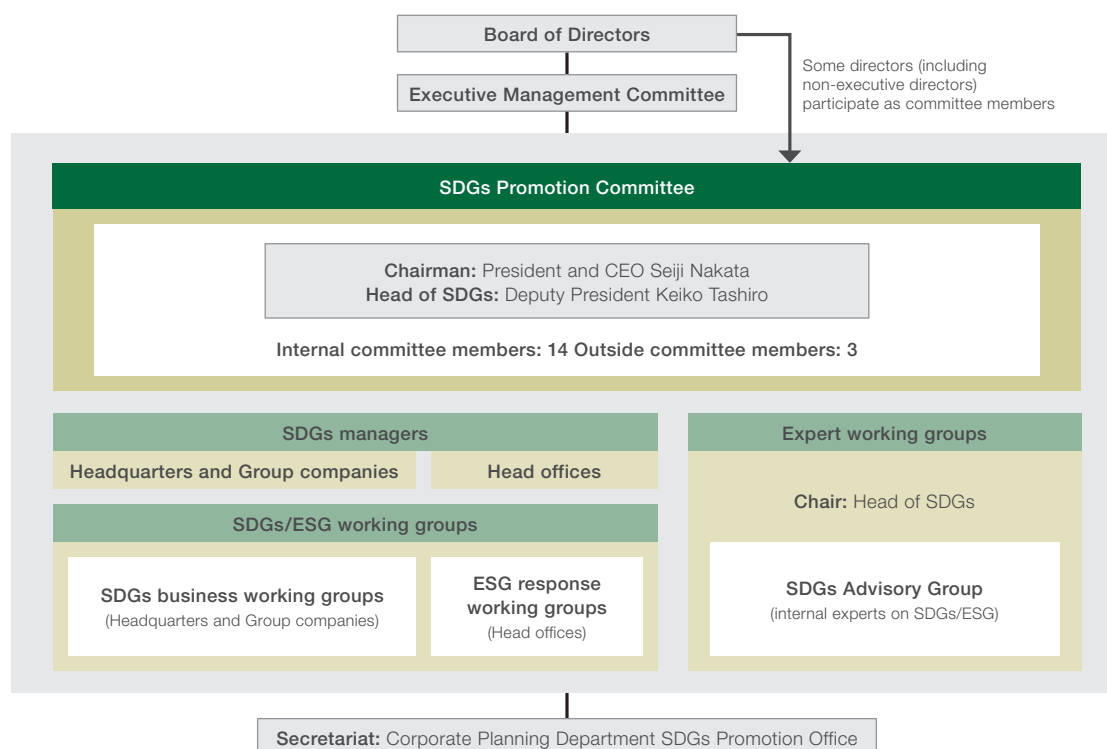
Since FY2021, non-executive directors have been included as part of the SDGs Promotion Committee.



SDGs promotion structure and SDGs Promotion Committee members list

[https://www.daiwa-grp.jp/english/sdgs/group\\_sdgs/system.html](https://www.daiwa-grp.jp/english/sdgs/group_sdgs/system.html)

### FY2021 SDGs Promotion Structure (as of April 1, 2021)



<b>Head of SDGs</b>	Promotes businesses that contribute to the SDGs throughout Daiwa Securities Group, and oversees initiatives to enhance the foundation for sustainable management	<b>SDGs business working groups</b>	Monitor the KPIs, ascertain the progress status of SDGs-related businesses, identify issues, and plan and implement measures for these issues under the direction of SDGs managers.
<b>SDGs managers</b>	Promote businesses that contribute to the SDGs and conduct KPI progress management for each organization (Headquarters and Group companies) within the Group	<b>ESG response working groups</b>	Enhance and strengthen ESG response in reference to external evaluations (investors and evaluation organizations) regarding ESG at Daiwa Securities Group Inc.
<b>SDGs Advisory Group</b>	Composed of personnel engaged in SDG- and ESG-related work within the Group. Conducts discussions and information sharing based on the respective knowledge of those personnel		

## 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 it has previously had no contact in order to identify other stakeholders.

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

### Communication with Business Partners and Investees

Daiwa Securities Group regularly checks documents disclosed by major business partners, including suppliers of equipment and services, as well as news reports about these companies and their reputation on the Internet in order to address ESG issues in the Group's supply chain. If any issues are found, we take steps such as urging business partners to make improvements.

 [Supply Chain Management  
https://www.daiwa-grp.jp/english/sdgs/support/supply\\_chain.html](https://www.daiwa-grp.jp/english/sdgs/support/supply_chain.html)

### Formulation of the Environmental and Social Policy Framework


In June 2021, the Group formulated the Environmental and Social Policy Framework (investment and financing policy) in order to strengthen its management and governance infrastructure for environmental and social risks. We want to create a better society in partnership with our stakeholders by acknowledging the risks for businesses that may have negative impacts on the environment and society, and taking appropriate measures through engagement. In a bid to strengthen this Framework, assessments based on implementation experience and changes in the external environment will be conducted regularly.

 [Environmental and Social Policy Framework  
https://www.daiwa-grp.jp/english/sdgs/support/espolicy.html](https://www.daiwa-grp.jp/english/sdgs/support/espolicy.html)

### Approach to Green Procurement

Under its SDG promotion structure, Daiwa Securities Group is working to reduce the environmental impact of society as a whole, including the supply chain, in accordance with its Environmental Vision, Environmental Principles, and Basic Environmental Policies. In particular, we are engaging in procurement activities based on our approach to green procurement.

We disclose the following information to our suppliers and other business partners so that they can better understand our approach in conjunction with our Environmental Vision, Environmental Principles, and Basic Environmental Policies.

 [Approach to Green Procurement  
https://www.daiwa-grp.jp/sdgs/environment/policy.html#green](https://www.daiwa-grp.jp/sdgs/environment/policy.html#green)  
(In Japanese only)



## Dialogue and Communication with Stakeholders

### Communication with Shareholders and Investors

The Group undertakes various IR (investor relations) activities, including its general meeting of shareholders, which serves as a forum for the Group 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 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 interest in ESG investment. The Group held one-on-one ESG meetings with institutional investors in FY2019 and FY2020.

In FY2020, we participated in an IR seminar for individual investors on the theme of ESG. 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 engaging in dialogue using online meetings and teleconferencing.

Thanks to these activities, we were ranked in first place in each of the six Best CEO, Best CFO, Best IR Professional, Best IR Team, Best IR Program, and Best ESG categories in the Insurance & Other Nonbank Financials sector of the All-Japan Executive Team and selected as the Most Honored Company based on voting by institutional investors, portfolio managers and analysts all over the world published by Institutional Investor, a U.S. financial information magazine.



\* Onsite events in FY2020 were canceled due to the spread of COVID-19. (Some conferences were held online)

#### IR Activities in FY2020

Number of meetings with institutional investors and analysts **186**

Meetings with overseas institutional investors included in the above **75**

Number of briefings for individual investors **11**

(total number of live participants and on-demand viewers) (approx. 17,600)

(nine briefings via the Internet, two IR presentation videos for individuals)



Online briefing special feature for individual investors  
<https://www.daiwa-grp.jp/ir/digest/movie.html> (In Japanese only)

### 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



#### Key Concerns from Investors

Questions and concerns raised by investors in FY2020		Briefings
Outlook for growth in asset-based revenue geared to balances aimed at establishing a wealth management business model		Page 43
Outlook for profit growth in hybrid businesses		Page 27
Revenue restructuring and the outlook for cost reductions during the term of the new Medium-Term Management Plan		Page 36
Status of operations of the real estate asset management business		Page 30
ESG initiatives	TCFD	Page 107
	Reductions in greenhouse gas emissions	Page 62
	HR policy	Page 69
	Risk management	Page 97
	Governance	Page 77



Disclosure System  
<https://www.daiwa-grp.jp/english/sdgs/support/relation.html>

# Response to the TCFD

Daiwa Securities Group recognizes the risks and opportunities related to climate change as one of its important management issues. In April 2018, the Group expressed its support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Based on these recommendations, the Group used strengthened climate-related scenarios, and implemented and disclosed the results of a quantitative analysis for the first time in addition to its conventional qualitative analysis.

## 1. Governance

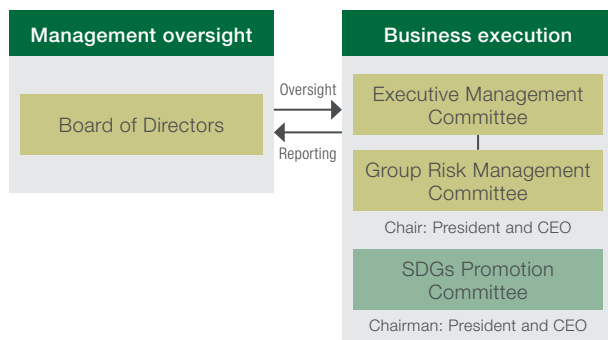
### (1) Oversight by the Board of Directors

In terms of oversight by the Board of Directors regarding climate-related issues, the Board receives reports as appropriate on those climate-related issues and responses discussed by the executive team, and makes decisions on these following deliberations as necessary.

In two cases, the Board received a report from the executive team and made decisions regarding the formulation of the Environmental and Social Policy Framework (see page 105) in June 2021, and regarding the Net Zero Carbon Declaration in July 2021.

Moreover, in order to increase the incentive for executives to take action on climate-related issues, following deliberations by the Compensation Committee, the Board has decided to incorporate the Sustainability KPI into the evaluation system for performance-linked compensation for executives for the first time (see Executive Compensation on page 87).

### Governance Framework



### (2) Management's role

The role of management in regard to climate-related issues is to deliberate and make decisions on matters related to important operations and policies, including climate-related topics, as part of the Executive Management Committee, which serves as the business execution body, and as part of the Group Risk Management Committee, one of the subcommittees under this Committee.

In one case, after the SDGs Promotion Committee (chaired by the President and CEO) discussed the formulation of the aforementioned Environmental and Social Policy Framework during its meetings in March and June 2021, the Executive Management Committee received a report on and discussed this matter before making its decision in June of that year. The Board of Directors then made its decision regarding this matter that same month. Moreover, the Group Risk

Management Committee received a report on and discussed the TCFD climate-related scenario-based quantitative analysis results during its May 2021 meeting.

## 2. Strategy

### (1) Vision 2030 and Materiality

In May 2021, the Group formulated and announced its long-term management vision for 2030 as Vision 2030 (see Vision 2030 on page 6). The Group identified Materiality (priority areas and priority issues linked to these) (see Identifying Materiality on page 20) during the formulation process. As part of one of these priority areas, Green & Social: Promoting the transition to a carbon-free society and realizing a resilient society, the Group defined the priority issues of Promotion of green finance to support the realization of a carbon-free society and Development and provision of new financial products and services that contribute to the realization of a sustainable society.

### (2) Climate-related scenario analyses

Under this long-term vision, the Group seeks to appropriately capture climate-related risks and opportunities, and investigate actions to take in response. In particular, based on climate-related scenarios, which were strengthened from the previous fiscal year, the Group conducted scenario analyses (quantitative analyses) in the current fiscal year as follows.

These scenarios assume several patterns classified by temperature rise (1.5°C, 2°C, etc.) as based on the relationship between carbon dioxide (CO<sub>2</sub>) and temperature change. In reference to the latest targets announced by the Japanese government in April 2021 (greenhouse gas emissions: 46% reduction by 2030 [compared with 2013] and net zero by 2050), the Group established its conditions for CO<sub>2</sub> reductions in accordance with these temperature rise classifications. Moreover, the Group laid out areas to consider regarding changes in economic and social matters (transition risk), such as conversion to renewable energy, and natural disasters (physical risk).<sup>\*1</sup> Based on an economic model that includes these elements, the Group prepared several scenarios that present macroeconomic course changes through 2050. Using this series of scenarios, the Group calculated the estimated value of loss on those carbon-related assets<sup>\*2</sup> held by the Group.

<sup>\*1</sup> The five areas are: increased credit risk, drastic changes or reductions in arable land, more frequent heavy rains and large typhoons, more frequent abnormally high temperatures and heavy snowfalls, and sea level rise.

<sup>\*2</sup> Based on the definitions in the TCFD recommendations, such assets fall under three of the 33 TOPIX Sector Indices, namely Electric Power and Gas (excluding renewable energy), Oil and Coal Products, and Mining.

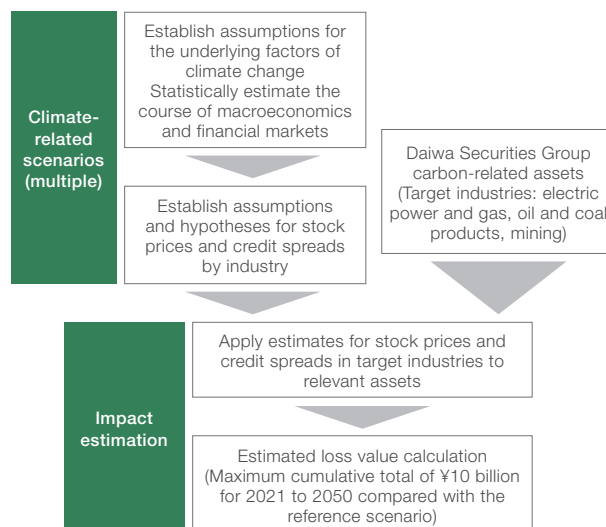
## Response to the TCFD

The results of these estimates indicated that the impact of transition risk coinciding with action to mitigate temperature rise is relatively large, and that a delay in action regarding a move to a fossil fuel-free economy will exacerbate this impact. Among the selected scenarios, the case of a 1.5°C temperature rise coupled with delays in action regarding a fossil fuel-free economy, which predicts the greatest economic loss, indicates the Group will incur a cumulative loss of approximately ¥10 billion compared with the reference scenario over the 30-year period through 2050.

Meanwhile, these most recent scenario analyses are based on the limited information and data available at the present time, and calculations were made by narrowing the focus of analysis and establishing required assumptions. The range of areas to be considered for climate-related risk is broad, and the timing and scale of risk occurrence is assumed to follow several patterns. Along with carefully interpreting these most recent calculation results, going forward the Group will work to acquire more information and relevant data in an effort to improve the analysis method, and will strive to refine the extraction of risks through scenario analysis and to appropriately reflect the results in the Group's disclosures.

The Group also conducted a qualitative analysis in addition to the aforementioned quantitative analysis. Specifically, it conducted hearings regarding the businesses among each headquarters and Group company that are expected to be impacted during the period through 2050 based on the above scenarios. The results are shown in Table 1 below.

## Scenario Analysis Overview



**Table 1 Assumed impacts on Daiwa Securities Group**

Category	Assumed impact	Relevant business divisions
Transition risk	Decrease in business from companies and others significantly affected in the course of the transition	Wholesale Division
	Increase in reputational risk associated with investment and underwriting related to businesses with a heavy environmental load	Wholesale Division Investment Division
	Decline in the value of held assets and decrease in selling opportunities	Investment Division
	Decrease in assets under management resulting from a decline in the value of assets held by funds	Asset Management Division
Physical risk	Decrease in business significantly affected by abnormal weather	Investment Division
	Decline in the value of held assets	
	Increase in costs associated with natural disaster risk (e.g., real estate operating costs, costs associated with countermeasures)	Asset Management Division Think Tank/Information Systems Division

Meanwhile, the following table (Table 2) lists the business opportunities for Daiwa Securities Group. In consideration of the priority issues in Vision 2030, the Group will leverage these opportunities to further enhance its ability to provide various financial products and services, including green finance and

transition finance. The Group also believes that improving its reputation among stakeholders through the appropriate disclosure of these initiatives will connect to an increase in business opportunities.

**Table 2 Business opportunities for Daiwa Securities Group**

Opportunities	Relevant business divisions
Increase in business opportunities related to green finance and transition finance intended to realize the transition to a carbon-free society	Wholesale Division
Increase in M&As in the renewable energy field	
Increase in opportunities for investing in new industries and companies that contribute to the transition to a carbon-free society	Investment Division
Increase in assets under management resulting from the higher value of fund-held companies with technologies that contribute to solutions for climate change issues	Asset Management Division
Inflow of capital to funds that incorporate companies actively working to address climate change	Asset Management Division Retail Division
Increase in business opportunities for providing solutions to assist in the transition to a carbon-free society	Think Tank/Information Systems Division

### 3. Risk Management

#### (1) Managing climate-related risks

In order to strengthen risk management related to the environment and society, the Group formulated and announced its Environmental and Social Policy Framework in June 2021. This Framework stipulates businesses for which investments and loans are prohibited and restricted when considering new investments and loans (see Environmental and Social Policy Framework on page 105).

Moreover, Daiwa Asset Management (a company under the Asset Management Division) discloses its ESG priority issues (Materiality), as has been conventionally required of investee companies. It includes climate change among its ESG priority issues. As part of its engagement with investee companies and in aims of reducing risk, the company discusses solutions, including sharing problematic issues, promoting environmental management, and improving disclosure, for companies struggling to reduce their environmental impact.

#### (2) Integration into existing risk management

Because climate-related risks are an underlying factor in causing and amplifying other risks (market risk, credit risk, liquidity risk, etc.), the Group will create a system that can account for the impacts of climate-related risks within the existing risk management framework (Risk Management on page 97).

### 4. Metrics and Targets

#### (1) Targets used to assess and manage climate-related risks and opportunities

Based on Vision 2030, the Group has established targets (Table 3) for assessing and managing climate-related opportunities (see Sustainability KPIs on page 13). Initiatives intended to achieve these targets are assumed to be tied to the creation of medium- to long-term value for the Group.

**Table 3 Metrics and targets**

Metrics	Targets
Investment balance in SDGs-related business	At least ¥150 billion (FY2023)

Note: In addition to the above, a separate target has been established and will be monitored for the SDG bonds league table (within the top three).

#### (2) Greenhouse gas (GHG) emissions reduction target

As part of its response to climate change, the Group monitors and discloses Scope 1, Scope 2, and Scope 3 GHG emissions every year (see page 123).

The Group also announced the Daiwa Securities Group Net Zero Carbon Declaration, which includes medium- to long-term GHG emissions reduction targets, in consideration of the Japanese government's latest target of achieving net zero greenhouse gas emissions by 2050. The specific targets in this Declaration are as follows:

- Achieve net zero greenhouse gas emissions within the Group's own operations\* by 2030 (Scope 1 and Scope 2)
- Achieve net zero greenhouse gas emissions within the Group's investment and loan portfolios, etc. by 2050 (Scope 3).

In regard to Scope 3, during FY2023 the Group plans to establish intermediate targets to align with the Paris Agreement by utilizing SBT (see page 62).

\* The Group's emissions will be calculated on a consolidated basis.

### 5. Outlook

The Group recognizes climate-related risks and opportunities as one of the most pressing issues for management, and is therefore working to build a sustainable business structure. The Group will continue to further improve disclosure based on the TCFD recommendations and strive to strengthen communication with stakeholders in order to contribute to the realization of a carbon-free society.



## Financial Section

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## Other Information

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With securities-related businesses as its core, Daiwa Securities Group provides comprehensive investment and financial services in collaboration with Group operations that support the core businesses, which consist of four segments: the Retail Division, the Wholesale Division, the Asset Management Division, and the Investment Division.

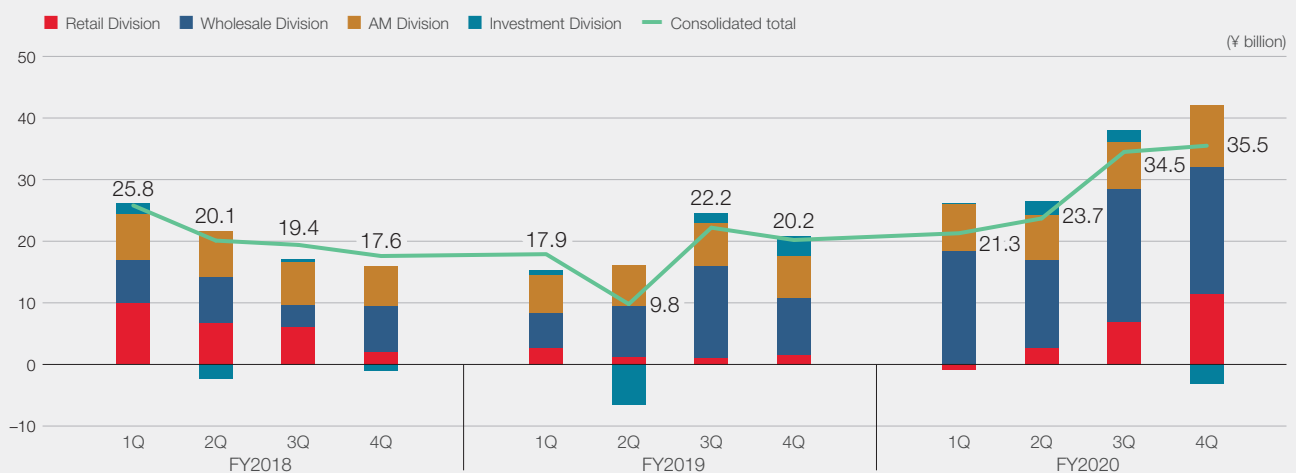
The Retail Division provides a wide range of financial products and services to customers, including individuals and unlisted companies.

The Wholesale Division consists of Global Markets (GM) and Global Investment Banking (GIB). GM provides sales and trading services of securities, mainly for institutional investors and corporations in Japan and overseas. GIB conducts business in marketable securities underwriting, M&A advisory services, and others.

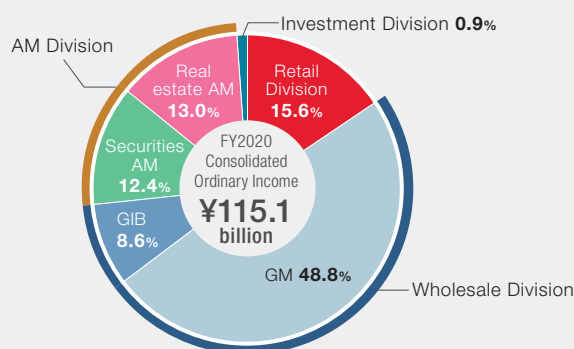
The Asset Management Division consists of a securities asset management business, setting up and managing investment trusts and providing investment advice and management services to institutional investors in Japan and overseas, and a real asset management business, managing investment corporations and funds that invest in real estate.

The Investment Division invests in assets such as monetary claims, private equity, real estate, energy, and infrastructure, as well as carrying out business centered on maximizing returns from existing projects and creating new investment funds.

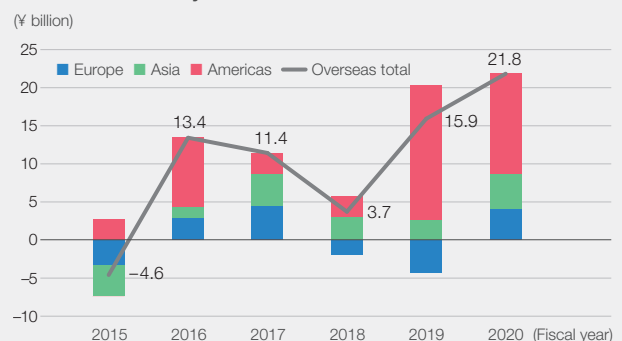
### Ordinary Income by Segment



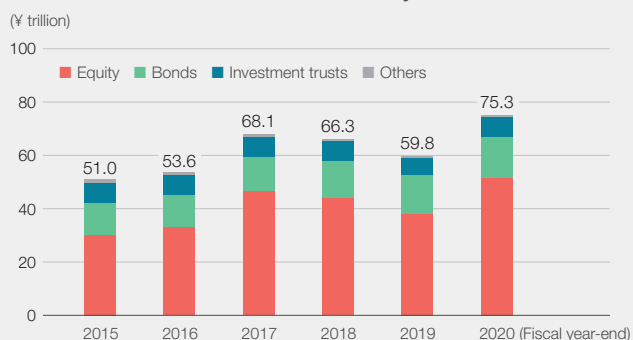
### FY2020 Breakdown of Ordinary Income



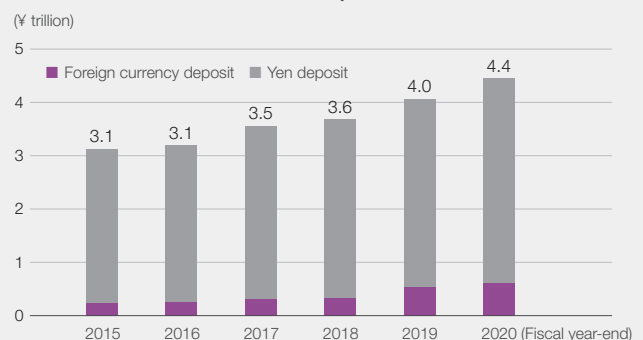
### Overseas Ordinary Income



### Daiwa Securities Assets under Custody



### Daiwa Next Bank Balance of Deposits



## 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 June 2021) ... **180**

▶ Number of customer accounts with balance\* ..... **3,034 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, and has established a principle-based sales system focused on pursuing customers' best interests, 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, and the type of sales strategies employed.

### 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 180\* sales branches/sales offices and a customer base built up over 119 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 June 2021

### 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 FY2020

Action Plan for FY2020	Performance in FY2020
<b>1. Creation of a principle-based sales system</b>	With the objective of improving products and services based on customer feedback, a Customer Satisfaction Council was held every six months, leading to a review of invested funds in the wrap account service and making the account opening procedure paperless.
<b>2. Development of appealing products and services that match the customer's various needs, and enhancement of solution proposals</b>	A new asset-based fee plan for investment trusts was introduced, which does not charge a commission at the time of purchase but rather charges fees based on the appraised value and holding period. It is now possible for customers to choose a fee structure that suits their investment style. In addition, an Investment Planning product line has been added to Daiwa Future Designers, making it possible to provide the most fitting solutions in a variety of asset management scenarios.
<b>3. Expand the business by utilizing external channels and resources</b>	The Division pursued and explored collaboration with outside partners for the purpose of expanding the customer base and providing products and services in the field of asset formation.
<b>4. Transformation of revenue structure and review of cost structure</b>	The Division took further steps to transition to a wealth management business model, including the consolidation and renewal of wrap services and the introduction of an asset-based fee plan for investment trusts. Other moves included consolidating and improving efficiency at large branch offices and digitalization to boost operational efficiency.

In FY2020, a Customer Satisfaction Council was held every six months with the objective of improving products and services based on customer feedback. It led to a review of invested funds in the wrap account service and making the account opening procedure paperless. As a result, Daiwa Securities ranked number one in the face-to-face securities section for the second consecutive year in an external NPS survey\*1.

Daiwa Securities is striving to offer appealing products and services that meet all kinds of customer needs. In October 2020, a new asset-based fee plan for investment trusts was introduced. The plan does not charge a commission at the time of purchase but rather charges fees based on the appraised value and holding period. With the new plan, it is now possible for customers to choose a fee structure that suits their investment style. The total asset balance of the plan had exceeded ¥189 billion at the end of FY2020.

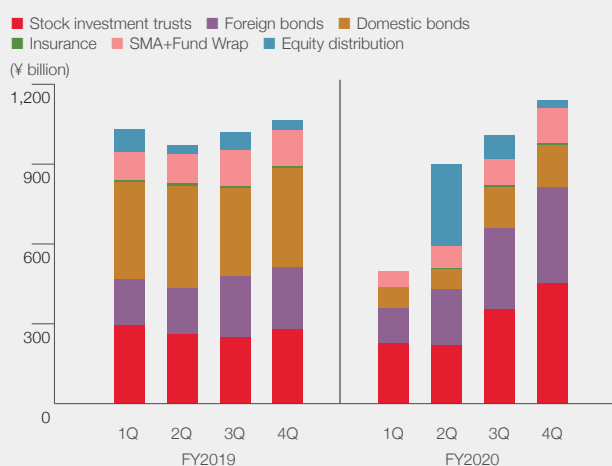
In addition, an Investment Planning\*2 product line has been added to Daiwa Future Designers\*3, an asset management consulting service that helps customers realize their dreams. By offering services used by institutional investors to retail customers, it has become possible to provide the most fitting solutions in a variety of asset management scenarios.

\*1 NPS benchmark results of an industry-specific survey conducted on users, announced by NTTCom Online Marketing Solutions Corporation in October 2020.

\*2 A customized version of the portfolio risk analysis solution service WealthBench, offered by MSCI Inc., which has a leading reputation and track record in the global wealth management field. Daiwa Securities is the first company in Japan to use WealthBench to provide customized investment proposals to retail customers.

\*3 Daiwa's asset management consulting service, which was introduced in July 2018. The service includes Life Planning, which proposes the optimal asset management plan to realize the ideal life plan for the customer, and Property Succession Planning, which proposes an optimal property succession plan in line with the customer's wishes.

**Sales and Distribution Amount by Product  
(Daiwa Securities' Retail Division)**



**Net Inflow of Assets  
(Daiwa Securities' Retail 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 ..... **¥1,057.5 billion (equity)**

**¥12.9 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 and secondary offering commissions from underwriting business and M&A related commissions from M&A advisory services.

### 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 FY2020

Action Plan for FY2020	Performance in FY2020
<b>1. Promote the company's shift to higher added value</b>	In terms of M&A business initiatives, the Division sought to acquire mid-cap cross-border deals overseas. In IPO businesses, Daiwa Innovation Network, a business-matching event, was held to promote the discovery and development of startup ventures. It also worked to acquire large-scale financing projects.
<b>2. Provide products and services that capture customer needs</b>	
<b>3. Support changes in business structure and in Japan's industrial structure</b>	
<b>4. Provide pan-Asian business support as a regional Asian broker</b>	A focus on strengthening domestic and overseas research capabilities is bearing fruit. In addition to being No. 1 in the 2021 Nikkei Veritas Analyst Ranking by company for the third year in a row, Daiwa Securities also ranked No. 1 in Institutional Investor 2021 All-Japan Research Team survey for the second year in a row.

In FY2020, amid favorable market conditions, timely provision of products in collaboration with the Retail Division, trading of bonds and other instruments that appropriately captured interest rate movements, and equities trading that was responsive to changes in market conditions contributed greatly to earnings.

In addition, as a result of its efforts to realize Quality No. 1, Daiwa Securities has been ranked No. 1 in the Nikkei Veritas Analyst Ranking by company for the third year in a row.

In the underwriting business, Daiwa Securities served as joint global coordinator for several large-scale financing projects for companies such as Softbank Corp. and Japan Airlines Co., Ltd. The company also served as lead underwriter for numerous projects, including several firsts in Japan, such as the SDGs-IPO\*<sup>1</sup> of Poppins Holdings Inc., Ltd., the Social PO\*<sup>2</sup> of Gakken Holdings Co., Ltd., and the Social Bond issue\*<sup>3</sup> of the University of Tokyo.

In the M&A advisory business, capitalizing on its global M&A advisory system, the company was involved in numerous M&A projects in Japan and overseas. In a merger project between Nitori Holdings Co., Ltd. and Shimachu Co., Ltd., the company served as a financial advisor to Nitori. It also ranked No. 1 in the Global Infrastructure League Tables 2020 at inspiratia.

\*1 SDGs-IPO (initial public offering): The case where a company, at the time of its initial public offering, has obtained evaluation from a third-party evaluating agency of the use of funds and the issuer in terms of its contribution to the SDGs and compliance with the Social Bond Principles.

\*2 Social Public Offering: Fundraising through a public offering carried out in accordance with the Social Equity Finance Framework, which has been assessed by a third-party evaluating agency as conforming to the Social Bond Principles.

\*3 Social Bonds: Bonds issued to raise funds for a new or existing project that aims to address or mitigate a specific social issue or achieve positive social outcomes.

## Asset Management Division

### Main Companies

#### Securities asset management

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 ..... **¥22.6 trillion**

▶ Assets under management by two real estate asset management companies\*1

..... **¥1,212.9 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. (Daiwa AM), 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 Daiwa Office Investment Corporation\*2 managed by Daiwa Real Estate AM.

Revenues in the Asset Management Division consist mainly of management fees for structuring and managing investment trusts from Group consolidated subsidiary Daiwa AM, and real estate investment income from Group consolidated subsidiary Daiwa Real Estate AM and Samty Residential Investment Corporation. In addition, income related to structuring and managing 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 affiliates Daiwa Securities Living Investment Corporation and Samty Co., Ltd., are recorded in ordinary income according to the Group's ownership ratio.

\*2 Income related to the real estate investment income of Daiwa Office Investment Corporation, which became a consolidated subsidiary at the end of FY2020, is recorded in ordinary income for FY2020 according to the Group's ownership ratio at the time it was an affiliate accounted for by the equity method.

## 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

- Securities 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 FY2020

Action Plan for FY2020	Performance in FY2020
<b>1. Strengthening the promotion of existing funds and development of hit products through the strategic introduction of new funds</b>	Daiwa AM formulated strategies to meet the needs of the clients of distribution companies and developed funds with a view to the medium- and long-term market outlook.
<b>2. Realization of net increase of funding through the expansion of sales companies, etc.</b>	In addition to enhancing customer information content tailored to the characteristics of each sales channel, Daiwa AM reinforced repromotion efforts, such as seminars to address customer needs.
<b>3. Transition to a system of investment teams by strategy, and strengthening investment capability through the establishment of a new investment analysis team</b>	Daiwa AM sought to renew its management philosophy and improve its management structure, methods, and processes to boost management performance, while reinforcing engagement activities and developing and strengthening human resources.
<b>4. Expand alternative investment products, centered around real estate</b>	Daiwa Office Investment Corporation became a consolidated subsidiary. The balance of assets under management at Daiwa Real Estate AM increased, reflecting growth in assets under management at Daiwa Securities Living Investment Corporation, Daiwa Residential Private Investment Corporation, and Daiwa Securities Logistics Private Investment Corporation. The combined balance of assets under management of Daiwa Real Estate AM and Samty Residential Investment Corporation increased by ¥141.9 billion from the end of FY2019 to ¥1,212.9 billion.

In securities AM, Daiwa AM 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 Daiwa Society 5.0 Related Equity Fund launched in July 2020 were favorable, resulting in a ¥116.5 billion increase in funds. The overall increase in funds for publicly offered equity investment trusts was ¥1,052.2 billion in FY2019, primarily reflecting the inflow of funds to ETFs, while the net asset balance at the end of FY2020 was ¥19.4 trillion.

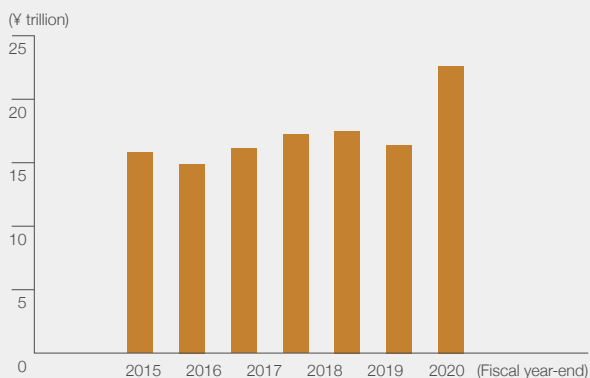
In addition, against a backdrop of cooperative efforts between Japan and China to increase opportunities for cross-border investment in the Chinese and Japanese securities markets, with regard to Japan-China ETF Connectivity that enables the listing of ETFs on stock exchanges in both countries, Daiwa AM began preparations for the listing of two Chinese ETFs.

Global X Japan Co., Ltd. listed six new ETFs, including theme-based and smart beta\* ETFs, bringing the balance of assets under management at the end of FY2020 to ¥31.9 billion.

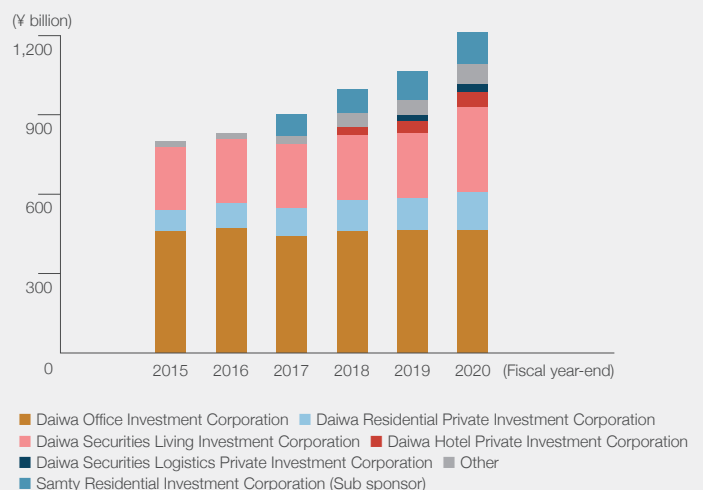
In real estate AM, Daiwa Real Estate AM worked to enhance the quality of its real estate portfolio by acquiring new properties and replacing assets, and by enhancing the value of existing properties. The scale of assets under management as of FY2020 was ¥1,212.9 billion. In December 2020, Daiwa Securities Living Investment Corporation, which is managed by Daiwa Real Estate AM, made its first post-merger public offering and acquired new properties.

\* 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.

**Assets under Management of Daiwa Asset Management**



**Assets under Management of Real Estate AM Business**



## 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 ..... **2,310** companies
- ▶ Investment amount (cumulative)\*1 ..... **¥435.4** billion
- ▶ Outstanding principal investment balance\*2 ..... **¥264.0** billion

\*1 DCI cumulative value

\*2 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 (DCI), which invests in venture companies through funds; Daiwa PI Partners (PIP), which invests in loans, real estate and private equity; and Daiwa Energy & Infrastructure (DEI), 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.

### Initiatives in FY2020

Action Plan for FY2020	Performance in FY2020
<b>1. Contribute to the fund ecosystem by unearthing and nurturing new industries</b>	In addition to new investments, DCI referred customers and took other steps to collaborate with the Group to maintain hands-on communication with investee companies.
<b>2. Expand investments in Asia</b>	DCI held ongoing discussions with local partners and established new funds. PIP invested in companies in various Southeast Asian countries.
<b>3. Develop socially responsible investments</b>	DEI made new investments related to solar power generation business in Japan and renewable energy businesses overseas.
<b>4. Pursue investment returns through further evolution of management capabilities</b>	PIP missed no opportunity to invest and moved forward steadily with projects in collaboration with the Group. DEI exited some investment projects and took steps to establish 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 the listing of investee companies. In October 2020, in collaboration with China Energy Conservation and Environmental Protection Group and Hubei Wings Investment Corp., DCI created a fund to invest in blue-chip companies in the fields of energy conservation, the environment, and the circular economy in China. In December 2020, it established a successor fund to invest in unlisted bio-ventures centered on the drug discovery field in Japan and Taiwan.

### Daiwa PI Partners

PIP conducted monetary claims and real estate loans as well as corporate loans and investments in Japan and abroad.

### Daiwa Energy & Infrastructure

DEI invested in renewable energy businesses such as solar power generation as well as optical fiber telecommunications equipment and other infrastructure businesses. In May 2020, the company invested in Aquila Capital Holding GmbH in Germany, which develops and operates renewable energy businesses.



## Other

### Main Companies

#### Think tank/Information systems

Daiwa Institute of Research Ltd.\*<sup>1</sup>

#### Banking

Daiwa Next Bank, Ltd.

Daiwa Securities Business Center Co. Ltd.

Daiwa Facilities Co., Ltd

Fintertech Co. Ltd.

CONNECT Co. Ltd.

▶ Balance of deposits\*<sup>2</sup> ..... **¥4.4 trillion**

▶ Number of accounts\*<sup>2</sup> ..... **1,505 thousand**

\*<sup>1</sup> Daiwa Institute of Research Ltd. and Daiwa Institute of Research Business Innovation Ltd. merged with Daiwa Institute of Research Holdings Ltd. on April 1, 2021. The merged company's name was changed to Daiwa Institute of Research Ltd.

\*<sup>2</sup> Figure for Daiwa Next Bank

The Daiwa Securities Group's "Other" businesses include system consulting/system integration, research, and consulting, which are overseen by the Daiwa Institute of Research Group, and banking operations, which are overseen by Daiwa Next Bank.

### Initiatives in FY2020

#### Daiwa Institute of Research (formerly Daiwa Institute of Research Group)

Daiwa Institute of Research (DIR) supported the Group's digital transformation (DX) initiatives, including building a remote work infrastructure. As the Group's think tank, DIR also disseminated a wide range of information, such as formulating and releasing guidelines for evaluating corporate health management.

Action Plan for FY2020	Performance in FY2020
<b>1. Contribution to the strengthening of business through Group coordination as the think-tank of a hybrid comprehensive securities group</b>	DIR contributed to the Daiwa Securities Group's DX initiatives by providing solutions such as support for the transition to telecommuting and digitalization of various business processes. DIR also helped build up client relationships by focusing on research and consulting related to themes Daiwa Securities clients are keenly interested in.
<b>2. Transmission of forward-looking economic and financial information that responds to accelerating changes in society brought about by digitalization</b>	In addition to economic conditions brought about by the COVID-19 pandemic and moves to achieve the SDGs, DIR provided timely information on climate change issues, zero emissions initiatives, and other economic and social trends that are of growing interest to society.
<b>3. Provision of solutions that contribute to enhancement of competitiveness of customers' businesses</b>	DIR constructed an authentication platform for open APIs, provided public cloud-based solutions, and expanded the service lineup through stronger collaboration with external partners.
<b>4. Expansion of business through the creation of "new value" utilizing advanced technology</b>	In addition to providing services such as information on stock selected using an AI machine learning-based stock price forecast model, DIR established a team dedicated to researching leading-edge technologies and cultivating skilled IT personnel, with the aim of further expanding solutions in the data science and AI fields.

#### 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 October 2020, the balance of "'Ouen' (Supporting) Term Deposits" surpassed ¥100 billion, while in December 2020, the balance of foreign currency deposits surpassed ¥600 billion.

Action Plan for FY2020	Performance in FY2020
<b>1. Develop customer-oriented products and services by utilizing securities-banking business model</b>	In foreign currency deposits, the bank maintained among the highest level of interest rates in the industry and conducted various promotions in collaboration with Daiwa Securities.
<b>2. Construct mechanisms for building the future revenue base of the entire Group</b>	With the launch of the CONNECT, the bank began handling dedicated CONNECT accounts.
<b>3. Pursue portfolio management strategy that can adapt to changes in market environments in a timely manner</b>	During periods of elevated interest rates and credit spreads, the Bank managed its funds flexibly while hedging risks.
<b>4. Achieve sustainable growth by securing healthy earning results</b>	The Bank established a system to fortify money laundering and terrorist financing countermeasures, further bolstering its risk management.

In July 2020, the Group launched CONNECT, a service that enables a range of investing functions to be done by smartphone, from opening an account to securities trading and wealth management. The service mainly targets younger clients and clients interested in asset formation.

# 11-Year Financial Summary\*1

	FY2010	FY2011	FY2012	FY2013
<b>Operating Performance</b>				
Operating revenues	403,042	422,374	525,411	642,829
Commissions	218,630	220,845	229,522	301,937
Net gain on trading	92,476	79,416	123,537	156,499
Net gain (loss) on private equity and other investments	(17,259)	1,955	16,531	17,454
Interest and dividend income	71,915	79,761	93,276	107,974
Service fees and other revenues	37,278	40,395	62,544	58,963
Interest expense	58,061	59,689	70,130	60,333
Cost of service fees and other revenues	26,415	26,668	37,972	40,545
Net operating revenues	318,564	336,016	417,308	541,951
Selling, general and administrative expenses (SG&A)	363,919	359,729	333,496	357,358
Operating income (loss)	(45,355)	(23,713)	83,812	184,593
Ordinary income (loss)	(32,602)	(12,200)	95,176	197,045
Profit (loss) attributable to owners of parent	(37,331)	(39,434)	72,909	169,457
<b>Segment Information*2</b>				
Net operating revenues				
Retail	178,970	172,033	184,415	253,093
Wholesale	92,130	78,488	133,109	175,338
Asset Management	36,324	37,424	43,591	48,714
Investment	(15,277)	1,090	17,495	19,989
Others/adjustments	26,416	46,980	38,696	44,815
Total	318,564	336,016	417,308	541,951
Ordinary income (loss)				
Retail	41,866	38,839	49,251	102,120
Wholesale	(66,906)	(68,717)	12,034	47,428
Asset Management	15,948	14,615	19,089	25,328
Investment	(21,476)	(1,976)	14,161	17,171
Others/adjustments	(2,034)	5,039	639	4,996
Total	(32,602)	(12,200)	95,176	197,045
<b>Ordinary Income (Loss) from Overseas Operations</b>				
Europe	(8,954)	(5,039)	(2,873)	(2,307)
Asia & Oceania	(11,133)	(17,720)	(7,610)	(3,763)
Americas	(1,447)	(3,058)	(87)	916
Total	(21,536)	(25,818)	(10,571)	(5,154)
<b>Financial Conditions</b> (Fiscal year-end)				
Total assets	16,842,411	18,924,038	19,049,099	19,480,863
Net assets	921,398	951,702	1,082,567	1,253,462
<b>Regulatory Indicators</b>				
<b>Consolidated Capital Adequacy Ratio*3</b>				
Consolidated Common Equity Tier 1 Capital Ratio	—	—	19.0%	20.6%
Consolidated Tier 1 Capital Ratio	—	—	19.0%	20.9%
Consolidated Total Capital Ratio	27.2%	27.4%	20.0%	21.8%
Consolidated Leverage Ratio	—	—	—	—
Consolidated Liquidity Coverage Ratio	—	—	—	—
<b>Cash Flows</b>				
Cash flows from operating activities	1,676,882	2,032,677	1,795,021	1,123,594
Cash flows from investing activities	(79,466)	(973,494)	(798,491)	(448,493)
Cash flows from financing activities	(1,301,657)	(1,063,022)	(909,461)	25,584
Cash and cash equivalents at end of year	1,043,463	1,038,981	1,136,053	1,846,617
<b>Per Share Data</b> (Yen)				
Net income (loss) per share (EPS)*4	(21.90)	(23.41)	43.00	99.63
Net assets per share (BPS)	496.76	463.04	536.72	633.53
Dividend per share (DPS)	6.00	6.00	15.00	34.00
Closing share price	382.0	327.0	656.0	898.0
<b>Other Indicators</b>				
Dividend payout ratio	—	—	34.9%	34.1%
Market capitalization (Period-end closing price, number of shares issued basis)	668,263	572,047	1,147,592	1,570,942
ROE	—	—	8.6%	17.0%

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

\*2 Details of major Group companies including in each Division are provided on pages 112-119.

Millions of yen (Except as otherwise specified)

FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
659,396	653,711	616,497	712,601	720,586	672,287	576,172
291,115	288,418	273,335	313,625	283,027	266,574	286,835
157,220	131,324	128,120	109,005	92,218	93,802	118,895
7,415	18,502	14,846	26,912	(232)	14	4,808
125,934	149,451	143,241	190,444	291,005	258,122	93,188
77,710	66,014	56,953	72,613	54,567	53,772	72,444
80,070	89,530	98,725	148,348	242,468	209,916	54,480
47,105	49,366	45,022	58,901	36,876	36,110	55,031
532,220	514,815	472,750	505,350	441,240	426,259	466,660
361,380	364,517	353,687	370,292	373,914	371,970	373,800
170,839	150,297	119,062	135,058	67,326	54,288	92,859
184,578	165,148	135,623	155,676	83,159	70,283	115,175
148,490	116,848	104,067	110,579	63,813	60,346	108,396
232,033	217,922	188,051	214,247	185,865	166,430	169,505
180,568	178,014	182,875	171,192	158,903	172,289	215,860
55,140	50,528	46,438	49,390	48,232	48,091	51,145
8,351	19,730	15,736	27,401	1,766	2,502	4,602
56,126	48,618	39,647	43,118	46,473	36,943	25,546
532,220	514,815	472,750	505,350	441,240	426,259	466,660
77,756	61,080	29,375	51,331	24,674	6,405	20,070
52,888	48,878	65,437	45,373	25,400	38,034	74,737
32,142	29,990	26,572	29,119	28,359	26,580	32,775
6,506	17,397	13,041	24,499	(1,093)	(877)	1,123
15,284	7,801	1,196	5,353	5,817	140	(13,532)
184,578	165,148	135,623	155,676	83,159	70,283	115,175
(2,187)	(3,240)	2,759	4,227	(1,947)	(4,253)	3,969
(2,768)	(4,130)	1,480	4,433	2,946	2,601	4,659
1,050	2,686	9,254	2,742	2,766	17,644	13,188
(3,904)	(4,684)	13,493	11,403	3,765	15,992	21,817
23,001,585	20,420,818	19,827,296	21,135,041	21,126,706	23,822,099	26,099,330
1,434,680	1,313,005	1,343,433	1,370,520	1,256,430	1,257,766	1,591,841
19.7%	20.7%	22.2%	21.78%	21.64%	18.69%	18.70%
20.4%	20.8%	22.2%	21.78%	21.64%	21.16%	21.72%
21.0%	20.9%	22.2%	21.78%	21.64%	21.16%	21.72%
5.31%	5.97%	5.89%	5.57%	5.82%	5.80%	6.89%
—	156.2%	145.3%	146.6%	141.5%	150.6%	161.2%
725,966	221,746	44,543	(1,319,248)	304,857	167,190	390,979
(13,265)	415,647	307,713	777,872	108,243	(215,397)	(91,641)
343,385	(229,727)	143,231	432,813	55,741	(135,794)	438,067
2,920,509	3,273,640	3,766,145	3,653,464	4,122,102	3,933,149	4,723,526
87.07	68.25	61.53	66.88	39.95	39.11	71.20
725.27	720.86	745.80	786.56	794.54	796.33	875.12
30.00	29.00	26.00	28.00	21.00	20.00	36.00
946.0	692.3	677.9	678.7	539.0	419.2	572.1
34.5%	42.5%	42.3%	41.9%	52.6%	51.1%	50.6%
1,654,912	1,211,095	1,152,009	1,153,368	915,965	712,379	972,214
12.8%	9.5%	8.4%	8.8%	5.1%	4.9%	8.5%

\*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

		FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Consolidated Number of Staff*1	<b>G</b>	13,577	13,725	14,691	15,106	15,240	<b>15,024</b>
Male		7,600	7,552	8,077	8,092	8,025	<b>7,819</b>
Female		4,505	4,660	4,938	5,210	5,347	<b>5,292</b>
Overseas		1,472	1,513	1,676	1,804	1,868	<b>1,913</b>
Consolidated number of employees	<b>G</b>	13,701	13,836	14,791	15,196	15,320	<b>15,096</b>
Number of temporary employees	<b>G</b>	940	945	946	915	635	<b>390</b>
Number of New Graduates Recruited*2	<b>7</b>	662	678	578	677	460	<b>319</b>
Male		332	345	289	337	244	<b>164</b>
Female		330	333	289	340	216	<b>155</b>
Average Age	<b>D</b>	37.9	38.0	38.0	38.3	38.4	<b>38.9</b>
Male		39.5	39.6	39.6	39.8	39.7	<b>40.2</b>
Female		35.6	35.7	35.7	36.2	36.6	<b>37.2</b>
Average Number of Years of Service	<b>D</b>	13.5	13.6	13.7	13.8	13.9	<b>14.4</b>
Male		15.1	15.2	15.3	15.4	15.5	<b>15.9</b>
Female		11.3	11.4	11.4	11.5	11.8	<b>12.4</b>
Employee Turnover Statistics (%)	<b>D</b>	3	3	3	3	4	<b>3</b>
Number of employee union members*3	<b>9</b>	6,822	6,943	7,134	7,202	6,992	<b>6,640</b>
Ratio of employees who are employee union members (%)*3	<b>9</b>	64.2	64.0	64.4	63.9	62.6	<b>58.7</b>
Work Motivation Survey*4							
Work		—	—	—	3.2	3.3	<b>3.3</b>
Organization		—	—	—	3.2	3.2	<b>3.2</b>
Colleagues		—	—	—	3.2	3.2	<b>3.2</b>
Growth or career advancement opportunity		—	—	—	3.2	3.2	<b>3.2</b>
Compensation		—	—	—	3.1	3.0	<b>3.0</b>

\*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

		FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Number of people who have completed	<b>9</b>						
Daiwa Management Academy selective management training program (cumulative total)		358	380	403	426	451	<b>471</b>
Daiwa Leadership Program selective management training program (cumulative total)		797	862	929	1,036	1,159	<b>1,283</b>
Number of people who have completed skill training (cumulative total)	<b>7</b>	6,073	7,507	9,362	13,488	17,853	<b>22,819</b>
Number of Persons Earning Credentials*1	<b>9</b>						
Affiliated Financial Planner (AFP)		5,333	5,626	6,811	7,064	7,296	<b>7,429</b>
Certified Financial Planner (CFP®)*2		616	643	698	796	1,020	<b>1,165</b>
Chartered Member of the Securities Analysts Association of Japan (CMA)		1,525	1,542	1,613	1,644	1,470	<b>1,490</b>
Chartered Financial Analyst (USA credential)		57	59	59	63	49	<b>47</b>
TOEIC (730-990)		1,660	1,752	1,830	1,903	1,819	<b>1,802</b>
Overseas MBA program, etc.		168	173	177	176	152	<b>145</b>

\*1 Prior to FY2018, 10 companies, including Sumitomo Mitsui DS Asset Management Company, Limited.

\*2 This data covers Daiwa Securities.

## Diversity Related

		FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Percentage of employees who are female	<b>G</b>	37.2	38.1	37.9	39.2	40.0	<b>40.4</b>
Percentage of managers who are female	<b>G</b>	7.5	8.8	9.4	10.5	11.9	<b>13.7</b>
	<b>D</b>	8.9	10.6	11.6	12.9	14.5	<b>16.3</b>
Number of women newly appointed to managerial positions	<b>D</b>	45	62	40	61	64	<b>83</b>
Percentage of newly appointed managers who are female (%)	<b>D</b>	27.1	32.3	24.4	26.2	26.8	<b>29.6</b>
Number of employees re-hired under the Daiwa Master System	<b>D</b>	68	67	73	88	110	<b>134</b>
Percentage of employees who are persons with disabilities	<b>D</b>	2.05	2.02	2.10	2.33	2.57	<b>2.58</b>

## Work-Life Balance Related

		FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Annual regular working hours	<b>2</b>	1,837.5	1,837.5	1,837.5	1,830.0	1,807.5	<b>1,837.5</b>
Average monthly overtime hours	<b>2</b>	24.0	23.5	23.2	22.8	21.7	<b>21.2</b>
Paid vacation usage rate (%) (including special summer vacation)	<b>2</b>	63	66	68	68	72	<b>72</b>
Number of employees taking childcare leave	<b>G</b>						
Female		640	671	695	696	680	<b>646</b>
Male		250	327	437	420	378	<b>330</b>
Percentage of employees taking childcare leave	<b>D</b>						
Female		100.0	100.0	100.0	100.0	100.0	<b>100.0</b>
Male		73.1	96.8	100.0	100.0	100.0	<b>100.0</b>
Short working hour system usage (persons)	<b>D</b>	249	324	373	446	505	<b>503</b>
Daycare subsidy usage (persons)	<b>D</b>	505	625	702	759	909	<b>833</b>
Number of employees taking nursing care leave	<b>G</b>						
Female		4	0	2	5	10	<b>5</b>
Male		2	2	3	3	3	<b>3</b>

## Social Contribution Related

		FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
SDGs activity expenses (thousands of yen)		583,758	497,457	719,523	1,015,796	874,795	<b>460,739</b>
Education and research in economics and finance		137,193	42,351	130,122	82,579	80,895	<b>80,546</b>
Assistance to communities inside and outside of Japan through foundations and NPOs		147,748	128,594	149,441	175,813	174,815	<b>253,296</b>
Support for culture and the arts		296,110	323,110	437,458	751,961	614,700	<b>124,258</b>
Corporate citizenship initiatives		2,706	3,400	2,501	5,441	4,385	<b>2,639</b>

## Environment Related

		FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Domestic and Overseas CO <sub>2</sub> Emissions (t-CO <sub>2</sub> )							
Scope 1		1,012	1,015	998	944	868	<b>842</b>
Scope 2* <sup>1</sup>		36,372	34,772	33,131	30,732	31,172	<b>25,721</b>
Scope 3		2,208	3,521	5,288	5,920	5,880	<b>3,007</b>
Category 6 Business travel* <sup>2</sup>		—	—	1,880	2,495	2,008	<b>76</b>
Category 7 Commuting		—	1,443	1,466	1,497	2,080	<b>1,600</b>
Category 8 Leased vehicles* <sup>3</sup>		2,208	2,079	1,942	1,928	1,792	<b>1,331</b>

Notes: Calculations of greenhouse gas emissions (CO<sub>2</sub> emissions) include the following:

In addition to Daiwa Securities Co. Ltd., Daiwa Property Co., Ltd. and Daiwa Institute of Research Ltd., Group companies occupying GranTokyo North Tower and Daiwa Yaesu Building, where Daiwa Securities Group is based, as well as the London, New York, Washington D.C., Hong Kong, Taipei, Singapore, Seoul, Mumbai, and Manila offices.

\*1 For Scope 2, figures for FY2018 and FY2019 have been revised.

\*2 CO<sub>2</sub> emissions from overseas business travel (airplane use) by officers and employees of Daiwa Securities Group Inc., Daiwa Securities Co. Ltd., and the London and Hong Kong offices.

\*3 CO<sub>2</sub> emissions from gasoline connected with the use of leased vehicles.



# Management's Discussion and Analysis

## Macroeconomic Conditions in FY2020

### Overseas Markets

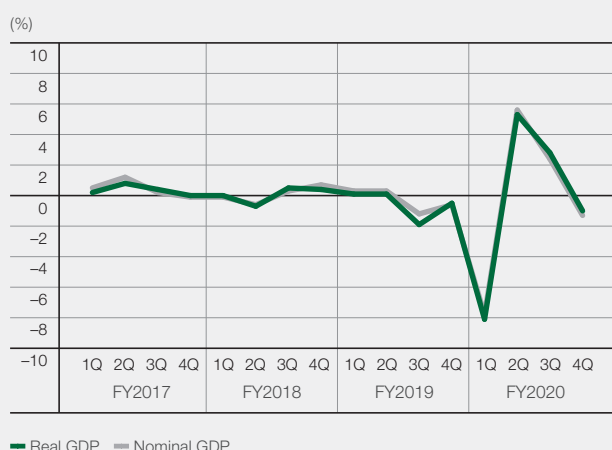
Although the global economy dramatically deteriorated during the first half of 2020 due to the COVID-19 pandemic as the primary underlying factor, it generally showed a turn to recovery starting in the second half of 2020. According to the global economic outlook released by the International Monetary Fund (IMF) in April 2021, both leading industrialized nations and emerging market countries dropped into negative growth territory during 2020. This resulted in a global economic growth rate of negative 3.3%, surpassing the widespread contraction at the time of the 2008 global financial crisis. The IMF's outlook for 2021, however, points to high positive growth of 6.0%, due in part to a rebound from the slump during the previous year. The global economy has continued to be affected by the COVID-19 pandemic since the second half of 2020, when it escaped from its worst period, and therefore remains in an extremely unstable condition.

In the wake of an explosion of COVID-19 infections, the U.S. economy rapidly deteriorated during the first half of 2020, but has continued to move toward recovery since. In the middle of March 2020, then President Trump declared a state of emergency and issued restrictions on retail outlets, restaurants, entertainment facilities, and other businesses, as well as stay-at-home orders, which led to a sharp decline in consumer spending centered on non-essential services, such as eating out and entertainment. As a result, real GDP growth for the January-March 2020 quarter turned negative for the first time in six years, falling by an annualized rate of 5.0% compared with the previous quarter. Similarly, real GDP growth for the subsequent April-June 2020 quarter fell by an annualized rate of 31.4%, the largest recorded negative growth rate since the U.S. began keeping statistics in 1947. Along with a resumption in economic activity coinciding with

a phased lifting of business restrictions and stay-at-home orders, however, the foundation provided by the U.S. government's economic policies led real GDP growth for the July-September 2020 quarter to return to strong positive territory, increasing by an annualized rate of 33.4% compared with the previous quarter. Upon entering the October-December 2020 quarter, however, the number of new COVID-19 infections rose significantly, leading some States and regions to reintroduce business restrictions and stay-at-home orders. As a result, real GDP growth only increased by an annualized rate of 4.3% compared with the previous quarter, indicating a widespread slowdown in the pace of economic recovery. Starting in 2021, however, governments increasingly relaxed their activity restrictions as COVID-19 vaccinations proceeded smoothly, which along with the effects of pandemic relief packages passed in December 2020 and March 2021, led to a reacceleration of real GDP growth for the January-March 2021 quarter, increasing by an annualized rate of 6.4% compared with the previous quarter.

From a financial perspective, the Federal Reserve Board (FRB) implemented aggressive monetary easing measures. In response to the rapid economic deterioration triggered by the COVID-19 pandemic, the FRB made two urgent rate cuts in March 2020, thereby restoring the virtually zero interest rate policy for the first time since December 2015. Moreover, the FRB decided to bolster quantitative easing, leading to a significant expansion in the FRB's balance sheet. At its December meeting, the Federal Open Market Committee (FOMC) promised to continue expanding the FRB's balance sheet until the economy had sufficiently recovered, and, as of March 2021, has indicated an outlook of maintaining the bank rate at zero percent through at least the end of 2023. This move presents a continuation of policy intended to maintain a relaxed monetary environment over the long term.

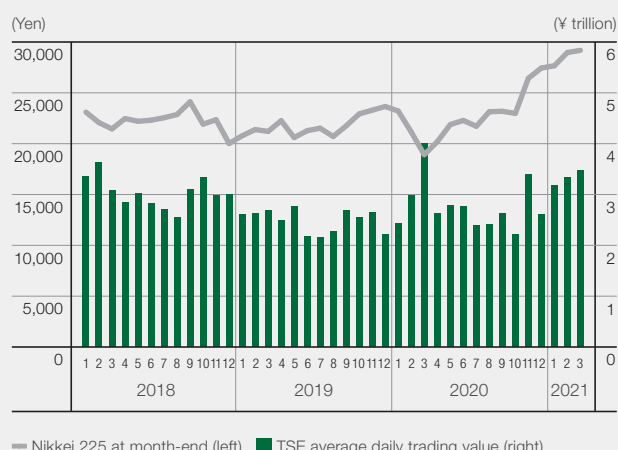
### GDP Growth Rate in Japan



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

Source: Cabinet Office, Government of Japan

### Nikkei 225 and Trading Value of TSE



Sources: Tokyo Stock Exchange, Daiwa Institute of Research

The European economy (eurozone) continues to face harsh conditions amid the prolonged impact of the COVID-19 pandemic. In the wake of many of the countries in the eurozone making the difficult decision to implement lockdowns starting in the middle of March 2020, the economy experienced a sharp downturn in consumer spending, production, and many other sectors, leading real GDP growth for the January-March 2020 quarter to enter significantly negative territory, falling by an annualized rate of 14.2% compared with the previous quarter. During the April-June 2020 quarter, this rate plunged into further negative territory at minus 38.8%, breaking the all-time low for two consecutive quarters since keeping such statistics. With some countries relaxing lockdowns as early as the middle of April and others as late as May, or thereafter, the eurozone turned toward recovery starting in May, with real GDP growth for the July-September 2020 quarter entering positive territory, increasing by an annualized rate of 60.3% compared with the previous quarter. In response to another wave of COVID-19 infections, however, Germany, France, and many other countries were forced to reinstate lockdowns, leading real GDP growth for the October-December 2020 quarter to fall by an annualized rate of 2.7% compared with the previous quarter. Similarly, real GDP growth for the subsequent January-March 2021 quarter fell by an annualized rate of 2.5% compared with the previous quarter, making for two consecutive quarters of negative growth. The European economy, which had begun to recover for a time, began to deteriorate again.

From a financial perspective, the European Central Bank (ECB) has maintained its monetary easing measures. In response to the sudden economic deterioration caused by the COVID-19 pandemic, at its March 2020 emergency meeting, the ECB established a new asset purchase program to counter the COVID-19 pandemic, and decided to expand its quantitative easing measures. In June and December of that year, the ECB expanded the asset purchase limit and in December also extended the purchase time frame from the initial period lasting through the end of 2020 to at least March 2022 as a means of enhancing its monetary easing measures. As with leading industrialized nations, emerging market countries and developing nation economies also experienced a continued recovery starting in the second half of 2020 following drastic economic deterioration during the first half of 2020. According to the IMF, after real GDP growth for emerging market countries fell into negative territory in 2020, declining by a rate of 2.2%, these countries are expected to see high positive growth of 6.7% in 2021.

Among the emerging market economies, as the world's second largest economy, China was forced to suspend economic activity during the January-March 2020 quarter due to the COVID-19 pandemic, at which point real GDP

growth fell by a rate of 6.8% compared with the same quarter the previous year. This was the first time the country recorded negative growth since it began keeping statistics on a quarterly basis in 1992. In part due to the country's successful handling of COVID-19 infections ahead of other countries, China has recovered steadily since the April-June 2020 quarter. Real GDP growth for the April-June 2020 quarter increased by a rate of 3.2% compared with the same quarter the previous year. Although growth was narrower than in years prior to the COVID-19 pandemic, China has entered positive growth territory and real GDP growth for the July-September 2020 quarter increased by a broader rate of 4.9% compared with the same quarter the previous year, primarily due to a recovery in investments against a backdrop of supportive government policy. Unlike many of the regions around the world that had restricted economic activity due to further waves of infections, since the October-December 2020 quarter China has continued to manage the spread of infection domestically, allowing real GDP growth for the October-December 2020 quarter to increase by a rate of 6.5% compared with the same quarter the previous year. The January-March 2021 quarter experienced an even faster pace of growth at 18.3% compared with the same quarter the previous year.

Emerging market countries other than China have also continued to turn toward recovery since the second half of 2020. During the first half of 2020, in addition to emerging market countries having had no choice but to restrain economic activity in order to prevent the spread of COVID-19 infections, the outflow of funds in the wake of the global economic downturn and stagnation in resource prices were also underlying factors that helped depress the economies of these countries. Meanwhile, the recovery in overseas economies, led by the U.S. and China, as well as an inflow of funds against a backdrop of global monetary easing measures, has supported the economies of emerging market countries since the second half of 2020. Many emerging market countries are faced with delays in vaccinating their populations, however, so continue to face a high risk of economic downturn due to further waves of infection.

### Japan

After experiencing widespread deterioration due to the effects of the COVID-19 pandemic from the outset of 2020, the Japanese economy entered a temporary period of recovery during the second half. However, this recovery came to a standstill again upon entering 2021 due to another wave of infections.

Real GDP growth for Japan entered negative territory over three consecutive quarters starting with the October-December 2019 quarter, which experienced a rebound decline coinciding with the consumption tax rate hike. In particular,

the April-June 2020 quarter, which saw the full-scale emergence of the effects of the COVID-19 pandemic, fell by an annualized rate of 28.6% compared with the previous quarter, the largest negative growth recorded since the end of World War II. Following the lifting of the state of emergency declaration later on at the end of May, socio-economic activity gradually resumed, leading the Japanese economy toward a recovery. Real GDP growth for the July-September 2020 quarter showed widespread recovery, increasing by an annualized rate of 22.9% compared with the previous quarter. Moreover, against the backdrop of supporting government policy, the October-December 2020 quarter also experienced a continued recovery, increasing by 11.7% compared with the previous quarter. Primarily due to stagnation in consumer spending following another state of emergency declaration coinciding with a further wave of infections, however, the January-March 2021 quarter entered negative territory again, declining at an annualized rate of 3.9% compared with the previous quarter. Since this time real GDP has continued to trend at a level below that in years prior to the emergence of COVID-19. Real GDP growth for FY2020 declined at a rate of 4.6% compared with the previous fiscal year, making for two consecutive years of negative growth.

Looking at individual components of demand, consumer spending continues to trend at a low level. Although the January-March 2020 quarter had been expected to see a recovery from the slump caused by the consumption tax rate hike implemented in October 2019, the shift toward self-restraint due to the COVID-19 pandemic led primarily to a decline in spending on non-essential services, including eating out. Moreover, the tendency to refrain from personal spending only accelerated with the state of emergency declaration on April 7, 2020, leading to a significant decline in consumer spending. In addition to the full lifting of the state of emergency declaration later on at the end of May, the support of special cash payments and other economic measures helped consumer spending turn toward a recovery. Amid an ongoing situation in which fears of another wave of infections remained strong, however, the recovery in services involving face-to-face interactions and travel was moderate and consumer spending once again took a hit upon entering 2021 with another state of emergency declaration. Housing investment fell, starting during the October-December 2019 quarter, which experienced a rebound decline coinciding with the consumption tax rate hike, through the July-September 2020 quarter, and has remained nearly flat since. In addition to stagnant sales and delayed construction coinciding with the COVID-19 pandemic, deterioration in the employment environment and a cloudy outlook for the future were contributing factors to depressed housing investment.

Capital investments, which serve as demand in the corporate sector, also trended downwards from the April-June 2020 quarter to the July-September 2020 quarter in response to rapid deterioration in the earnings environment due to the impact of the COVID-19 pandemic. As economic activity began to resume, capital investments experienced a turn toward recovery at one point in the October-December 2020 quarter in response to a halt in earnings deterioration and a recovery in exports. Another state of emergency declaration, however, led capital investments to once again fall into decline during the January-March 2021 quarter. According to the Bank of Japan Tankan (March 2021 survey), capital investment plans for FY2021 (including the value of land investments) indicate that capital investments will potentially increase 0.5% compared with the previous fiscal year. On the other hand, those industries that were strongly affected by the COVID-19 pandemic remain cautious toward capital investment, which has kept the overall pace of recovery moderate.

From a financial perspective, the Bank of Japan (BoJ) maintained a monetary policy that controls long-term as well as short-term interest rates. In the wake of a rapidly deteriorating economy due to the COVID-19 pandemic, in April 2020 the BoJ abolished upper limits on government bond purchases and strengthened quantitative easing measures, including through an expansion on the purchase limits for corporate bonds. In response to these additional easing measures by the BoJ, the 10-year Japanese government bond yield temporarily fell to the minus 0.04% level in April 2020. Amid the growing global turn toward a resumption of economic activity, the yield recovered to enter positive territory at the end of May, and maintained a stable yet extremely low level near 0.0% through the end of 2020. After entering 2021, however, Japan's long-term interest rates rose, albeit narrowly, following an increase in U.S. long-term interest rates resulting from fears of economic overheating and financial deterioration. At the end of February, the yield temporarily rose to exceed 0.15% for the first time since October 2018.

Looking at the foreign exchange market, the yen generally trended stronger against the U.S. dollar from April 2020 through the end of the year. As expectations for a resumption of economic activity grew throughout the world during the first half of June, risk aversion activity weakened and the yen continued to depreciate, temporarily reaching the ¥109 level. Starting in the second half of June, however, another wave of COVID-19 infections swept the U.S. and anticipation for additional monetary easing policy by the FRB strengthened. In response, the yen began to appreciate again and strengthened to reach the ¥103 level in November for the first time since March 2020. Upon entering 2021, however, the yen depreciated through the end of March, turning away from its

strength up to that point in response to increasing expectations for a recovery in the U.S. economy as a result of economic measures and rising U.S. interest rates. As with the U.S. dollar, the yen trended stronger against the euro from April, when the global economy drastically deteriorated and the shift toward risk aversion strengthened, until the first half of May. From the second half of May, however, the yen depreciated due to anticipation of economic recovery in Europe, after which the yen continued to weaken starting in July, following the ratification of a recovery fund proposal by the 27 EU member states. Although the yen temporarily appreciated in several instances due to fears of further waves of COVID-19 infections in Europe, anticipation of recovery in the European economy following activity restriction easing coinciding with vaccinations led the yen to further depreciate through the end of FY2020.

The stock market has generally trended upwards since the outset of FY2020. Several underlying factors pushing stock prices higher included low interest rates due to stronger monetary easing measures around the world and improvements in supply and demand due to expanded quantitative easing as a response to the COVID-19 pandemic. Other underlying factors that drove up stock prices starting in the second half of 2020 were the global dissemination of vaccines and anticipation for a strong recovery in the U.S. economy backed by economic measures. In February 2021, the Nikkei Stock Average temporarily rose to the ¥30,000 level for the first time since August 1990.

As compared with the end of March 2020, at the end of March 2021 the Nikkei Stock Average closed at ¥29,178.80, up by ¥10,261.79; the 10-year government bond yield stood at 0.104%, an increase of 0.073 percentage points; and the exchange rate was U.S.\$1.00 = ¥110.74, a depreciation of ¥2.32.

## Analysis of Consolidated Income Statements

### Total Operating Revenues and Net Operating Revenues

Total consolidated operating revenues in FY2020 decreased by 14.3% compared with the previous fiscal year, to ¥576.1 billion, and net consolidated operating revenues increased by 9.5% year on year, to ¥466.6 billion.

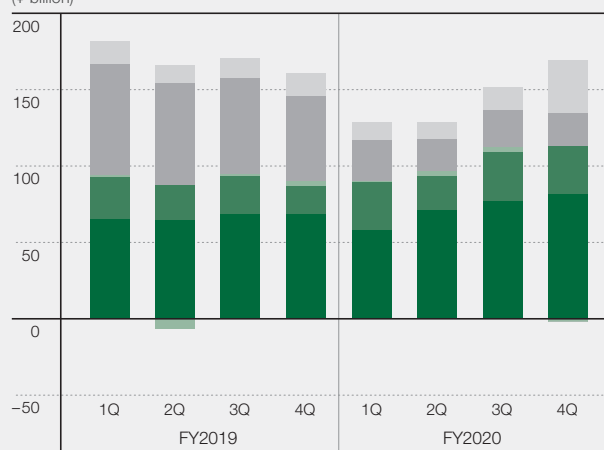
Commissions received were up by 7.6% compared with the previous fiscal year, to ¥286.8 billion. Brokerage commission increased by 38.1% year on year, to ¥78.0 billion, owing mainly to an upturn in the trading of Japanese stocks. Meanwhile, underwriting activity increased 27.8% compared with the previous fiscal year, to ¥38.0 billion, as a result of increased earnings due in part to several large-scale equity underwriting deals.

### Breakdown of Net Operating Revenues

	Millions of yen		
	FY2019	FY2020	YoY
Operating revenues	¥672,287	¥576,172	-14.3%
Commissions	266,574	286,835	7.6%
Brokerage commission	56,503	78,026	38.1%
Underwriting commission	29,818	38,098	27.8%
Distribution commission	23,254	19,211	-17.4%
Other commission	156,997	151,499	-3.5%
Net gain on trading	93,802	118,895	26.8%
Net gain/loss on private equity and other investments	14	4,808	342.4%
Interest and dividend income	258,122	93,188	-63.9%
Service fees and other revenues	53,772	72,444	34.7%
Interest expenses	209,916	54,480	-74.0%
Cost of service fees and other revenues	36,110	55,031	52.4%
Net operating revenues	¥426,259	¥466,660	9.5%

### 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 26.8% compared with the previous fiscal year, to ¥118.8 billion, due to growth in both equities and fixed income, currency and commodities (FICC).

Net trading gains and financial income, calculated on a managerial accounting basis, increased by 34.1% year on year, to ¥55.0 billion. FICC revenues increased by 15.1% compared with the previous fiscal year, to ¥99.0 billion.

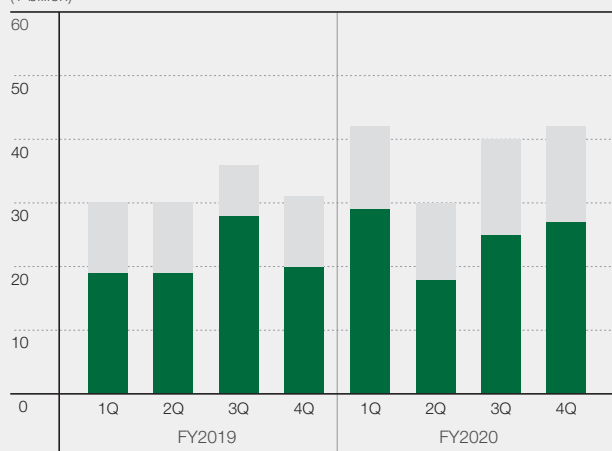
### Revenues (Trading Gain/Loss) from Equity and FICC (Net Gain (Loss) on Trading + Net Financial Income, on Managerial Accounting Basis)

	Billions of yen		
	FY2019	FY2020	YoY
Equity	¥ 41.0	¥ 55.0	34.1%
FICC	86.0	99.0	15.1%
Total	¥127.0	¥154.0	21.3%

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 up 0.5% compared with the previous fiscal year, to ¥373.8 billion. Trading-related expenses declined by 16.4% year on year, to ¥57.6 billion, due to a decrease in advertising, travel, and transportation expenses. Personnel expenses increased by 4.9% year on year, to ¥193.0 billion, owing to such factors as an increase in bonuses linked to performance. Depreciation increased 10.1% year on year, to ¥33.9 billion, due to factors including a system renewal.

Accounting for each of the aforementioned factors, ordinary income increased 63.9% year on year, to ¥115.1 billion. Extraordinary income totaled ¥51.6 billion (¥37.4 billion in the previous year) due to a gain on step acquisitions coinciding with the consolidation of Daiwa Office Investment Corporation as a subsidiary. Extraordinary loss totaled ¥22.2 billion (¥22.9 billion in the previous fiscal year) due to the recording of structural reform-related expenses to improve the earnings structure, as well as to the provision of allowances for impairment loss on fixed assets and possible investment loss. After deducting corporate income taxes and profit attributable to non-controlling interests, profit attributable to owners of parent increased by 79.6% compared with the previous fiscal year, to ¥108.3 billion.

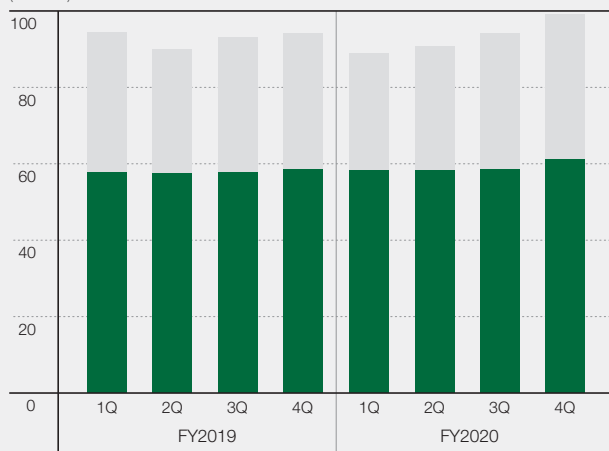
### Breakdown of SG&A and Income

	Millions of yen		
	FY2019	FY2020	YoY
SG&A	¥371,970	¥373,800	0.5%
Trading-related expenses	68,891	57,612	-16.4%
Personnel expenses	184,032	193,002	4.9%
Real estate expenses	36,647	38,441	4.9%
Office cost	25,969	24,365	-6.2%
Depreciation	30,813	33,920	10.1%
Taxes and dues	10,529	11,493	9.2%
Allowance for doubtful accounts	170	281	65.3%
Other	14,917	14,682	-1.6%
Operating income	54,288	92,859	71.0%
Non-operating income/expenses	15,994	22,316	39.5%
Ordinary income	70,283	115,175	63.9%
Extraordinary gains/losses	14,545	29,391	102.1%
Income before income taxes	84,828	144,567	70.4%
Income taxes	23,563	34,915	48.2%
Profit attributable to owners of parent	¥ 60,346	¥108,396	79.6%



## Cost Structure

(¥ billion)



■ Fixed costs ■ Variable costs

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

## Segment Information

### Retail Division

Despite a decline in sales and distribution amount by product during the first quarter due to the first state of emergency declarations issued by Tokyo and other regions around Japan in response to the impact of the COVID-19 pandemic, this amount gradually recovered following the lifting of these declarations. Meanwhile, stock trading values have remained robust since the first quarter, and both domestic and overseas stock prices increased each quarter with the rise in stock markets. In addition, several large-scale equity underwriting deals contributed to growth in equity-related revenues. Moreover, the Division experienced a higher profit ratio due to the resulting decrease in SG&A expenses in the Division from revenue restructuring initiatives.

In FY2020, net operating revenues in the Division increased by 1.8%, to ¥169.5 billion, and ordinary income increased by 213.3%, to ¥20.0 billion, compared with the previous fiscal year.

### Wholesale Division

Amid a strong market environment, Global Markets experienced significant contributions to earnings from products provided in a timely manner in cooperation with the Retail Division, trading of bonds that accurately captured changes in interest rate movements, and stock trading corresponding to changes in the market environment.

Fixed income saw particularly notable growth due to greater customer order flows for JGB and credit, as well as to the success of investment positions, during the first

quarter. Fixed income was also robust in the second quarter and beyond. As a result, in FY2020 net operating revenues increased by 33.3% compared with the previous fiscal year, to ¥161.7 billion, and ordinary income increased by 122.7% year on year, to ¥62.7 billion.

Global Investment Banking equities underwriting experienced a decline in the number of projects on the market as a whole during the first quarter due to the impact of the COVID-19 pandemic. Starting in the second quarter, however, Daiwa Securities served as the Joint Global Coordinator for several large-scale financing projects, including those involving SoftBank Corp. and Japan Airlines Co., Ltd. We also served as lead manager for many projects, including the SDGs-IPO\*<sup>1</sup> by Poppins Holding Inc. and the Social PO\*<sup>2</sup> by Gakken Holdings Co., Ltd., among others. Debt underwriting saw steady corporate demand due to the impact of the COVID-19 pandemic, and we served as lead manager for several first-in-Japan projects, such as the Social Bond\*<sup>3</sup> issuance by the University of Tokyo. Underwriting and secondary offering commissions in FY2020 totaled ¥38.0 billion, an increase of 27.8% compared with the previous year. The M&A advisory services business was affected by progress delays in projects during the first quarter due to the impact of the COVID-19 pandemic, but with growing demand for M&A among companies in response to changes in society, the project pipeline achieved a high level in Japan and overseas through the fourth quarter, while the business also saw a recovery in earnings. M&A-related fees decreased 7.6% year on year, to ¥26.6 billion. As a result, net operating revenues in the Global Investment Banking business for FY2020 increased by 6.2% compared with the previous fiscal year, to ¥54.1 billion. Ordinary income increased by 18.1% year on year, to ¥11.0 billion.

In FY2020, net operating revenues in the Wholesale Division increased by 25.3%, to ¥215.8 billion, and ordinary income increased by 96.5%, to ¥74.7 billion, compared with the previous fiscal year.

\*1 SDGs-IPO (initial public offering): The case where a company, at the time of its initial public offering, has obtained evaluation from a third-party evaluating agency of the use of funds and the issuer in terms of its contribution to the SDGs and compliance with the Social Bond Principles.

\*2 Social Public Offering: Fundraising through a public offering carried out in accordance with the Social Equity Finance Framework, which has been assessed by a third-party evaluating agency as conforming to the Social Bond Principles.

\*3 Social Bonds: Bonds issued to raise funds for a new or existing project that aims to address or mitigate a specific social issue or achieve positive social outcomes.

## Asset Management Division

The balance of assets under management of publicly offered equity investment trusts and bond investment trusts at Daiwa Asset Management increased by ¥6.0 trillion from the end of the previous fiscal year to ¥20.9 trillion, reflecting a net increase in funding and a rise in the stock market, primarily an increase in net ETF assets under management. Of this total, net ETF assets under management increased by ¥4.4 trillion over the previous fiscal year, to ¥11.8 trillion. Daiwa Asset Management operating income decreased 6.0% year on year to ¥65.9 billion, and ordinary income decreased 6.5% year on year to ¥14.6 billion.

In the real estate asset management business, we acquired new properties and replaced assets. As a result, net assets under management by Daiwa Real Estate Asset Management, and Samty Residential Investment Corporation, which was consolidated as a subsidiary in

FY2019, amounted to ¥1,212.9 billion, while the business also saw earnings growth.

As a result, in FY2020, net operating revenues in the Asset Management Division increased by 6.3% over the previous fiscal year, to ¥51.1 billion, and ordinary income increased by 23.3%, to ¥32.7 billion, compared with the previous fiscal year.

## Investment Division

Daiwa Corporate Investment exited existing investments through the listing of investees and other means. Daiwa Energy & Infrastructure recorded capital gains in addition to income gains. In FY2020, net operating revenues in the Investment Division increased by 83.9%, to ¥4.6 billion, and ordinary income amounted to ¥1.1 billion, a rebound from the ordinary loss of ¥0.8 billion recorded during the previous fiscal year.

## Segment Information

	Net Operating Revenues			Ordinary Income		
	FY2019	FY2020	YoY	FY2019	FY2020	YoY
Retail	¥166,430	¥169,505	1.8%	¥ 6,405	¥ 20,070	213.3%
Wholesale	172,289	215,860	25.3%	38,034	74,737	96.5%
Asset Management	48,091	51,145	6.3%	26,580	32,775	23.3%
Investment	2,502	4,602	83.9%	(877)	1,123	—
Others/adjustments	36,943	25,546	—	140	(13,532)	—
Consolidated total	¥426,259	¥466,660	9.5%	¥70,283	¥115,175	63.9%

Note: Assets by segment are not aggregated.

## Breakdown of Net Operating Revenues by Segment

(¥ billion)



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

## Overseas Operations

As far as results in the Group's overseas operations are concerned, ordinary income increased by 36.4% compared with the previous fiscal year, to ¥21.8 billion. This was a fifth consecutive full fiscal year of positive earnings. Overseas operations also recorded their highest ordinary income on an annual basis since disclosures began in 1999.

During FY2020, M&A business initiatives continued to focus on seeking mid-cap projects. During the previous fiscal year, 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 complemented the infrastructure-related advisory business conducted by Daiwa Corporate Advisory in Europe and strengthened the platform for infrastructure-related advisory services, including renewable energy.

In August, the China Securities Regulatory Commission granted regulatory approval related to the Group's establishment of a joint venture securities firm in China. In compliance with the related laws of China, the Group will undertake the required procedures related to establishing a joint venture securities firm and will advance preparations toward commencing operations. As the newly established entity, Daiwa Securities (China) Co., Ltd., will leverage the Group's global network and provide high-quality financial products and services to customers conducting operations in China and around the world. The new entity will thereby contribute to the development of capital markets in both countries. (A securities and futures brokerage license was received in June 2021.)

By region, in Europe ordinary income amounted to ¥3.9 billion (an ordinary loss of ¥4.2 billion was recorded in FY2019), due to an increase in revenues related to both equities and FICC, as well as growth in revenues related to M&A.

In Asia and Oceania, ordinary income increased by 79.1% compared with the previous fiscal year, to ¥4.6 billion, due to revenue growth from both equities and FICC, as well as contributions from the share of profit (loss) of SSI, an equity method affiliate.

In the Americas, ordinary income declined 25.3% compared with the previous fiscal year, to ¥13.1 billion, due to a drop in FICC revenues, which had maintained a high level during the previous fiscal year.

#### Ordinary Income from Overseas Operations, Broken Down by Region

	Millions of yen	
	FY2019	FY2020
Europe	¥ (4,253)	¥ 3,969
Asia & Oceania	2,601	4,659
Americas	17,644	13,188
Total	¥15,992	¥21,817

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 covered 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 was made to build a sales structure based on the customer's perspective.

As the final year of the Medium-Term Management Plan, FY2020 saw Performance KPIs such as ROE reach 8.5% and consolidated ordinary income amount to ¥115.1 billion, both of which came in under the targets of at least 10% and ¥200 billion, respectively. As the Financial KPI, the consolidated total capital adequacy ratio reached 21.72%, coming in well above the target of at least 18%. Despite failing to achieve the target of at least ¥80 trillion for Daiwa Securities assets under custody, the Customer-oriented KPI, the Group achieved its highest level to date at ¥75.3 trillion, due in part to tailwinds from a strong stock market.

Amid the chaotic markets triggered by the COVID-19 pandemic in FY2020, the Group achieved a certain degree of success for the year by continuing to pursue the quality of Customer-First operations and by undertaking the challenge of creating and expanding new value through the fusion of new business areas and conventional securities services. This was also a pivotal year for building the foundations for a new era in which the Group dynamically responded to customers through the promotion of DX and proceeded to establish infrastructure aimed at the realization of flexible work styles in the era of the new normal. In terms of promoting SDGs initiatives incorporated into the foundation of the Group's business strategy, the Group made further enhancements to internal systems in the wake of growing interest in sustainable finance triggered by the COVID-19 pandemic. The Group has also made steady progress in this area by accumulating experience in underwriting Green Bonds, Social Bonds, and other SDG bonds.

#### Analysis of Consolidated Balance Sheets and Cash Flow Statements

##### Assets

Total assets as of the end of FY2020 stood at ¥26,099.3 billion, an increase of ¥2,277.2 billion, or 9.6%, compared with the end of the previous fiscal year. Current assets increased by ¥1,799.6 billion, or 7.9%, year on year, to ¥24,646.3 billion. While cash and cash deposits increased by ¥798.6 billion, or 20.1%, to ¥4,763.1 billion, trading assets decreased by ¥193.1 billion, or 2.4%, to ¥7,834.0 billion; loans receivable from customers increased by ¥227.6 billion, or 12.9%, to ¥1,996.1 billion; and collateralized short-term financing agreements increased ¥762.5 billion, or 11.4%, to ¥7,448.3 billion, compared with the end of the previous fiscal year. Meanwhile, the balance of fixed assets increased by ¥477.5 billion, or 49.0%, year on year, to ¥1,453.0 billion.

## Liabilities and Net Assets

Total liabilities as of the end of FY2020 stood at ¥24,507.4 billion, an increase of ¥1,943.1 billion, or 8.6%, compared with the end of the previous fiscal year. Current liabilities increased by ¥1,300.6 billion, or 6.5%, compared with the end of the previous fiscal year, to ¥21,219.3 billion. Breaking down current liabilities by category, trading liabilities decreased by ¥994.4 billion, or 18.5% year on year, to ¥4,367.8 billion; trade account payables, net increased ¥775.5 billion, or 142.4% year on year, to ¥1,320.2 billion; collateralized short-term financing agreements increased ¥977.3 billion, or 13.6% year on year, to ¥8,176.0 billion; and deposits for banking business increased ¥378.8 billion, or 9.4% year on year, to ¥4,416.0 billion, all compared with the end of the previous fiscal year. Long-term liabilities stood at ¥3,284.4 billion, up ¥642.7 billion, or 24.3% year on year. Specifically, bonds increased by ¥178.1 billion, or 12.9%, compared with the end of the previous fiscal year, to ¥1,557.3 billion, and long-term debt increased by ¥403.6 billion, or 34.1% year on year, to ¥1,586.9 billion.

Net assets as of the end of FY2020 stood at ¥1,591.8 billion, climbing ¥334.0 billion, or 26.6%, compared with the end of the previous fiscal year. The sum of common stock issued and capital surplus came to ¥478.0 billion. After adding profit attributable to owners of parent in FY2020 of ¥108.3 billion, and accounting for such factors as the payment of cash dividends applicable to the year of ¥30.4 billion, retained earnings amounted to ¥911.7 billion, an increase of ¥77.2 billion, or 9.3% year on year. For the fiscal year under review, the amount of treasury stock at cost deduction was ¥107.6 billion, a decrease of ¥2.7 billion, or 2.5%, compared with the end of the previous fiscal year. Valuation difference on available-for-sale securities increased by ¥14.7 billion, or 54.9% year on year, to ¥41.5 billion, and foreign currency translation adjustment increased by ¥18.4 billion compared with the end of the previous fiscal year, to ¥12.8 billion. Non-controlling interests increased 6.4 times year on year, to ¥249.1 billion.

## Analysis of Cash Flows

In FY2020, net cash flows from operating activities totaled ¥390.9 billion, compared with ¥167.1 billion in the previous fiscal year. This mainly reflected changes in collateralized short-term financing agreements, deposits for banking business, trading assets and liabilities, and short-term guarantee deposits. Net cash flows used in investing activities totaled ¥91.6 billion, compared with ¥215.3 billion used in FY2019, mainly due to purchase of securities and purchase of investment securities. Net cash flows provided by financing activities totaled ¥438.0 billion, compared with

¥135.7 billion used in FY2019, mainly due to a net change in short-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 FY2020 stood at ¥4,723.5 billion, an increase of ¥790.3 billion compared with the end of the previous fiscal year.

## Liquidity

### Liquidity Management

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 161.2%, 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, 2021 to March 31, 2021)		
High-Quality Liquid Assets	(A)	¥2,760.8
Cash Outflows	(B)	3,538.5
Cash Inflows	(C)	1,826.1
Consolidated Liquidity Coverage Ratio (LCR)		
Total High-Quality Liquid Assets	(D)	2,760.8
Total Net Cash Outflows	(E)	¥1,712.4
Consolidated Liquidity Coverage Ratio (LCR)	(D)/(E)	161.2%

### 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, 2021, 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
Fitch Ratings	A-	F1
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, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2021	2020	2021
<b>Cash and cash deposits:</b>			
Cash and cash equivalents (Notes 8 and 12)	¥ 4,723,526	¥ 3,933,150	\$ 42,941,145
Cash segregated as deposits for regulatory purposes (Note 8)	485,877	415,953	4,417,064
Time deposits (Notes 8, 12 and 13)	39,672	31,363	360,654
	5,249,075	4,380,466	47,718,863
<b>Receivables:</b>			
Loans receivable from customers (Notes 8 and 12)	1,996,121	1,768,471	18,146,555
Loans receivable from other than customers	6,909	9,003	62,809
Receivables related to margin transactions (Notes 6 and 8)	162,078	114,384	1,473,436
Other (Note 27)	623,394	735,292	5,667,218
Less: Allowance for doubtful accounts (Note 8)	(4,402)	(416)	(40,018)
	2,784,100	2,626,734	25,310,000
<b>Collateralized short-term financing agreements</b> (Notes 7, 8 and 27)	7,448,322	6,685,756	67,712,018
<b>Trading assets</b> (Notes 8, 9 and 12)	7,834,094	8,027,290	71,219,036
<b>Securities</b> (Notes 8, 10 and 12)	996,684	873,064	9,060,764
<b>Private equity investments</b>			
Private equity and other investments (Notes 8 and 10)	97,092	202,558	882,655
Less: Allowance for possible investment losses (Note 8)	(588)	(1,161)	(5,345)
	96,504	201,397	877,310
<b>Other assets:</b>			
Property and equipment, at cost	1,043,779	435,815	9,488,900
Less: Accumulated depreciation	(163,301)	(126,648)	(1,484,555)
	880,478	309,167	8,004,345
Goodwill	21,230	13,629	193,000
Other intangible fixed assets	107,557	110,487	977,791
Investment securities (Notes 8, 10 and 12)	402,590	491,660	3,659,909
Deferred tax assets (Note 18)	11,397	17,125	103,609
Other	271,957	85,766	2,472,336
Less: Allowance for doubtful accounts	(1,037)	(441)	(9,427)
Less: Allowance for possible investment losses (Note 8)	(3,620)	—	(32,909)
	1,690,552	1,027,393	15,368,654
	¥26,099,331	¥23,822,100	\$237,266,645

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
<b>LIABILITIES AND NET ASSETS</b>			
<b>Debt:</b>			
Short-term borrowings (Notes 8, 12, 13 and 16)	¥ 1,333,340	¥ 990,869	\$ 12,121,273
Commercial paper (Note 8)	265,000	178,000	2,409,091
Long-term debt (Notes 8, 12, 13 and 16)	3,440,546	3,146,286	31,277,691
	5,038,886	4,315,155	45,808,055
<b>Payables:</b>			
Payables to customers and counterparties (Notes 8 and 15)	760,693	789,269	6,915,391
Payables related to margin transactions (Notes 6, 8 and 12)	64,022	59,256	582,018
Deposits for banking business (Note 8)	4,416,097	4,037,201	40,146,336
Other (Note 8)	66,551	44,415	605,009
	5,307,363	4,930,141	48,248,754
<b>Collateralized short-term financing agreements</b> (Notes 7, 8 and 27)	8,176,095	7,198,731	74,328,136
<b>Trading liabilities</b> (Notes 8 and 9)	4,367,822	5,362,261	39,707,473
<b>Trade account payables, net</b> (Note 8)	1,320,280	544,690	12,002,545
<b>Accrued and other liabilities:</b>			
Income taxes payable	17,963	7,404	163,300
Deferred tax liabilities (Note 18)	43,176	4,369	392,509
Accrued bonuses	36,316	26,748	330,145
Retirement benefits (Note 17)	45,387	45,037	412,609
Other (Note 27)	150,502	125,879	1,368,200
	293,344	209,437	2,666,763
<b>Statutory reserves</b> (Note 19)	3,700	3,919	33,636
Total liabilities	24,507,490	22,564,334	222,795,362
<b>Contingent liabilities</b> (Note 20)			
<b>Net assets</b>			
Owners' equity (Note 21)			
Common stock, no par value;			
Authorized—4,000,000 thousand shares			
Issued—1,699,379 thousand shares	247,397	247,397	2,249,064
Capital surplus	230,651	230,809	2,096,827
Retained earnings	911,742	834,443	8,288,564
Treasury stock at cost	(107,646)	(110,351)	(978,600)
Deposit for subscriptions to treasury stock	10	13	91
	1,282,154	1,202,311	11,655,946
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	41,588	26,853	378,073
Deferred gains or losses on hedges	(3,058)	(13,593)	(27,800)
Translation adjustment	12,886	(5,556)	117,145
	51,416	7,704	467,418
Stock subscription rights (Note 22)	9,125	8,902	82,955
Non-controlling interests	249,146	38,849	2,264,964
Total net assets	1,591,841	1,257,766	14,471,283
	¥26,099,331	¥23,822,100	\$237,266,645

See accompanying notes.

## Consolidated Statements of Income

DAIWA SECURITIES GROUP INC.

Years ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
<b>Operating revenues:</b>			
Commissions	¥286,836	¥266,574	\$2,607,600
Net gain on trading (Note 29)	118,895	93,803	1,080,864
Net gain on private equity and other investments	4,808	15	43,709
Interest and dividend income (Note 27)	93,188	258,123	847,164
Service fees and other revenues	72,445	53,773	658,591
	576,172	672,288	5,237,928
<b>Interest expense</b> (Note 27)	54,480	209,917	495,273
<b>Cost of service fees and other revenues</b>	55,032	36,111	500,291
<b>Net operating revenues</b>	466,660	426,260	4,242,364
<b>Selling, general and administrative expenses</b> (Notes 17 and 30)	373,801	371,971	3,398,191
<b>Operating income</b>	92,859	54,289	844,173
<b>Other income (expenses):</b>			
Provision for statutory reserves, net (Note 19)	219	20	1,991
Other, net (Note 31)	51,488	30,520	468,073
	51,707	30,540	470,064
<b>Income before income taxes</b>	144,566	84,829	1,314,237
<b>Income taxes</b> (Note 18):			
Current	35,589	26,089	323,536
Deferred	(674)	(2,525)	(6,127)
	34,915	23,564	317,409
<b>Profit</b>	109,651	61,265	996,828
<b>Profit attributable to non-controlling interests</b>	1,255	918	11,409
<b>Profit attributable to owners of parent</b>	¥108,396	¥ 60,347	\$ 985,419
	Yen		U.S. dollars (Note 1)
<b>Per share amounts:</b>			
Net income	¥71.20	¥39.11	\$0.65
Diluted net income	70.90	38.92	0.64
Cash dividends applicable to the year	36.00	20.00	0.33

See accompanying notes.

# Consolidated Statements of Comprehensive Income

DAIWA SECURITIES GROUP INC.

Years ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
<b>Profit</b>	<b>¥109,651</b>	¥ 61,265	<b>\$ 996,828</b>
<b>Other comprehensive income:</b>			
Valuation difference on available-for-sale securities	14,971	(20,629)	136,100
Deferred gains (losses) on hedges	10,345	(7,934)	94,045
Translation adjustment	17,595	(11,703)	159,955
Share of other comprehensive income of associates accounted for using equity method	908	(30)	8,254
Total other comprehensive income	43,819	(40,296)	398,354
<b>Comprehensive income</b>	<b>¥153,470</b>	¥ 20,969	<b>\$1,395,182</b>
	Millions of yen		Thousands of U.S. dollars (Note 1)
Comprehensive income attributable to:			
Comprehensive income attributable to owners of the parent	¥152,107	¥20,050	\$1,382,791
Comprehensive income attributable to non-controlling interests	1,363	919	12,391

See accompanying notes.

# Consolidated Statements of Changes in Net Assets

DAIWA SECURITIES GROUP INC.

Years ended March 31, 2021 and 2020

Millions of yen

	Number of shares of common stock (thousands)	Owners' equity					Accumulated other comprehensive income				
		Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Deposit for subscriptions to treasury stock	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Translation adjustment	Stock subscription rights	Non-controlling interests
<b>Balance at March 31, 2019</b>	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
<b>Balance at March 31, 2020</b>	1,699,379	247,397	230,809	834,443	(110,351)	13	26,853	(13,593)	(5,556)	8,902	38,849
Cash dividends paid				(30,430)							
Profit attributable to owners of parent				108,396							
Purchase of treasury shares					(9)						
Disposal of treasury shares				(667)	2,714						
Retirement of treasury shares											
Change of scope of consolidation											
Other			(158)			(3)					
Net changes of items other than owners' equity							14,735	10,535	18,442	223	210,297
<b>Balance at March 31, 2021</b>	1,699,379	¥247,397	¥230,651	¥911,742	¥(107,646)	¥10	¥ 41,588	¥ (3,058)	¥ 12,886	¥9,125	¥249,146

Thousands of U.S. dollars (Note 1)

	Owners' equity					Accumulated other comprehensive income				
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Deposit for subscriptions to treasury stock	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Translation adjustment	Stock subscription rights	Non-controlling interests
<b>Balance at April 1, 2020</b>	\$2,249,064	\$2,098,264	\$7,585,845	\$(1,003,191)	\$118	\$244,118	\$(123,573)	\$(50,509)	\$80,927	\$ 353,173
Cash dividends paid			(276,635)							
Profit attributable to owners of parent			985,418							
Purchase of treasury shares				(82)						
Disposal of treasury shares			(6,064)	24,673						
Retirement of treasury shares										
Change of scope of consolidation										
Other		(1,437)			(27)					
Net changes of items other than owners' equity						133,955	95,773	167,654	2,028	1,911,791
<b>Balance at March 31, 2021</b>	\$2,249,064	\$2,096,827	\$8,288,564	\$(978,600)	\$ 91	\$378,073	\$(27,800)	\$117,145	\$82,955	\$2,264,964

See accompanying notes.



# Consolidated Statements of Cash Flows

DAIWA SECURITIES GROUP INC.

Years ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
<b>Cash flows from operating activities:</b>			
Profit	¥ 109,651	¥ 61,265	\$ 996,828
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	42,337	38,507	384,882
Allowance for doubtful accounts, net	8,074	34	73,400
Statutory reserves, net	(219)	(20)	(1,991)
Losses (gains) related to fixed assets	10,724	(6,856)	97,491
Losses (gains) related to investment securities	(2,273)	(4,328)	(20,664)
Losses (gains) on step acquisitions	(46,963)	(4,642)	(426,936)
Losses (gains) on change in equity	(180)	(11,414)	(1,636)
Deferred income taxes	(674)	(2,525)	(6,127)
Structural reform cost	4,319	12,500	39,264
Changes in operating assets and liabilities:			
Receivables and payables related to margin transactions	(42,929)	49,925	(390,264)
Other receivables and other payables	103,290	(71,814)	939,000
Collateralized short-term financing agreements	219,893	534,755	1,999,027
Trading assets and liabilities	(41,578)	(440,089)	(377,982)
Private equity and other investments	(8,691)	(101,486)	(79,009)
Deposits for banking business	378,896	404,626	3,444,509
Other, net	(342,699)	(291,248)	(3,115,447)
Total adjustments	281,327	105,925	2,557,517
Net cash flows provided by (used in) operating activities	390,978	167,190	3,554,345
<b>Cash flows from investing activities:</b>			
Increase in time deposits	(64,699)	(44,579)	(588,173)
Decrease in time deposits	58,018	43,883	527,436
Purchase of securities	(623,456)	(517,971)	(5,667,782)
Proceeds from sales and redemption of securities	570,283	489,804	5,184,391
Payments for purchases of property and equipment	(29,329)	(21,800)	(266,627)
Proceeds from sales of property and equipment	4,665	13,173	42,409
Payments for purchases of intangible fixed assets	(29,272)	(36,174)	(266,109)
Payments for purchases of investment securities	(82,600)	(182,633)	(750,909)
Proceeds from sales and redemption of investment securities	105,641	35,489	960,373
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	—	7,367	—
Payments of loans receivable	(595)	(438)	(5,409)
Collection of loans receivable	76	34	691
Other, net	(374)	(1,553)	(3,400)
Net cash flows provided by (used in) investing activities	(91,642)	(215,398)	(833,109)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
<b>Cash flows from financing activities:</b>			
Increase in short-term borrowings and commercial paper	419,571	51,079	3,814,282
Increase in long-term debt	967,675	568,825	8,797,045
Decrease in long-term debt	(922,262)	(697,970)	(8,384,200)
Payments of cash dividends	(30,429)	(31,164)	(276,627)
Proceeds from share issuance to non-controlling shareholders on establishment of consolidated subsidiaries	7,781	—	70,736
Other, net	(4,268)	(26,564)	(38,800)
Net cash flows provided by (used in) financing activities	438,068	(135,794)	3,982,436
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>6,797</b>	<b>(4,950)</b>	<b>61,791</b>
<b>Net increase or decrease in cash and cash equivalents</b>	<b>744,201</b>	<b>(188,952)</b>	<b>6,765,463</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>3,933,150</b>	<b>4,122,102</b>	<b>35,755,909</b>
<b>Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation</b>	<b>25,968</b>	<b>—</b>	<b>236,073</b>
<b>Increase (Decrease) in cash and cash equivalents resulting in change in scope of consolidation</b>	<b>20,207</b>	<b>—</b>	<b>183,700</b>
<b>Cash and cash equivalents at end of year</b>	<b>¥4,723,526</b>	<b>¥3,933,150</b>	<b>\$42,941,145</b>

See accompanying notes.

# Notes to Consolidated Financial Statements

DAIWA SECURITIES GROUP INC.  
Years ended March 31, 2021 and 2020

## 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 177 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, 2021, which was ¥110 to U.S.\$1. The convenience translations should not be construed as representations that the yen amounts have been, could have been, or could be, converted into U.S. dollars at this or any other rate of exchange.

## 2. Significant accounting policies

**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 inhabitants' 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 26, 2021)

##### (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 not significant as of the filing date of the securities report.

### 3. Change in presentation method

The Company adopted ASBJ Statement No. 31 “Accounting Standard for Disclosure of Accounting Estimates” (March 31, 2020) to the financial statements for the current fiscal year end, and notes regarding significant accounting estimates are disclosed in the financial statements.

### 4. Change in accounting policy

“Accounting Standard for Calculation of Fair Value Measurement” (Corporate Accounting Standard No. 30, July 4, 2019, hereinafter referred to as the “Accounting Standard for Fair Value Measurement”) has been applied from the beginning of the current fiscal year, and in accordance with the transitional treatment stipulated in Paragraph 19 of the Accounting Standard for Fair Value Measurement, and Paragraph 44-2 of the “Accounting Standard for Financial

However, in such notes, the comparative information relating to the prior fiscal year end are not disclosed in accordance with the transitional provision set forth in paragraph 11 of the Accounting Standard.

Instruments” (Corporate Accounting Standard No. 10, July 4, 2019), the new accounting policy stipulated by the Accounting Standard for Fair Value Measurement, etc., is applied for the future. This change has no impact on the financial statements.

In addition, in Note 8 “Financial instruments,” the Company has not included the information related to the breakdown of financial instruments by fair value level, etc. relating to the prior fiscal year in such notes.

### 5. Significant accounting estimates

Items for which amounts were booked in the financial statements for the current fiscal year based on accounting estimates and which may have a significant impact on the financial statements for the following fiscal year are as follows:

#### (1) Valuation of Level 3 Derivative Transactions classified as trading products

##### (i) (a) Amount recorded in the financial statements for the current fiscal year

Of the derivative transactions classified as trading products, assets and liabilities reported as Level 3 are ¥47 billion (\$427 million) and ¥19.8 billion (\$180 million), respectively. The fair value is calculated using inputs that are not readily observable in the market, and therefore there is an estimation of uncertainty involved.

##### (ii) Information that contributes to an understanding of the nature of significant accounting estimates for the identified items

The fair value of derivative transactions classified as trading products is estimated using the expected cash flow discount model under a risk-neutral scenario.

The key assumption underlying the accounting

estimates to calculate fair value are the inputs used within the pricing model. The pricing model uses a variety of inputs such as interest rates, foreign exchange rates, stock prices, volatility, correlation coefficients, etc. In particular, to calculate the fair value of Level 3 derivatives, the Company uses inputs that are not readily observable in the market, such as long-term swap rates, long-term currency basis, long-term stock price volatility, long-term credit spreads and correlation coefficients.

These details are described in Note 8, (4) Supplemental explanation for fair value, etc., of financial instruments, “Concerning the fair value and the breakdown of each level for financial instruments.,” Note 1.

Changes in key assumptions due to changes in the market environment and other factors may have a significant impact on the valuation of trading products. The impact of changes in key observable inputs on fair value is described in Note 8, (4) Supplemental explanation for fair value, etc., of financial instruments, “Concerning the fair value and the breakdown of each level for financial instruments.,” Note 2.

#### (2) Evaluation of private equity and other investments and loans receivable from customers (investment division)

##### (i) Amounts recorded in the consolidated financial statements for the current consolidated fiscal year

	Millions of yen
Private equity and other investments	¥ 97,092
Allowance for possible investment loss	(588)
Loans receivable from customers (investment division)	68,279
Allowance for doubtful accounts (investment division)	(3,987)
Total	¥160,796

Daiwa PI Partners Co. Ltd. and Daiwa Energy & Infrastructure Co., Ltd., which are consolidated subsidiaries belonging to the investment division of the Group, make investments and loans mainly through securities that do not belong to trading products and loans receivables from customers such as private equity, real estate, energy and infrastructure, etc. The investment division has recorded the balances listed in the above table as of March 31, 2021.

(ii) Information that contributes to understanding the nature of significant accounting estimates for identified items. The valuation of assets, which is calculated using the present value of estimated future cash flows based on the latest business environment and business plans reflecting such environment, multiples observed in transactions with similar companies, and other factors, includes estimation uncertainty. Based on such valuation, impairment losses, allowance for investment loss and allowance for doubtful accounts are recognized. In the fiscal year ended March 31, 2021, Daiwa recorded losses of ¥1.8 billion on Myanmar-related investments, ¥0.9 billion on aircraft-related investments, and ¥12.4 billion on unprofitable domestic and overseas fund investments.

When using the estimated future cash flows in valuing of an asset, estimates are made using assumptions that management considers appropriate, taking into consideration the business performance of the investee,

the trends of the industry to which the investee belongs, and the impact of the spread of the novel coronavirus infection. The main assumptions used as a basis for future cash flow estimates in the valuation of certain investments are as follows:

- Aircraft-related investments: The outlook for the aviation industry to recover from the effects of the spread of the novel coronavirus infection
- Energy-related investments: Trends in imported fuel prices and prospects for promoting renewable energy in Japan

In making accounting estimates, Daiwa assumes that the effects of the spread of the novel coronavirus infection will continue until the end of FY2022, after which it will gradually come to an end. Aircraft-related investments, which are relatively more affected by the spread of the novel coronavirus infection, are reassessed in light of the possible prolonged impact of the novel coronavirus infection.

Due to the uncertainty associated with the estimates and assumptions used in the valuation of these assets, if the accounting estimates for the valuation fluctuate due to unpredictable changes of assumptions in the future, etc., additional losses or reversals of allowances may be recognized in the consolidated financial statements of the subsequent fiscal year.

## 6. Margin transactions

Margin transactions at March 31, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
<b>Assets:</b>			
Loans on margin transactions	¥152,077	¥105,204	\$1,382,518
Cash collateral pledged for securities borrowing on margin transactions	10,001	9,180	90,918
	¥162,078	¥114,384	\$1,473,436
<b>Liabilities:</b>			
Borrowings on margin transactions	¥ 4,139	¥ 3,995	\$ 37,627
Cash received for securities lending on margin transactions	59,883	55,261	544,391
	¥ 64,022	¥ 59,256	\$ 582,018

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.

## 7. Collateralized short-term financing agreements

Collateralized short-term financing agreements at March 31, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
<b>Assets:</b>			
Securities purchased under agreements to resell	¥2,393,871	¥1,872,395	\$21,762,464
Securities borrowed	5,054,451	4,813,361	45,949,554
	¥7,448,322	¥6,685,756	\$67,712,018
<b>Liabilities:</b>			
Securities sold under agreements to repurchase	¥3,476,447	¥2,359,635	\$31,604,064
Securities loaned	4,699,647	4,839,096	42,724,063
	¥8,176,094	¥7,198,731	\$74,328,127

## 8. Financial instruments

### Concerning the situation of financial instruments

#### (1) Policy for dealing with financial instruments

Daiwa is engaged in securities-related business or investment and loan businesses. Specifically, Daiwa 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 (over-the-counter (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 risk 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 addition to these, there is the related risk of model risk. Model risk means the risk of suffering losses due to errors in models development or implementation, or due to misuse of the models.

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

In conducting risk management of the entire group in accordance with the Risk Appetite Framework, the Company adopted the "Risk Management Rule" at the Board of Directors meeting, which states the basic policy of risk management, types of risks to be managed and responsible executive officers and departments for each major risk. Furthermore, in order to build an effective risk governance system, the Company developed a risk management framework through the establishment of guidelines regarding "the Three Lines of Defense."

In accordance with the basic policy of risk management, each subsidiary manages risks suitable for its business profile and size, and the Company monitors the system and process of the subsidiaries' risk management. Further, the Group Risk Management Committee, a sub-committee of the Company's Executive Committee, discusses matters such as risk exposure and issues concerning the risk management system of each subsidiary brought to light by the monitoring of the subsidiaries. Major subsidiaries also hold risk management committee meetings, etc., on a regular basis to 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, 2021 (fiscal year-end) was ¥1.2 billion (\$10.9 million) in total.

In the meantime, Daiwa verifies the models 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.

While providing products, managing assets, and making investments, Daiwa is at risk of having exposures to a various instruments and transactions concentrated in a specific counterparty group. In the event the counterparty's credit situation deteriorates, Daiwa may incur significant losses. Therefore, Daiwa has established the upper limits on total exposure to a single counterparty group and periodically monitors such limits.

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.

(c) Management of model risk

Market value models for trading products, under the risk management system model framework, are used after the models have been validated and approved through a process of verification and approval. In addition, in order to prevent unforeseen model risks arising from changes in market conditions, the models are periodically reviewed by the Company to ensure that they are in line with market trends.

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

In addition to trading business, Daiwa holds financial instruments such as operational investment securities in the investment business, loans, securities, etc., in the banking business and investment securities for business relationships. These financial instruments are also subject to market risk and credit risk, but as those financial instruments have a characteristic risk profile for each product, the Company has conducted risk management that suits each risk profile.

For subsidiaries engaged in the investment business, the investment committee and other committees carefully examine investment proposals before deciding whether to invest. After investments are made, the subsidiaries regularly monitor and report status in invested companies to the risk management committee, etc.

The subsidiary offering banking business identifies risks to be managed and establishes management policies and systems for each risk. Furthermore, the ALM committee (which discusses important matters relating to the management and control of credit risk, market risk and liquidity risk, etc.), a body under the Board of Directors, has been established as a consultative and decision-making body for risk management. The subsidiary controls risks by conducting its business within the various limits set by the Board of Directors, the ALM committee, etc.

In connection with investment securities held for business relationships, etc., Daiwa's decisions to acquire or sell securities are in accordance with the policies set forth in relevant company's rules. In addition, Daiwa regularly monitors and reports the status of risks 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 affected by market risk are "operational investment securities" held in the investment business and "investment securities" for business relationships. As of March 31, 2021, if the index, such as the Tokyo Stock Price Index (TOPIX), were to fluctuate by 10%, the market value of the listed equities in "operational investment securities" and "investment securities" would change by ¥12.4 billion (\$112.7 million).

In addition, the main financial liabilities that are affected by market risk are "bonds and notes" and "long-term borrowings." As of March 31, 2021, if all other risk variables were assumed to be constant and that interest rates fluctuate by 10 basis points (0.1%), the market value of "bonds and notes" and "long-term borrowings" would change by ¥2.0 billion (\$18.1 million) and ¥0.2 billion (\$1.8 million), respectively.

(b) Financial assets and liabilities held by the subsidiary offering banking business

The subsidiary offering banking business utilizes VaR to manage market risk (i.e., risk that the value of assets and liabilities (including off-balance sheet items) will fluctuate and losses will be incurred due to changes in various market risk factors such as interest rates, foreign exchange rates, and stock prices, and the risk that income generated from assets and liabilities will fluctuate and losses will be incurred).

When measuring VaR, Daiwa utilizes the historical simulation method (holding period: 20 days, confidence interval: 99%, observation period: 750 business days) and converted to a holding period of 125 days. The amount recorded as of March 31, 2021 is ¥6.3 billion (\$57.3 million).

The subsidiary periodically conducts back-testing by comparing the VaR calculated by the risk measurement model with the hypothetical profits and losses to verify the effectiveness of the model. As a result of back-testing conducted in the fiscal year ended March 31, 2021, Daiwa believes that the risk measurement models utilized by the subsidiary properly capture market risk. However, as VaR statistically estimates risk based on historical market fluctuation, it may not be able to fully capture risk in an environment in which the market unexpectedly changes beyond normal conditions.

In order to compensate the limitation of management utilizing VaR, Daiwa conducts loss measurement (stress testing) utilizing various scenarios.

## (iii) Management of liquidity

As Daiwa conducts the securities-related business and the investment and loan 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 its contingency funding plan 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.

**Matters concerning the fair value and fair value hierarchy by level of financial instruments**

The tables below show the balance sheet amounts, fair value breakdown by level and their differences as of the fiscal year end. Investment trusts to which transitional measures have been applied in accordance with Article 26 of "Implementation Guidance on Accounting Standards for Fair Value Measurement" (ASBJ Guidance No.31) (hereinafter referred to as "Fair Value Measurement Implementation Guidance"), stocks without market prices, etc., and partnership investments to which transitional measures have been applied in accordance with Article 27 of the Fair Value Measurement Implementation Guidance, are not included in the table (as described in (1)<sup>3</sup> and (Note 3) and (Note 4)).

The fair value of financial instruments is classified into the following three levels according to the observability and significance of the inputs used to measure the fair value.

Level 1:	Quoted prices in an active market for identical assets or liabilities
Level 2:	Observable inputs other than quoted prices
Level 3:	Unobservable inputs

In cases where multiple inputs are used that have a significant impact on fair value, the fair value level is classified into the lowest priority level amongst the inputs used in the fair value measurement.

#### (1) Financial instruments booked at fair value on the balance sheet

Millions of yen			
2020			
	Amounts on consolidated balance sheets	Fair value	Difference
<b>Assets</b>			
(1) Trading assets	¥8,027,290	¥8,027,290	¥—
(2) Securities, private equity and other investments and investment securities			
(a) Available-for-sale securities	910,396	910,396	—
Total assets	¥8,937,686	¥8,937,686	¥—
<b>Liabilities</b>			
(1) Trading liabilities	¥5,362,261	¥5,362,261	¥—
Total liabilities	¥5,362,261	¥5,362,261	¥—
Derivatives used for non-trading			
Derivatives to which hedge accounting is not applied	¥ (4,074)	¥ (4,074)	¥—
Derivatives to which hedge accounting is applied	(22,097)	(22,097)	—
Total derivatives related to non-trading	¥ (26,171)	¥ (26,171)	¥—

\* 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.

Millions of yen

2021

Fair Value

Total

**Assets**

	Level 1	Level 2	Level 3	Total
(1) Trading assets				
[1] Trading securities and other				
Equities	¥ 97,711	¥ 762	¥ 84	¥ 98,557
Government bonds, corporate bonds, etc.	1,535,114	261,693	—	1,796,807
General business bonds	5,978	320,059	1,306	327,343
Foreign bonds	1,027,328	308,727	6,151	1,342,206
Other	—	1,592,557	1,261	1,593,818
[2] Derivative transactions				
Equity	21,851	157,971	28,822	208,644
Interest rate	948	1,712,458	9,229	1,722,635
Currency	3	503,484	4,119	507,606
Credit / other	—	16,187	4,830	21,017
(2) Securities, private equity and other investments and investment securities				
Available-for-sale securities				
Equities	129,075	—	—	129,075
Government bonds, corporate bonds, etc.	204,272	11,929	—	216,201
General business bonds	—	181,839	18,860	200,699
Foreign bonds	100,269	230,094	12,216	342,579
Total assets	¥3,122,549	¥5,297,760	¥86,878	¥8,507,187

**Liabilities**

(1) Trading liabilities				
[1] Trading securities and other				
Equities	¥ 204,606	¥ 2,076	¥ —	¥ 206,682
Government bonds, corporate bonds, etc.	971,349	—	—	971,349
Foreign bonds	769,609	23,484	—	793,093
Other	—	61,835	—	61,835
[2] Derivative transactions				
Equity	57,998	153,191	8,808	219,997
Interest rate	118	1,637,156	6,033	1,643,307
Currency	18	440,052	250	440,320
Credit / other	—	26,436	4,793	31,229
Total liabilities	¥2,003,698	¥2,344,230	¥19,884	¥4,367,812

Derivatives other than trading transactions<sup>1, 2</sup>

Currency	¥ —	¥ (2,122)	¥ —	¥ (2,122)
Total Derivatives other than trading transactions	¥ —	¥ (2,122)	¥ —	¥ (2,122)

Thousands of U.S. dollars

2021

Fair Value

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
(1) Trading products				
[1] Trading securities and other				
Equities	\$ 888,282	\$ 6,927	\$ 764	\$ 895,973
Government bonds, corporate bonds, etc.	13,955,582	2,379,027	—	16,334,609
General business bonds	54,345	2,909,627	11,873	2,975,845
Foreign bonds	9,339,346	2,806,609	55,918	12,201,873
Other	—	14,477,791	11,464	14,489,255
[2] Derivative transactions				
Equity	198,646	1,436,100	262,018	1,896,764
Interest rate	8,618	15,567,800	83,900	15,660,318
Currency	27	4,577,128	37,445	4,614,600
Credit / other	—	147,155	43,909	191,064
(2) Securities, private equity and other investments and investment securities				
Available-for-sale securities				
Equities	1,173,409	—	—	1,173,409
Government bonds, corporate bonds, etc.	1,857,018	108,445	—	1,965,463
General business bonds	—	1,653,082	171,454	1,824,536
Foreign bonds	911,536	2,091,764	111,055	3,114,355
Total assets	\$28,386,809	\$48,161,455	\$789,800	\$77,338,064

**Liabilities**

(1) Trading products				
[1] Trading securities and other				
Equities	\$ 1,860,054	\$ 18,873	\$ —	\$ 1,878,927
Government bonds, corporate bonds, etc.	8,830,445	—	—	8,830,445
Foreign bonds	6,996,445	213,491	—	7,209,936
Other	—	562,136	—	562,136
[2] Derivative transactions				
Equity	527,255	1,392,645	80,073	1,999,973
Interest rate	1,073	14,883,237	54,845	14,939,155
Currency	164	4,000,473	2,273	4,002,910
Credit / other	—	240,327	43,573	283,900
Total liabilities	\$18,215,436	\$21,311,182	\$180,764	\$39,707,382

Derivatives other than trading transactions<sup>1, 2</sup>

Currency	\$ —	\$ (19,291)	\$ —	\$ (19,291)
Total Derivatives other than trading transactions	\$ —	\$ (19,291)	\$ —	\$ (19,291)

1 Of the derivative transactions, the amount booked on the consolidated balance sheet to which hedge accounting is applied is (10,590) million yen.

2 Investment trusts to which the transitional measures have been applied in accordance with Article 5, Paragraph 6 of the Supplementary Provisions of "Cabinet Office Ordinance to Partially Amend Regulations on Terms, Forms and Preparation Methods of Financial Statements, etc." (Cabinet Office Ordinance No. 9 of March 6, 2020), are not included in the table above. The amount of such investment trusts in the consolidated balance sheet are 215,460 million yen in assets and 10 million yen in liabilities in "Trading securities and other," and 125,934 million yen in assets in "Other securities."

3 The Company and some consolidated subsidiaries utilize derivative transactions such as interest rate swaps and currency swaps in order to hedge interest rate fluctuation risk and foreign exchange rate fluctuation risk associated with certain securities, borrowings and issued corporate bonds, etc., and primarily apply the deferred hedge accounting. Daiwa also applies "Practical Solution on the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR" (PITF No. 40, September 29, 2020).



## (2) Financial instruments other than those booked on the balance sheet at fair value

Millions of yen			
2020			
	Amounts on consolidated balance sheets	Fair value	Difference
<b>Assets</b>			
(1) Loans receivable from customers	¥1,768,471		
Allowance for doubtful accounts	(108)		
	1,768,363	¥1,747,321	¥(21,042)
(2) Securities, private equity and other investments and investment securities			
(a) Held-to-maturity debt securities	141,697	142,552	855
(b) Subsidiaries companies' stocks and related companies' stocks	117,314		
Allowance for possible investment loss	—		
	117,314	131,349	14,035
Total assets	¥2,027,374	¥2,021,222	¥ (6,152)
<b>Liabilities</b>			
(1) Long-term debt	¥3,146,286	¥3,141,337	¥ 4,949
(2) Deposits in the banking business	4,037,201	4,038,440	(1,239)
Total liabilities	¥7,183,487	¥7,179,777	¥ 3,710

Millions of yen								
2021								
	Fair Value			Consolidated balance sheet amount		Difference total		
	Level 1	Level 2	Level 3	Total				
<b>Assets</b>								
(1) Loans receivable from customers					¥1,996,121			
Allowance for doubtful accounts					(4,036)			
	¥ —	¥ —	¥1,992,190	¥1,992,190	1,992,085	¥ 105		
(2) Securities, private equity and other investments and investment securities								
[1] Held-to-maturity debt securities								
General business bonds	—	155,717	—	155,717	155,384	333		
[2] Subsidiaries companies' stocks and related companies' stocks	73,220	—	—	73,220	56,812	16,408		
Total assets	¥73,220	¥ 155,717	¥1,992,190	¥2,221,127	¥2,204,281	¥16,846		
<b>Liabilities</b>								
(1) Long-term debt	¥ —	¥3,441,626	¥ —	¥3,441,626	¥3,440,546	¥ (1,080)		
(2) Deposits in the banking business	—	4,415,644	—	4,415,644	4,416,097	453		
Total liabilities	¥ —	¥7,857,270	¥ —	¥7,857,270	¥7,856,643	¥ (627)		

Thousands of U.S. dollars

2021

							Consolidated balance sheet amount	
	Level 1		Level 2		Level 3	Fair Value Total		Difference total
<b>Assets</b>								
(1) Loans receivable from customers							\$18,146,555	
Allowance for doubtful accounts							(36,691)	
	\$	—	\$	—	\$18,110,819	\$18,110,819	18,109,864	\$ 955
(2) Securities, private equity and other investments and investment securities								
[1] Bonds for holding maturity								
General business bonds		—		1,415,609		1,415,609	1,412,582	3,027
[2] Subsidiaries companies' stocks and related companies' stocks		665,636		—		665,636	516,473	149,163
Total assets	\$665,636	\$ 1,415,609	\$18,110,819		\$20,192,064	\$20,038,919		\$153,145
<b>Liabilities</b>								
(1) Long-term debt	\$	—	\$31,287,509	\$	—	\$31,287,509	\$31,277,691	\$ (9,818)
(2) Deposits in the banking business		—	40,142,218		—	40,142,218	40,146,336	4,118
Total liabilities	\$	—	\$71,429,727	\$	—	\$71,429,727	\$71,424,027	\$ (5,700)

"Cash and cash equivalents," "Cash segregated as deposits for regulatory purposes," "Trade account payables, net," "Receivables related to margin transaction," "Payables related to margin transactions," "Short-term borrowings" "Commercial paper," etc., are omitted as the fair values approximate their book values because they are cash or settled in a short period of time. The following accounts are also omitted because their fair value approximates their book value due to the nature of the accounts being deemed to be settled in a short period of time.

(a) Margin trading assets, margin trading liabilities

Margin trading assets are loans to clients and collaterals to securities finance companies in connection with margin trading. Since the former is settled by counter-trading at the will of the customer, and the latter is the collateral price-marked in the lending transaction business, it is assumed that the transaction will be settled in a short period of time.

Margin trading liabilities are the borrowing from securities finance companies associated with customers' margin trading and the amount equivalent to the selling price of securities related to the customer's margin trading. Since the former is price-marked and the latter is settled by counter transactions, etc., at the will of the customer, they are considered to be settled in a short period of time.

(b) Payables to customers and counterparties

It is mainly a deposit in derivative transactions; its book value is regarded as the fair value, assuming that it will be settled in a short period of time due to the characteristics of

being price-marked according to the transaction. For deposits from other customers, the payment amount when settled at the end of this fiscal year (book value) is regarded as the fair value.

(Note 1) Explanation of valuation techniques and inputs used for measurement of fair value

(1) Trading assets and liabilities

[1] Trading securities and others

For stocks, etc., the final price or the final quoted price on the primary exchange is used as the fair value, and it is primarily classified into Level 1 fair value.

For Bonds, the fair value is based on quoted market prices, including those of similar bonds (the Company's OTC and broker screen, etc.) or prices that are reasonably calculated using market price information (trading reference statistics, etc.) and the difference between the market price and index interest rates, etc. Some government bonds are classified as Level 1 fair value, and other bonds are classified as Level 2 fair value. However, if the price information necessary to classify it as a Level 2 fair value is not available, it is classified as Level 3 fair value. In addition, the fair value of certain bonds is measured using the same pricing model as for derivative transactions. When fair value is measured using only observable inputs, or when fair value is measured using unobservable inputs but the effect of such inputs is not material, it is classified as Level 2 fair value, and when fair value is measured using significant unobservable inputs, it is classified as Level 3 fair value.

For investment trusts, the stock exchange close price or close quotation price, or NAV (net asset value) is used as the fair value. However, for the classification of level, transitional measures are applied in accordance with Article 26 of the Fair Value Measurement Implementation Guidance, and no level is assigned accordingly.

#### [2] Derivative transactions

Listed derivative transactions are classified as Level 1 fair value, which is primarily based on the market settlement price or margin calculation standard price. However, if the aforementioned prices are not available or the transactions are not executed frequently, they are classified as Level 2 fair value.

OTC derivative transactions include interest rate swaps, currency swap, equity derivatives, and credit derivatives. In measuring fair value, the Company primarily uses the numerical integration, finite difference and Monte Carlo pricing models to determine the present value of expected cash flows under risk-neutral measurement assumptions commonly used in the market. The pricing models include various inputs such as interest rates, exchange rates, stock prices, volatility, and correlation coefficients. When fair value is measured using only observable inputs, or when the fair value is measured using unobservable inputs but the effect of such inputs is not material, it is classified as Level 2 fair value, and when fair value is measured using significant unobservable inputs, it is classified as Level 3 fair value. The inputs that are not observable in the market include long-term swap rates, long-term currency basis, long-term volatility of stock price, long-term credit spreads and correlation coefficients.

For OTC derivative transactions, the amount equivalent to credit risk and liquidity risk of the counterparties and the Company are adjusted to the fair value as necessary.

### (2) Securities, private equity and other investments and investment

For stocks, the close price or close quotation price of the primary exchange is used as the fair value and is classified as Level 1 fair value.

For Bonds, the fair value is based on quoted market prices (OTC and broker screens, etc.) including similar bonds, or prices that are reasonably calculated based on fair value information (trading reference statistics, etc.) and the difference between the market price and index interest rates, etc. Some government bonds are classified as Level 1 fair value, and other bonds are classified as Level 2 fair

value. However, if the price information necessary to classify it as Level 2 fair value is not available, it is classified as a Level 3 fair value. In addition, the fair value of certain bonds (including convertible bonds) is measured using pricing models as for derivative transactions. When fair value is measured using only observable inputs, or when fair value is measured using unobservable inputs but the effect of such inputs is not material, it is classified as Level 2 fair value, and when fair value is measured using significant unobservable inputs, it is classified as Level 3 fair value.

For investment trusts, the stock exchange close price or close quotation price, or NAV (net asset value) is used as the fair value. However, for the classification of level, transitional measures are applied in accordance with Article 26 of the Fair Value Measurement Implementation Guidance, and no level is assigned accordingly.

#### (3) Derivative transactions other than those related to trading

Similar to "(1) Trading products [2] Derivative transactions" above.

#### (4) Loans receivable from customers

These are mainly loans in the banking business and securities-backed loans that are secured by customer's securities in our safe keeping.

The fair value of loans in the banking business is measured by discounting the total amount of principal and interest at the interest rate expected when a similar new loans are made, based on the type and period of the loan. In addition, for loans with floating interest rate, the book value is used as the fair value since the fair value approximates the book value as long as the credit status of the borrower does not change significantly since the loan was made, as the market interest rate is reflected in the short term. However, for some asset securitization loans, Daiwa uses the fair value obtained from a third parties.

For securities-backed loans, the book value is used as the fair value since the fair value is assumed to approximate the book value based on the expected repayment period and interest rate conditions.

The fair value of the loans in the investment business whose book value is over a certain amount, which is mainly used for the repayment from business revenue, is individually evaluated based on their financial condition and other factors. In addition, for loans receivable whose collection period has passed a certain number of years, the allowance for doubtful accounts is calculated based on the estimated disposable amount of collateral, the expected recovery amount by guarantee, or the present value of the estimated future cash flow. As the fair value is similar to the amount booked on the consolidated balance sheet net of allowance for

doubtful accounts, Daiwa uses such netted amount as the fair value.

These are classified as Level 3 fair value.

#### (5) Deposits in the banking business

For demand deposits, the payment amount when requested on the settlement date (book value) is deemed to be the fair value. In addition, the fair value of time deposits is measured by estimating future cash flows and discounting them at a certain discount rate. These are classified as Level 2 fair values.

The discount rate is calculated from a yield curve that takes into consideration Daiwa's credit spread.

#### (6) Long-term debt

The fair value of corporate bonds, with a maturity of more than one year to redemption, is measured using the market

price (reference statistics for trading, etc.) when available, and classified as Level 2 fair value. Even in cases when the market price is not available, the fair value is measured by adjusting the book value for the amount equivalent to the changes in interest rates and the Company's own credit spread since the time of issuance. The Company's own credit spread is classified as Level 2 fair value because it refers to the most recent funding rate and market price level of similar bonds issued by the Company.

The fair value is measured by adjusting the book value for the amount equivalent to the fluctuation in interest rates and credit spreads since the inception of the borrowing. The Company's own credit spread is classified as Level 2 fair value because it refers to the most recent funding rate and market price level of similar bonds issued by the Company.

(Note 2) Information on the fair value of Level 3 financial instruments recorded on the balance sheet at fair value

#### (1) Quantitative information on significant unobservable inputs

Classification	Evaluation methodology	Significant unobservable input	Input range
Derivatives	Expected cash flow discount model under a risk-neutral scenario		
Interest rate / exchange rate		Swap rate	(0.1)-2.3%
		Currency basis	(0.8)-0.4%
Equity		Stock price volatility	19.1-22.1%
		Credit spread	0.1-4.1%
Credit / Other		Correlation coefficient	(0.06)-0.90
Other securities		Credit spread	0.2-2.1%
		Stock price volatility	26.4-55.4%

#### (2) Reconciliation of the beginning balance to the end balance, valuation gains/losses recognized in profit/loss for the current fiscal year

The following table shows the breakdown of assets and liabilities for which the Level 3 fair value is used as the balance sheet amount and the changes during the period.

	Millions of yen				
	Trading securities and other (Asset)	Derivatives transaction (Net amount)	Operating investment securities	Other Securities	Total
Balance at the beginning of the period	¥ 17,717	¥ 67,416	¥104	¥24,826	¥110,063
Gain / loss for the current fiscal year					
Recorded in profit and loss <sup>2</sup>	738	(13,715)	—	—	(12,977)
Purchase, sale, issuance and settlement					
Purchase	40,586	2,240	128	5,121	48,075
Sale	(43,204)	(17)	—	—	(43,221)
Issuance	—	—	—	—	—
Settlement	—	(13,451)	—	—	(13,451)
Transfer to Level 3 fair value <sup>1,4</sup>	8,117	(1,111)	—	—	7,006
Transfer from Level 3 fair value <sup>1,5</sup>	(15,152)	(14,246)	—	(508)	(29,906)
Change in valuation difference	—	—	—	1,405	1,405
Balance at the end of the period	8,802	27,116	232	30,844	66,994
Unrealized gains / losses on financial instruments held on the consolidated balance sheet that are booked in profits / losses for the current fiscal year <sup>3</sup>	31	(27,166)	—	—	(27,135)

	Thousands of U.S. dollars				
	Trading securities and other (Asset)	Derivatives transactions (Net amount)	Operating investment Securities	Other Securities	Total
Balance at the beginning of the period	\$ 161,064	\$ 612,873	\$ 945	\$225,691	\$1,000,573
Gain / loss for the current fiscal year					
Recorded in profit and loss <sup>2</sup>	6,709	(124,682)	—	—	(117,973)
Purchase, sale, issuance and settlement					
Purchase	368,963	20,364	1,164	46,554	437,045
Sale	(392,763)	(155)	—	—	(392,918)
Issuance	—	—	—	—	—
Settlement	—	(122,282)	—	—	(122,282)
Transfer to Level 3 fair value <sup>1, 4</sup>	73,791	(10,100)	—	—	63,691
Transfer from Level 3 fair value <sup>1, 5</sup>	(137,745)	(129,510)	—	(4,618)	(271,873)
Change in valuation difference	—	—	—	12,773	12,773
Balance at the end of the period	80,019	246,508	2,109	280,400	609,036
Unrealized gains / losses on financial instruments held on the consolidated balance sheet that are booked in profits / losses for the current fiscal year <sup>3</sup>	282	(246,964)	—	—	(246,682)

1 Transfers between levels are recognized at the beginning of the period.

2 Gains and losses related to "Trading securities and other (Assets)," and "Derivative transactions (Net amount)" are included in "Net gain on trading."

3 Unrealized gains / losses on Level 3 financial instruments are not only due to unobservable inputs, but also due to fluctuations in observable inputs. In addition, many Level 3 financial instruments are economically hedged by financial instruments classified in other levels (Levels 1 and 2), but the gains and losses of such financial instruments are not included in the above table.

4 The reason for the transfer from Level 1 or Level 2 to Level 3 is that quoted market prices for certain securities are no longer available, or inputs to valuation methods are no longer observable.

5 The reason for the transfer from Level 3 to Level 1 or Level 2 is that quoted market prices for certain securities have become available, or inputs to valuation methods have become observable.

### (3) Explanation of the fair value valuation process

The fair value of financial instruments held by the trading departments is measured and verified in accordance with the basic policy established by the Company. The results of measurement, including the inputs used in the measurement, are verified by a department independent from the trading department.

The Company has established guidelines regarding the approval process for pricing models used to measure fair value, and in accordance with these guidelines, a department independent from the department that develops the pricing model verifies the assumptions and techniques used in the models. In addition, the Company has built a system to adjust the pricing models in accordance with market trends by comparing and analyzing observable market information and alternative models.

### (4) Explanation of the effect of changes in significant unobservable inputs on fair value

Significant unobservable inputs include long-term swap rates, long-term currency basis, long-term stock price volatility, long-term credit spreads and correlation coefficients. In measuring the fair value, fluctuations in interest rates affect expected cash flows and discount rates, while fluctuations in credit spreads affect the probability of bankruptcy. Regarding volatility, the option value increases (decreases)

as the volatility increases (decreases). There is a wide range of combinations of correlation coefficients among multiple assets, and the level and direction of fluctuations can vary greatly depending on the combination.

The fair value of bonds (including convertible bonds) is measured from inputs such as credit spreads and stock price volatility, and if the market fluctuates, the fair value will increase or decrease as the sum of the effects of the inputs.

The fair value of OTC derivative transactions is measured based on multiple inputs given for each maturity and currency. When there are movements in the market, the fair value will increase or decrease as the sum of the effects of all inputs. The impact of each input fluctuation on the fair value is determined by the product features for each transaction. The unobservable inputs used to measure the fair value of Level 3 financial instruments are not necessarily independent of each other and may be correlated with other inputs. Many of these relationships are captured through correlation coefficients, and the effects of a wide range of correlation coefficients between multiple assets can increase or decrease the fair value of a financial instrument.

The impact on the fair value of Level 3 financial instruments when using alternative assumptions that can reasonably occur for each product category and is calculated based on the range of significant unobservable inputs described in (1) above is as follows:



	Millions of yen		
	Fair value	Positive fair value fluctuations	Negative fair value fluctuations
Derivatives	¥27,116	¥1,444	¥1,444
Other securities	30,843	1,132	379

	Thousands of U.S. dollars		
	Fair value	Positive fair value fluctuations	Negative fair value fluctuations
Derivatives	\$246,509	\$13,127	\$13,127
Other securities	280,391	10,291	3,445

(Note 3) In the prior fiscal year, financial instruments for which it was deemed extremely difficult to determine their fair value are listed below, and are not included in Assets (2) "Other securities."

	Millions of yen
Subsidiaries' stocks and related companies' stocks	
Unlisted stocks	¥ 99,655
Other securities	
Unlisted stocks	32,181
Investments in limited partnership and other similar partnerships	237,285
Others	28,754

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 4) In the current fiscal year, stocks, etc., without market prices (unlisted stocks, etc.) and partnership investments, etc. are listed below, and are not included in Assets (2) "Other securities."

	Millions of yen	Thousands of U.S. dollars
Subsidiary stock and affiliated company stock		
Unlisted stocks <sup>1</sup>	¥114,788	\$1,043,527
Other securities		
Unlisted stocks <sup>1</sup>	34,316	311,964
Partnership investment, etc. <sup>2</sup>	111,199	1,010,900

<sup>1</sup> Since there is no available market price in regards to unlisted stocks, they are not subject to fair value disclosure in accordance with Article 5 of "Implementation Guidance on Disclosure about Fair Value of Financial Instruments" (Corporate Accounting Standards Application Guideline No. 19, March 31, 2020).

<sup>2</sup> Partnership investment, etc., is not subject to fair value disclosure in accordance with Article 27 of the Fair Value Measurement Implementation Guidance.

(Note 5) Scheduled redemption amount of financial receivables and securities with a maturity date after March 31, 2021:

	Millions of yen			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Loans receivable from customers	¥1,446,141	¥327,941	¥157,819	¥ 64,220
Securities, private equity and other investments and investment securities				
Held-to-maturity securities	—	8,298	—	147,086
Corporate bonds	—	8,298	—	147,086
Other securities with a maturity date	148,136	207,537	88,401	315,084
Bonds	148,136	207,537	88,401	315,084
Government bonds, municipal bonds, etc.	10,080	11,929	—	194,193
General business bonds	67,308	49,011	24,693	59,560
Foreign bonds	70,748	146,597	63,708	61,331
Total	¥1,594,277	¥543,776	¥246,220	¥526,390

\* 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
Loans receivable from customers	\$13,146,736	\$2,981,282	\$1,434,719	\$ 583,818
Securities, private equity and other investments and investment securities				
Held-to-maturity securities	—	75,436	—	1,337,146
Government bonds, municipal bonds, etc.	—	—	—	—
Corporate bonds	—	75,436	—	1,337,146
Other securities with a maturity date	1,346,691	1,886,700	803,645	2,864,400
Bonds	1,346,691	1,886,700	803,645	2,864,400
Government bonds, municipal bonds, etc.	91,636	108,445	—	1,765,390
Corporate bonds	611,891	445,555	224,482	541,455
Foreign bonds	643,164	1,332,700	579,163	557,555
Total	\$14,493,427	\$4,943,418	\$2,238,364	\$4,785,364

(Note 6) Scheduled redemption amount of deposits in the banking business, and long-term debts after March 31, 2021:

	Millions of yen			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Deposits in the banking business	¥4,377,029	¥ 39,068	¥ —	¥ —
Long-term debts	281,887	1,978,978	672,120	507,561
Total	¥4,658,916	¥2,018,046	¥672,120	¥507,561

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

	Thousands of U.S. dollars			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Deposits for banking business	\$39,791,173	\$ 355,164	\$ —	\$ —
Long-term debts	2,562,609	17,990,709	6,110,182	4,614,191
Total	\$42,353,782	\$18,345,873	\$6,110,182	\$4,614,191

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

## 9. Trading assets and trading liabilities

Trading assets and trading liabilities at March 31, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
<b>Trading assets:</b>			
Trading securities:			
Equities	¥ 98,557	¥ 227,543	\$ 895,973
Government, corporate and other bonds	3,466,356	2,814,152	31,512,327
Investment trusts	215,460	97,774	1,958,727
Mortgage-backed securities and others	1,593,819	1,161,132	14,489,264
Derivatives:			
Equity transactions	208,643	282,782	1,896,755
Interest transactions	1,730,264	2,919,947	15,729,673
Currency transactions	500,026	490,909	4,545,691
Credit and others	20,969	33,051	190,626
	¥7,834,094	¥8,027,290	\$71,219,036

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
<b>Trading liabilities:</b>			
Trading securities:			
Equities	¥ 206,682	¥ 112,800	\$ 1,878,927
Government, corporate and other bonds	1,764,442	1,654,053	16,040,382
Investment trusts	10	3,466	91
Mortgage-backed securities and others	61,835	35,592	562,136
Derivatives:			
Equity transactions	219,997	261,689	1,999,973
Interest transactions	1,650,935	2,867,755	15,008,500
Currency transactions	432,740	391,627	3,934,000
Credit and others	31,181	35,279	283,464
	<b>¥4,367,822</b>	<b>¥5,362,261</b>	<b>\$39,707,473</b>

\* Government, corporate and other bonds include convertible bonds.

(Change in presentation method)

In the prior fiscal year, the breakdown of contract amount and market value of derivative transactions was disclosed by transaction type, but as a result of a review in conjunction with the early adoption of the accounting standard for market value calculation, the breakdown of transaction type by each underlying asset is disclosed in the current fiscal year. In order to reflect this change in presentation method, the notes for the prior fiscal year have been reclassified, as shown in the table below.

Transaction type (prior fiscal year)	Underlying asset (current fiscal year)	Millions of yen	
		Asset	Liability
Option transactions	Equity transactions	¥ 200,890	¥ 215,868
	Interest transactions	1,014	1,287
	Currency agreements	92,304	93,368
	Subtotal	294,208	310,523
Futures and forward transactions	Equity transactions	23,414	43,241
	Interest transactions	46,816	68,211
	Currency agreements	84,402	76,371
	Subtotal	154,632	187,823
Swap agreements	Equity transactions	58,478	2,580
	Interest transactions	2,872,117	2,798,257
	Currency agreements	314,203	221,888
	Credit and others	1,336	—
	Subtotal	3,246,134	3,022,725
Other derivatives	Credit and others	34,669	35,279
	Subtotal	34,669	35,279
Risk reserves	Credit and others	(2,954)	—

## 10. 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.

Amortized cost of held-to-maturity debt securities as of March 31, 2021 and 2020 consisted of the following:

	Millions of yen		
	Cost	Fair value	Difference
<b>March 31, 2021:</b>			
Government, municipal and other bonds	¥ —	¥ —	¥ —
Corporate bonds	155,384	155,717	333
Other	—	—	—
	<b>¥155,384</b>	<b>¥155,717</b>	<b>¥333</b>

	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
	Thousands of U.S. dollars		
	Cost	Fair value	Difference
March 31, 2021:			
Government, municipal and other bonds	\$ —	\$ —	\$ —
Corporate bonds	1,412,582	1,415,609	3,027
Other	—	—	—
	\$1,412,582	\$1,415,609	\$3,027

Cost and fair value of marketable available-for-sale securities as of March 31, 2021 and 2020 consisted of the following:

	Millions of yen		
	Cost	Fair value	Difference
March 31, 2021:			
Equities	¥ 93,024	¥ 137,600	¥44,576
Government, corporate and other bonds	731,034	733,500	2,466
Other	144,031	150,723	6,692
	¥968,089	¥1,021,823	¥53,734
	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
	Thousands of U.S. dollars		
	Cost	Fair value	Difference
March 31, 2021:			
Equities	\$ 845,673	\$1,250,909	\$405,236
Government, corporate and other bonds	6,645,763	6,668,182	22,419
Other	1,309,373	1,370,209	60,836
	\$8,800,809	\$9,289,300	\$488,491

## 11. 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, 2021 and 2020 are as follows:

Underlying asset	Transaction	Millions of yen		
		Contract amount	Fair value	Unrealized gains (losses)
Interest	Interest swap	¥ —	¥ —	¥ —
Currency	Currency swap	83,072	(1,088)	(1,088)
Currency	Foreign exchange forward	196,916	(1,034)	(1,034)
Credit and others	Credit derivative	—	—	—

March 31, 2020:

Millions of yen

Underlying asset	Transaction	Contract amount	Fair value	Unrealized gains (losses)
Interest	Interest swap	¥ 10,439	¥ (326)	¥ (326)
Currency	Currency swap	91,109	517	517
Currency	Foreign exchange forward	171,064	(4,325)	(4,325)
Credit and others	Credit derivative	40,000	61	61

March 31, 2021:

Thousands of U.S. dollars

Underlying asset	Transaction	Contract amount	Fair value	Unrealized gains (losses)
Interest	Interest swap	\$ —	\$ —	\$ —
Currency	Currency swap	755,200	(9,891)	(9,891)
Currency	Foreign exchange forward	1,790,145	(9,400)	(9,400)
Credit and others	Credit derivative	—	—	—

**B. Derivatives to which hedge accounting is applied**

Main hedged items, contract amount and fair value of these derivatives at March 31, 2021 and 2020 are as follows:

March 31, 2021

Millions of yen

Underlying asset	Hedging instrument	Hedge accounting treatment	Main hedged item	Contract amount	Fair value
Interest	Interest swap	Fundamental method	Debt and securities	¥482,503	¥(8,833)
Currency	Currency swap	Fundamental method	Foreign currency loans and securities	35,306	(1,057)
Currency	Foreign exchange forward	Fundamental method	Foreign currency loans, securities, and cash	274,938	(701)

March 31, 2020

Millions of yen

Underlying asset	Hedging instrument	Hedge accounting treatment	Main hedged item	Contract amount	Fair value
Interest	Interest swap	Fundamental method	Debt and securities	¥408,340	¥(24,733)
Currency	Currency swap	Fundamental method	Foreign currency loans and securities	145,304	(780)
Currency	Foreign exchange forward	Fundamental method	Foreign currency loans, securities, and cash	370,341	3,415

March 31, 2021

Thousands of U.S. dollars

Underlying asset	Hedging instrument	Hedge accounting treatment	Main hedged item	Contract amount	Fair value
Interest	Interest swap	Fundamental method	Debt and securities	\$4,386,391	\$(80,300)
Currency	Currency swap	Fundamental method	Foreign currency loans and securities	320,964	(9,609)
Currency	Foreign exchange forward	Fundamental method	Foreign currency loans, securities, and cash	2,499,436	(6,373)

**12. Pledged assets**

Secured obligations at March 31, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Short-term borrowings	¥240,961	¥279,439	\$2,190,555
Long-term debt	501,723	457,800	4,561,118
Payables related to margin transactions	4,139	3,995	37,627
Other non-current liabilities	313	—	2,845
	¥747,136	¥741,234	\$6,792,145



All above obligations at March 31, 2021 and 2020 were secured by the following assets:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Cash and deposits	¥ 3,557	¥ —	\$ 32,336
Loans receivable from customers	887,425	845,230	8,067,500
Trading assets	411,637	531,871	3,742,155
Securities	71,261	92,385	647,827
Investment securities	24,673	18,095	224,300
Other current assets	62,519	—	568,355
	<b>¥1,461,072</b>	<b>¥1,487,581</b>	<b>\$13,282,473</b>

In addition to the above, securities borrowed amounting to ¥110,186 million (\$1,001,691 thousand) and ¥185,873 million were pledged as guarantees at March 31, 2021 and 2020, respectively.

Total fair value of the securities pledged as collateral at March 31, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Securities loaned	¥5,486,331	¥5,853,262	\$49,875,736
Securities sold under agreements to repurchase	3,017,724	2,064,787	27,433,855
Other	426,044	461,925	3,873,127
	<b>¥8,930,099</b>	<b>¥8,379,974</b>	<b>\$81,182,718</b>

Total fair value of the securities received as collateral at March 31, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Securities borrowed	¥5,838,082	¥5,888,917	\$53,073,473
Securities purchased under agreements to resell	1,916,399	1,565,431	17,421,809
Other	354,629	242,713	3,223,900
	<b>¥8,109,110</b>	<b>¥7,697,061</b>	<b>\$73,719,182</b>

### 13. Non-recourse debts

Non-recourse debts at March 31, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Short-term borrowings	¥ 899	¥—	\$ 8,173
Long-term debt	25,770	—	234,272
	<b>¥26,669</b>	<b>¥—</b>	<b>\$242,445</b>

Specified assets for non-recourse debts at March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Cash and deposits	¥ 1,731	¥—	\$ 15,736
Other current assets	42,233	—	383,937
	<b>¥43,964</b>	<b>¥—</b>	<b>\$399,673</b>

\* The above amount is included in the amount of "9. Pledged assets."

## 14. Lease transactions

The information concerning operating leases at March 31, 2021 and 2020 are as follows:

Lessee:	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
<b>Operating leases:</b>			
Future lease payments in respect of operating leases	¥64,222	¥68,596	\$583,836
Due within one year	11,380	11,780	103,455

Lessor:	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
<b>Operating leases:</b>			
Future lease receipts in respect of operating leases	¥30,570	¥4,206	\$277,909
Due within one year	9,848	620	89,527

## 15. Payables to customers and counterparties

Payables to customers and counterparties at March 31, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Deposits from customers	¥358,826	¥318,467	\$3,262,055
Guarantee deposits received	366,352	414,642	3,330,473
Other	35,515	56,160	322,863
	¥760,693	¥789,269	\$6,915,391

## 16. 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, 2021 and 2020 was 0.01% and 0.17%, respectively.

Long-term debt at March 31, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Bond payable in yen: 1.25% due CY2020	¥ —	¥ 30,000	\$ —
Bond payable in yen: 0.69% due CY2021	30,000	30,000	272,727
Bond payable in yen: 0.87% due CY2024	12,000	12,000	109,091
Bond payable in yen: 0.89% due CY2025	20,000	20,000	181,818
Bond payable in yen: 0.40% due CY2020	—	20,000	—
Bond payable in yen: 0.40% due CY2020	—	45,000	—
Bond payable in yen: 0.91% due CY2025	25,000	25,000	227,273
Bond payable in yen: 0.67% due CY2022	30,000	30,000	272,727
Bond payable in yen: 0.40% due CY2023	13,000	13,000	118,182
Bond payable in yen: 0.56% due CY2026	11,000	11,000	100,000
Bond payable in yen: 0.40% due CY2023	50,000	50,000	454,545
Bond payable in yen: 0.40% due CY2026	30,000	30,000	272,727
Bond payable in yen: 0.35% due CY2023	22,000	22,000	200,000
Bond payable in yen: 0.22% due CY2022	25,000	25,000	227,273
Bond payable in yen: 0.41% due CY2027	15,000	15,000	136,364
Bond payable in yen: 0.23% due CY2023	10,000	10,000	90,909

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Bond payable in yen: 0.48% due CY2028	12,000	12,000	109,091
Bond payable in yen: 0.30% due CY2023	37,000	—	336,364
Bond payable in yen: 0.50% due CY2025	38,000	—	345,455
Bond payable in yen: 0.28% due CY2022	20,000	20,000	181,818
Bond payable in yen: 0.31% due CY2026	30,000	30,000	272,727
Bond payable in yen: 0.23% due CY2022	30,000	30,000	272,727
Bond payable in yen: 0.31% due CY2027	20,000	20,000	181,818
Bond payable in yen: 0.25% due CY2024	15,000	15,000	136,364
Bond payable in yen: 0.24% due CY2024	20,000	20,000	181,818
Bond payable in yen: 0.25% due CY2024	20,000	20,000	181,818
Bond payable in yen: 0.25% due CY2025	20,000	20,000	181,818
Bond payable in yen: 0.25% due CY2026	17,000	17,000	154,545
Bond payable in yen: 0.27% due CY2026	10,000	10,000	90,909
Bond payable in yen: 0.35% due CY2027	30,000	—	272,727
Bond payable in U.S. dollars: 1.00% due CY2020	—	27,208	—
Bond payable in U.S. dollars: 0.90% due CY2021	16,607	16,325	150,973
Bond payable in U.S. dollars: 1.29% due CY2025	27,678	—	251,618
Bond payable in U.S. dollars: 3.13% due CY2022	110,710	108,830	1,006,455
Bond payable in yen: 1.20%	125,000	125,000	1,136,364
Bond payable in yen: 1.39%	25,000	25,000	227,273
Bond payable in yen: 1.72% due CY2020	—	18,400	—
Bond payable in yen: 2.16% due CY2025	7,800	7,800	70,909
Bond payable in yen: 2.41% due CY2026	3,000	3,000	27,273
Bond payable in yen: 2.24% due CY2026	5,000	5,000	45,455
Bond payable in yen: 0.14% due CY2038	2,000	2,000	18,182
Bond payable in yen: 1.00% due CY2024	2,100	—	19,091
Bond payable in yen: 0.22% due CY2024	1,700	—	15,455
Bond payable in yen: 0.66% due CY2031	1,300	—	11,818
Bond payable in yen: 0.31% due CY2025	1,500	—	13,636
Bond payable in yen: 0.60% due CY2030	2,400	—	21,818
Bond payable in yen: 0.77% due CY2020	—	1,000	—
Bond payable in yen: 1.05% due CY2023	1,000	1,000	9,091
Bond payable in yen: 0.58% due CY2025	1,700	—	15,455
Bond payable in yen: 0.80% due CY2023	800	—	7,273
Euro medium-term notes issued by the Company and a domestic consolidated subsidiary, maturing through CY2050	813,813	714,517	7,398,300
Long-term borrowings principally from banks in yen, maturing through CY2049	1,661,863	1,469,352	15,107,845
Lease obligation	11,696	13,213	106,327
Other	5,879	6,641	53,445
	<b>¥3,440,546</b>	<b>¥3,146,286</b>	<b>\$31,277,691</b>

\* Bond payable in yen:1.20% and Bond payable in yen:1.39% are unsecured and subordinated bonds. They do not have fixed redemption dates.

The amount for euro medium-term notes issued by the Company and a domestic consolidated subsidiary as of March 31, 2021 includes US\$722,943 thousand.

Interest rates of euro medium-term notes range from (0.29)% to 2.75% at March 31, 2021 and from (0.32)% to 3.48% at March 31, 2020. The weighted average interest rate on total outstanding yen subordinated borrowings and

borrowings principally from banks at March 31, 2021 and 2020 was 0.25% and 0.31%, respectively. The weighted average interest rate on total outstanding lease obligations at March 31, 2021 was 1.72%.

Daiwa has an unused commitment line amounting to ¥11,071 million (\$100,645 thousand) under agreements with several banks at March 31, 2021.

## 17. Retirement benefits

### Retirement benefits for employees

#### (1) Defined benefit plans

Retirement benefits in the consolidated balance sheets as of March 31, 2021 and 2020 are ¥44,773 million (\$407,027 thousand) and ¥44,359 million, respectively. Benefit expenses stated in the consolidated statements of income for the years ended March 31, 2021 and 2020 were ¥3,979 million (\$36,173 thousand) and ¥3,749 million, respectively.

Movement in retirement benefit obligations consisted of the following:

		Millions of yen	Thousands of U.S. dollars
	2021	2020	2021
At beginning of period	¥44,359	¥43,441	\$403,264
Service cost	3,979	3,749	36,173
Benefits paid	(3,672)	(2,936)	(33,382)
Other	107	105	972
At end of period	¥44,773	¥44,359	\$407,027

#### (2) Defined contribution plan

Benefit expenses to "Defined contribution" for the years ended March 31, 2021 and 2020 were ¥4,959 million (\$45,082 thousand) and ¥4,915 million, respectively.

### Retirement benefits for directors

Directors' retirement benefits in consolidated subsidiaries of ¥614 million (\$5,582 thousand) and ¥678 million are included in "Retirement benefits" in the accompanying consolidated balance sheets as of March 31, 2021 and 2020, respectively. Benefit expenses stated in the consolidated statements of income for the years ended March 31, 2021 and 2020 were ¥191 million (\$1,736 thousand) and ¥203 million, respectively.

## 18. 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, 2021 and 2020. 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, 2021 and 2020 is as follows:

	2021	2020
Statutory tax rate	30.6%	30.6%
Valuation allowance	3.1	5.7
Permanent difference (expense)	2.3	2.5
Permanent difference (income)	(0.6)	(1.3)
Lower tax rate applicable to income of overseas consolidated subsidiaries	(1.1)	(2.0)
Adjustment of unrealized inter-company profit	0.7	(0.3)
Amortization of goodwill	0.3	0.4
Share of profit and loss of entities accounted for using equity method	(2.7)	(2.9)
Tax credits	—	(0.0)
Losses (gains) on step acquisitions	(9.9)	(1.7)
Losses (gains) on change in equity	(0.0)	(4.1)
Other	1.5	0.9
Effective tax rate	24.2%	27.8%

Details of deferred tax assets and liabilities at March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
<b>Deferred tax assets:</b>			
Net operating losses carry-forward	¥ 33,759	¥ 35,198	\$ 306,900
Retirement benefits	13,798	13,640	125,436
Loss on private equity and other investments	8,672	8,278	78,836
Write-down of investment securities	8,243	8,729	74,936
Impairment losses on fixed assets	6,430	4,664	58,455
Compensation and bonuses	5,925	4,499	53,864
Elimination of unrealized gain	4,930	5,501	44,818
Allowance for doubtful accounts	4,100	1,691	37,273
Depreciation	3,842	4,057	34,927
Asset retirement obligations	2,857	2,586	25,973
Loss on trading	2,008	1,824	18,255
Other	18,341	19,703	166,736
Gross deferred tax assets	112,905	110,370	1,026,409
Valuation allowance for net operating losses carry-forward	(32,932)	(34,152)	(299,382)
Valuation allowance for future deductible temporary differences	(52,526)	(44,760)	(477,509)
Less: Valuation allowance	(85,458)	(78,912)	(776,891)
Total deferred tax assets	27,447	31,458	249,518
<b>Deferred tax liabilities</b>	<b>59,226</b>	<b>18,702</b>	<b>538,418</b>
<b>Net deferred tax assets (liabilities)</b>	<b>¥ (31,779)</b>	<b>¥ 12,756</b>	<b>\$ (288,900)</b>

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, 2021 and 2020 are as follows:

							Millions of yen
March 31, 2021							
	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	¥ 1,687	¥ 1,481	¥ 1,277	¥ 2,021	¥ 965	¥ 26,328	¥ 33,759
Valuation allowance	(1,687)	(1,481)	(1,277)	(2021)	(608)	(25,858)	(32,932)
Deferred tax assets	¥ —	¥ —	¥ —	¥ —	¥ 357	¥ 470	¥ 827

							Millions of yen
March 31, 2020							
	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

							Thousands of U.S. dollars
March 31, 2021							
	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	\$ 15,336	\$ 13,464	\$ 11,609	\$ 18,373	\$ 8,772	\$ 239,346	\$ 306,900
Valuation allowance	(15,336)	(13,464)	(11,609)	(18,373)	(5,527)	(235,073)	(299,382)
Deferred tax assets	\$ —	\$ —	\$ —	\$ —	\$ 3,245	\$ 4,273	\$ 7,518



## 19. 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.

## 20. Contingent liabilities

Daiwa had contingent liabilities amounting to ¥11,948 million (\$108,618 thousand) and ¥12,161 million at March 31, 2021 and 2020, respectively, mainly arising as guarantors of Good Time Living Co. Ltd.

## 21. 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, 2021 amounted to ¥346,971 million (\$3,154,282 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 ¥25 (\$0.23) per share amounting to ¥38,097 million (\$346,336 thousand) and ¥11 (\$0.10) per share amounting to ¥16,754 million (\$152,309 thousand) were approved by the Board of Directors on April 28, 2021 and October 29, 2020, respectively.

## 22. 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, June 27, 2018, August 9, 2019 and July 31, 2020. 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, 2021 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	95,000	¥ 1	(\$0.01)	from July 1, 2005 to June 30, 2025
June 24, 2006	69,000	¥ 1	(\$0.01)	from July 1, 2006 to June 30, 2026
June 23, 2007	102,000	¥ 1	(\$0.01)	from July 1, 2007 to June 30, 2027
June 21, 2008	130,000	¥ 1	(\$0.01)	from July 1, 2008 to June 30, 2028
June 20, 2009	329,000	¥ 1	(\$0.01)	from July 1, 2009 to June 30, 2029
June 26, 2010	665,000	¥ 1	(\$0.01)	from July 1, 2010 to June 30, 2030
	—	¥ 380	(\$3.45)	from July 1, 2015 to June 25, 2020
June 25, 2011	948,000	¥ 1	(\$0.01)	from July 1, 2011 to June 30, 2031
	1,395,000	¥ 326	(\$2.96)	from July 1, 2016 to June 24, 2021
June 27, 2012	695,000	¥ 1	(\$0.01)	from February 12, 2013 to June 30, 2032
	4,864,000	¥ 598	(\$5.44)	from July 1, 2017 to June 26, 2022
June 26, 2013	351,000	¥ 1	(\$0.01)	from February 10, 2014 to June 30, 2033
	3,547,000	¥1,062	(\$9.65)	from July 1, 2018 to June 25, 2023
June 26, 2014	429,000	¥ 1	(\$0.01)	from February 9, 2015 to June 30, 2034
	4,840,000	¥ 931	(\$8.46)	from July 1, 2019 to June 25, 2024
June 25, 2015	552,000	¥ 1	(\$0.01)	from February 16, 2016 to June 30, 2035
	4,054,000	¥ 733	(\$6.66)	from July 1, 2020 to June 24, 2025
June 28, 2016	556,000	¥ 1	(\$0.01)	from February 8, 2017 to June 30, 2036
	—	¥ 767	(\$6.97)	from July 1, 2021 to June 27, 2026
June 28, 2017	591,000	¥ 1	(\$0.01)	from February 8, 2018 to June 30, 2037
	—	¥ 815	(\$7.41)	from July 1, 2022 to June 27, 2027
June 27, 2018	—	¥ 686	(\$6.24)	from July 1, 2023 to June 26, 2028
August 9, 2019	—	¥ 502	(\$4.56)	from July 1, 2024 to July 30, 2029
July 31, 2020	—	¥ 508	(\$4.62)	from July 1, 2025 to July 30, 2030

## 23. Business combinations and related matters

Details of business combinations and related matters for the year ended March 31, 2021 are as follows:

### Outline of the business combination

- (i) Name of the acquired company and its business  
Name: Daiwa Office Investment Corporation (hereinafter referred to as "DOI")  
Business: Investment management of specified assets
- (ii) Main reasons for the business combination  
DOI, an affiliate of the Group, became a consolidated subsidiary of the Group in accordance with the so-called effective control standard, as the Group's holding ratio of voting rights exceeds 40% as a result of DOI's acquisition of its own investment units. By converting DOI into a consolidated subsidiary, it has become possible to further enhance the so-called "same boat" principle intending to match the interests of the Group and DOI. The Company believes that it will be able to enhance the value of the entire Group by supporting and realizing the growth of DOI.
- (iii) Date of business combination  
March 8, 2021 (Deemed acquisition date: February 28, 2021)

- (iv) Legal form of business combination  
DOI's acquisition of its own investment units.
- (v) Corporate name after business combination  
Unchanged
- (vi) Ratio of voting rights the Group has acquired  
Ratio of voting rights owned before business acquisition: 39.90%  
Ratio of voting rights additionally acquired at the date of business combination: 0.12%  
Ratio of voting rights after acquisition: 40.02%
- (vii) Reason for deciding the acquisition company  
The voting rights ratio of the Group exceeds 40%, and the so-called effective control standard is satisfied.

### Period of the acquired company's financial results included in the consolidated financial statements

As the deemed acquisition date is February 28, 2021, the operating results prior to such date are reflected in the investment profit under the equity method.

**Acquisition cost of the acquired company**

Fair value of investment units of DOI owned before business combination: ¥142,853 million (\$1,298,664 thousand)

Fair value of investment units of DOI additionally acquired at the date of business combination: —

Acquisition cost of the acquired company: ¥142,853 million (\$1,298,664 thousand)

**Difference between acquisition cost of the acquired corporation and total acquisition cost of individual transactions leading to acquisition**

Gains on step acquisitions:

¥46,963 million (\$426,936 thousand)

**Amount of Goodwill and reason for recognizing Goodwill, amortization method and period**

(i) Amount of goodwill: ¥8,988 million (\$81,709 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 2021	Thousands of U.S. dollars 2021
Current assets	¥ 31,060	\$ 282,364
Fixed assets	571,706	5,197,327
Total assets	602,766	5,479,691
Current liabilities	31,699	288,173
Fixed liabilities	236,587	2,150,791
Total liabilities	268,286	2,438,964

Approximate amounts of the impact on the consolidated statements of income for fiscal year ended March 31, 2021 is based on the assumption that the business combination was completed on the first day of fiscal year ended March 31, 2021.

	Millions of yen 2021	Thousands of U.S. dollars 2021
Operating revenues	¥30,162	\$274,200
Net operating revenues	18,979	172,536
Ordinary income	8,944	81,309
Net income attributable to owners of the parent	47	427

(Calculation method of approximate amounts)

The amounts indicated as the estimated impact of the combination are the differences between the operating revenue, net operating revenue and income/loss information calculated by considering adjustments such as the gain or

loss under the equity method with the assumption that the business combination was completed on the first day of fiscal year 2020, and those in the consolidated statements of the Company.

This note has not been audited.

**24. Investment and rental properties**

Daiwa owns rental office buildings, rental housings and real estates in Tokyo and other areas, in addition to owning assets for a redevelopment project in Tokyo.

Net rental profit from these properties for the years ended March 31, 2021 and 2020 were ¥4,495 million (\$40,864

thousand) and ¥2,189 million, respectively.

Gains on sale from these properties for the years ended March 31, 2021 and 2020 were ¥468 million (\$4,255 thousand) and ¥112 million, respectively.

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, 2020	Change during the period	As of March 31, 2021	As of March 31, 2021	
¥116,602	¥456,910	¥573,512	¥575,474	

				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, 2020	Change during the period	As of March 31, 2021	As of March 31, 2021	
\$1,060,018	\$4,153,727	\$5,213,745	\$5,231,582	

(Note 1) The amounts stated in the consolidated 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, 2021 and 2020 were ¥43,855 million (\$398,682 thousand) and ¥37,756 million, respectively.

(Note 4) Regarding the change during the period of March 31, 2020 and 2021, the variance of ¥447,912 million (\$4,071,927 thousand) was due to the inclusion of Daiwa Office Investment Corporation into the consolidated subsidiaries.

## 25. 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 364.6% (unaudited) for March 31, 2021. Daiwa also announced that it has calculated the consolidated capital adequacy ratio as of March 31, 2021 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, 2021 was 21.9%\* (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.

## 26. 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
<b>Year ended March 31, 2021:</b>							
Net operating revenues:							
Sales to customers	¥150,290	¥215,368	¥ 65,227	¥ 7,140	¥438,025	¥12,122	¥450,147
Intersegment sales and transfers	19,215	492	(14,081)	(2,537)	3,089	13,718	16,807
Total	¥169,505	¥215,860	¥ 51,146	¥ 4,603	¥441,114	¥25,840	¥466,954

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

Thousands of U.S. dollars

	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Total
<b>Year ended March 31, 2021:</b>							
Net operating revenues:							
Sales to customers	\$1,366,273	\$1,957,890	\$ 592,973	\$ 64,909	\$3,982,045	\$110,200	\$4,092,245
Intersegment sales and transfers	174,682	4,473	(128,009)	(23,064)	28,082	124,709	152,791
Total	\$1,540,955	\$1,962,363	\$ 464,964	\$ 41,845	\$4,010,127	\$234,909	\$4,245,036

\* "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)

Thousands of  
U.S. dollars

	Millions of yen		
	2021	2020	2021
Net operating revenues			
Reportable segment total	¥441,114	¥389,316	\$4,010,127
Net operating revenues from "Others"	25,839	43,905	234,900
Elimination between segments	(16,807)	(22,603)	(152,791)
Commission fee deducted from net operating revenues	15,857	17,089	144,155
Other adjustments	657	(1,447)	5,973
Net operating revenues of financial statements	¥466,660	¥426,260	\$4,242,364

## (Impairment losses on fixed assets by reportable segment)

Millions of yen

	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Corporate/ Elimination	Total
<b>Year ended March 31, 2021:</b>								
Loss on impairment	¥—	¥697	¥—	¥—	¥697	¥8,698	¥—	¥9,395

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



	Thousands of U.S. dollars						
	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Corporate/ Elimination
<b>Year ended March 31, 2021:</b>							
Loss on impairment	\$—	\$6,336	\$—	\$—	\$6,336	\$79,073	\$—
							\$85,409

(Gains on negative goodwill by reportable segment)

Not applicable.

## 27. Transactions with related parties

The information on subsidiaries' material transactions with related parties and individuals for the years ended March 31, 2021 and 2020, 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				2021
Tokyo Tanshi Co., Ltd.	¥10,300	Recurring transactions of collateralized short-term financing agreements		Collateralized short-term financing agreements (liabilities)	¥ 71,601
		Interest and dividend expense	¥ 48	Collateralized short-term financing agreements (assets)	248,681
		Interest income	124	Receivables—Other	10
		Interest and dividend income	338	Accrued and other liabilities—Other	8
		Interest expense	964		
					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	¥ 313	Collateralized short-term financing agreements (assets)	235,772
		Interest income	605	Receivables—Other	7
		Interest and dividend income	452	Accrued and other liabilities—Other	5
		Interest expense	1,107		
					Thousands of U.S. dollars
					2021
		Recurring transactions of collateralized short-term financing agreements		Collateralized short-term financing agreements (liabilities)	\$ 650,918
		Interest and dividend expense	\$ 436	Collateralized short-term financing agreements (assets)	2,260,736
		Interest income	1,127	Receivables—Other	91
		Interest and dividend income	3,073	Accrued and other liabilities—Other	73
		Interest expense	8,764		

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

## 28. Special purpose entities subject to disclosure

A consolidated subsidiary utilized six special purpose entities for the year ended March 31, 2021 (six for the year ended March 31, 2020) 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, 2021 and 2020 are ¥748,788 million (\$6,807,164 thousand) and ¥677,459 million, respectively.

## 29. Net gain on trading

Net gain on trading for the years ended March 31, 2021 and 2020 is as follows:

		Millions of yen	Thousands of U.S. dollars
	2021	2020	2021
Equities and others	¥ 57,640	¥42,613	\$ 524,000
Bonds, forex and others	61,255	51,190	556,864
	¥118,895	¥93,803	\$1,080,864

## 30. Selling, general and administrative expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2021 and 2020 are summarized as follows:

		Millions of yen	Thousands of U.S. dollars
	2021	2020	2021
Employees' compensation and benefits	¥193,003	¥184,032	\$1,754,572
Commissions and brokerage	28,260	30,374	256,909
Communications	18,888	21,994	171,709
Occupancy and rental	38,441	36,647	349,463
Data processing and office supplies	24,365	25,969	221,500
Taxes other than income taxes	11,494	10,530	104,490
Depreciation	33,921	30,813	308,372
Other	25,429	31,612	231,172
	¥373,801	¥371,971	\$3,398,187

### 31. Other income (expenses)

Details of "Other, net" in the accompanying consolidated statements of income for the years ended March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Gain on sales of non-current assets	¥ 57	¥ 8,749	\$ 522
Gain on sales of investment securities	4,231	12,442	38,465
Gain on step acquisitions	46,963	4,642	426,934
Gain on change in equity	180	11,414	1,639
Other income	25,500	17,674	231,822
Loss on sales and retirement of non-current assets	(1,386)	(610)	(12,603)
Impairment loss	(9,395)	(1,283)	(85,408)
Loss on sale of investment securities	(219)	—	(1,995)
Loss on valuation of investment securities	(1,739)	(8,115)	(15,806)
Loss on valuation of shares of subsidiaries and associates	(896)	—	(8,147)
Provision of allowance for investment loss	(3,620)	—	(32,909)
Structural reform cost	(4,319)	(12,500)	(39,268)
Other expenses	(3,869)	(1,893)	(35,173)
	¥51,488	¥ 30,520	\$468,073

#### Impairment loss

(Fiscal year ended March 31, 2020)

The Company recognized impairment losses for on following asset group as follows:

	Condition	Location	Millions of yen Impairment loss	Thousands of U.S. dollars 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 management accounting. Assets to be disposed of are grouped by individual property.

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 of, 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.

(Fiscal year ended March 31, 2021)

The Company recognized impairment losses for the following asset group as follows:

	Condition	Location	Millions of yen Impairment loss	Thousands of U.S. dollars Impairment loss
Assets to be held and used	Low profit-earning assets	America, Asia / Oceania	¥ 696	\$ 6,327
Assets to be disposed	Low operating assets	Tohoku region, Kanto region, Chubu region, Kinki region, Chugoku region, Shikoku region, Kyushyu region	8,698	79,073
Total			¥9,394	\$85,400

Assets are grouped in accordance with classifications used for management accounting. Assets to be disposed of are grouped by individual property.

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, for the year ended March 31, 2021.

The breakdown of the amounts is ¥696 million (\$6,327 thousand) for assets to be held and used, comprising ¥380 million (\$3,455 thousand) for buildings and ¥316 million (\$2,873 thousand) for goodwill. The breakdown of the

amounts is ¥8,698 million (\$79,073 thousand) for assets to be disposed, comprising ¥6,027 million (\$54,791 thousand) for land, ¥2,183 million (\$19,845 thousand) for buildings, ¥351 million (\$3,191 thousand) for other intangible assets, and ¥135 million (\$1,227 thousand) for lease.

The recoverable amount of goodwill is measured by re-evaluated company value. The recoverable amount of buildings to be held and used is calculated using value in use. The recoverable amount of other assets to be disposed of is calculated using net realizable value, which is basically determined by the appraisal value less the expected disposal cost.

## 32. Subsequent events

(Share repurchase)

At the Board of Directors meeting held on April 28, 2021, the Company passed a resolution regarding the share repurchase in accordance with the provisions of the Articles of Incorporation pursuant to Article 459, Paragraph 1 of the Companies Act of Japan.

### (1) Purpose of the share repurchase

Taking into account the current stock market environment, this is to enhance shareholder returns through the improvement of capital efficiency.

### (2) Details of the share repurchase

(i) Type of shares	Common Stock
(ii) Total number of shares to be repurchased	Up to 45 million shares (2.95% of total shares outstanding, excluding treasury stock)
(iii) Total amount to be paid for repurchase	Up to JPY30 billion
(iv) Period of share repurchase	From May 19, 2021 to March 24, 2022 (However, no repurchases will be made during the last five business days of each quarter and during the 10 business days following the announcement of each quarter's financial results)
(v) Method of repurchase	Purchase on the stock market via a trust bank

# 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, 2021 and 2020, the consolidated statements of income and comprehensive income, changes in net assets and 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, 2021 and 2020, and its consolidated financial performance and its consolidated 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.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Reasonableness of the valuation of private equity and other investments, and loans receivable from customers (the Investment Division)

### The key audit matter

As described in Note 5, "Significant accounting estimates" to the consolidated financial statements, Daiwa Securities Group Inc. (the "Company") and its subsidiaries recognized private equity and other investments of ¥97.1 billion and loans receivable from customers of ¥68.3 billion in the Investment Division. These amounts included the balances held by the consolidated subsidiaries, Daiwa PI Partners Co. Ltd. and Daiwa Energy & Infrastructure Co. Ltd. In relation to these investments, a loss on aircraft-related investments of ¥0.9 billion and a loss on investments in unprofitable domestic and overseas funds of ¥12.4 million were recognized for the current fiscal year due to revaluation in light of the deteriorating investees' performance or for other reasons.

The Company is engaged in a principal investment business that mainly aims to make profit by acquiring/holding investments such as entities' shares using its own capital and reselling them after adding value to the

### How the matter was addressed in our audit

To assess the reasonableness of the valuation of private equity and other investments, and loans receivable from customers (the Investment Division), we primarily performed the following audit procedures:

#### (1) Internal control testing

We tested the design and operating effectiveness of certain of the Company's internal controls relevant to the valuation of private equity and other investments, and loans receivable from customers. In this assessment, we focused our testing on the following controls:

- controls to ensure that the internal rules for the valuation of private equity and other investments, and loans receivable from customers comply with accounting standards and other applicable requirements; and
- controls to ensure that the estimated future cash flows from the investee companies are reasonable.



investee companies through business improvements or other means. The Company is also engaged in energy and infrastructure investment businesses to principally make profit by acquiring/holding domestic and foreign investment assets within the energy and infrastructure sectors and recognizing investment income during the holding period or gains upon reselling them. These businesses are conducted by the Investment Division, and impairment losses on its investments may be recognized if the value of the investments, such as shares, has declined during the holding period. Furthermore, if the Company cannot resell investments, such as shares, at prices above their acquisition costs, it may recognize a loss upon reselling them.

As described in Note 2, "Significant accounting policies, Securities other than trading assets and trading liabilities" to the consolidated financial statements, of the private equity and other investments, investments, such as shares, with no readily available market prices are measured at cost using the moving average cost method in the consolidated balance sheet. If the substantive value of an investment has declined significantly, an impairment loss shall be recognized unless its recoverability is supported by sufficient evidence. In addition, as described in the same note, even if any impairment loss is not eventually recognized, the amount of an estimated loss shall be recognized as an allowance for possible investment losses if it is probable that a loss has been incurred in light of the operating results or other factors of the investee companies. Furthermore, as described in Note 2, "Significant accounting policies, Allowance for doubtful accounts", the estimated amount of uncollectible loans receivable from customers shall be recognized as an allowance for doubtful accounts if it is probable that a credit loss has been incurred.

In the case of the deteriorating investees' performance or for other reasons, the Company determines whether an impairment loss or an allowance for possible investment losses on private equity and other investments, and an allowance for doubtful accounts on loans receivable from customers should be recognized based on the valuation of investments, calculated in view of the investee companies' operating status and the estimated future cash flows generated from these investee companies considering the extent to which a loss has been incurred, as well as whether there is sufficient evidence supporting their recoverability. The evaluation of the operating status of the investee companies involves an understanding of the business environment of the industries to which the investee companies belong and specialized knowledge of those industries requiring significant management judgment. Management judgment is also required on the feasibility of business improvement measures and investment

## (2) Assessment of the reasonableness of the valuation of private equity and other investments, and loans receivable from customers

For a selection of investments which were significant in amount and for which there was a deterioration in the investee companies' performance compared to the initial plan, or in the business environment of the industries to which the investee companies belong among the investment securities held by the Investment Division, we assessed the extent to which a loss had been incurred, as well as whether there was sufficient evidence supporting their recoverability. This assessment included the following audit procedures:

- Evaluation of the operating status of the investee companies  
We assessed the reasonableness of management's evaluation of the operating status of the investee companies by inspecting materials used in management's evaluation and an evaluation report from an external evaluation company, inquiring of the personnel responsible for the investing department and the risk management department regarding the matter, and performing an analysis based on publicly available information on the investee companies we independently obtained. In evaluating the operating status of the investee companies, we considered:
  - the status of the industries as a whole to which the investee companies belong;
  - the investee companies' business model;
  - the investee companies' performance;
  - the investee companies' cash flow position and financing arrangements;
  - the progress of energy and infrastructure related projects; and
  - the impact of the spread of the novel coronavirus disease (COVID-19).
- Evaluation of the method for calculating the valuation  
We assessed the reasonableness of the method of calculating the valuation by inspecting materials used in management's valuation calculations and a valuation report from an external valuation company and inquiring of the personnel responsible for the investing department and the risk management department regarding the matter.
- Assessment of significant assumptions underlying future cash flows  
We inspected the documents prepared by the Company describing significant assumptions, including the investee companies' business plans and the forecast of their future business environment,

recovery plans, among others, as they have a significant effect on the estimated future cash flows generated from the investee companies.

The balance of investments held by the Investment Division increased during the current fiscal year. In particular, in the event of a deterioration in the performance and business environment of significant investees, the assessment of the extent to which a loss has been incurred, as well as whether there is sufficient evidence supporting their recoverability had a significant effect on the consolidated financial statements.

We, therefore, determined that our assessment of the reasonableness of the valuation of investments held by the Investment Division included in private equity and other investments, and loans receivable from customers was one of the most significant matters in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.

which formed the basis for estimating future cash flows, and inquired of management regarding the effect of those assumptions on the valuation of investments. Additionally, we assessed the reasonableness of those assumptions by comparing them with the results of our own analysis using external data we independently obtained.

For the valuation of energy related investments in particular, we recognized that the trend of import prices of fuel and the prospect for the use of renewable energy in Japan including related regulatory trends, which formed a basis for future electricity prices, were significant assumptions, and assessed whether the several scenarios used by the Company for the valuation and the discount rates were appropriate with the assistance of valuation specialists and personnel with specialized knowledge of the energy business within our domestic network firms.

Furthermore, for the valuation of aircraft related investments, we recognized that the prospect for recovery of air travel demand depressed by the spread of COVID-19, which formed a basis for future aircraft prices, was a significant assumption and assessed the reasonableness of management's assumption by comparing it with air travel demand forecasts published by airline industry groups.

## Reasonableness of the valuation of Level 3 derivative instruments held as part of trading products

### The key audit matter

As described in Note 8, "Financial instruments, Matters concerning the fair value and fair value hierarchy by level of financial instruments" to the consolidated financial statements, the Company and its subsidiaries recognized derivative instruments held as part of trading products of ¥2,460 billion and ¥2,335 billion in assets and liabilities, respectively. As described in the same note, the derivative assets and liabilities held as part of trading products categorized within Level 3 of the fair value hierarchy, or Level 3 derivative assets and liabilities, were ¥47 billion and ¥20 billion, respectively.

In the trading business, in order to meet customers' needs, the Company provides customers with various financial instruments by entering into derivative transactions as a freestanding instrument or as a feature embedded in structured notes or other host instruments. The Company also utilizes derivative transactions to hedge interest rate risk of its financial assets and liabilities as well as its trading positions.

### How the matter was addressed in our audit

To assess the reasonableness of the valuation of Level 3 derivative instruments held as part of trading products, we primarily performed the following audit procedures:

#### (1) Internal control testing

We tested the design and operating effectiveness of certain of the Company's internal controls relevant to the valuation of Level 3 derivative instruments held as part of trading products. In this assessment, we focused our testing on the following controls:

- controls that inputs used in the pricing models and the marked-to-market valuation are validated by a department independent of the trading department; and
- controls that the reasonableness of assumptions embedded in the pricing models and the appropriateness of valuation techniques, as well as adjustments to the pricing models are validated by a department independent of the department which developed the pricing models.

As described in Note 2, “Significant accounting policies, Trading assets and trading liabilities” to the consolidated financial statements, derivative instruments held as part of trading assets and trading liabilities are measured at fair value in the consolidated balance sheets, while valuation gains or losses are reported within net gains or losses on trading in the consolidated income statements. In addition, as described in Note 4, “Change in accounting policy”, the “Accounting Standard for Calculation of Fair Value Measurement” was adopted from the beginning of the current fiscal year, and the information regarding Level 3 fair value is provided in Note 8, “Financial instruments, Matters concerning the fair value and fair value hierarchy by level of financial instruments ” to the consolidated financial statements.

The fair values of over-the-counter derivative instruments are calculated using pricing models including those generally recognized in the market or the updated versions thereof. These pricing models are adjusted to reflect market trends by performing an analysis through the comparison with observable market information and alternative pricing models, or other means.

To calculate fair values using pricing models, various inputs, including interest rates, exchange rates, stock prices, volatilities and correlation coefficients, are used. In particular, unobservable inputs, including long-term swap rates, long-term currency basis, long-term volatilities of stock prices, long-term credit spreads and correlation coefficients, are used to calculate the fair value of Level 3 derivative instruments.

Selecting and adjusting pricing models and determining inputs used in the pricing models to estimate the market value of Level 3 derivative instruments required management judgments. In addition, since complex processes involving a high level of expertise in the market and valuation methodologies were necessary while making management judgments, the fair value of Level 3 derivative instruments involved a high degree of estimation uncertainty.

We, therefore, determined that our assessment of the reasonableness of the valuation of Level 3 derivative instruments held as part of trading products was one of the most significant matters in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.

## (2) Assessment of the reasonableness of the valuation of the Level 3 derivative instruments held as part of trading products

- **Assessment of the reasonableness of pricing models**  
We assessed the continuing appropriateness of assumptions embedded in the pricing models used to calculate the valuation of derivative instruments and the reasonableness of adjustments to those assumptions. We involved valuation specialists in financial instruments within our international network firms (hereinafter, the “financial instrument valuation specialists”) who assisted our assessment of the reasonableness of the adjustments made to the pricing models during the current fiscal year.
- **Assessment of the reasonableness of inputs**  
We compared observable market inputs with data we independently obtained from information vendors and other sources. We also compared unobservable inputs mainly with consensus pricing data provided by a consensus pricing service provider and the values we estimated independently.
- **Assessment of the reasonableness of the valuation of derivative instrument calculated using the pricing models**  
For a selection of derivative instruments selected considering quantitative and qualitative significance, we independently calculated the valuation of those derivative instruments and compared them with the fair values calculated by management, with the assistance of the financial instrument valuation specialists.
- **Assessment of the appropriateness of relevant disclosures**  
We assessed the accuracy of the balances by level and the information related to Level 3 fair value disclosed in accordance with the “Accounting Standard for Calculation of Fair Value Measurement.”

## 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 with regard to 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.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 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  
August 6, 2021

### 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, 2021

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, 2021.

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## Key Metrics (at consolidated group level)

### KM1: Key metrics

Basel III template number	Millions of yen, %				
	March 2021	December 2020	September 2020	June 2020	March 2020
Available capital (amounts)					
1 Common Equity Tier 1 (CET1)	¥ 1,123,656	¥ 1,079,983	¥ 1,034,222	¥ 1,043,809	¥ 1,035,250
2 Tier 1	1,305,210	1,214,038	1,162,574	1,179,907	1,171,864
3 Total capital	1,305,210	1,214,038	1,162,574	1,179,907	1,171,864
Risk-weighted assets (amounts)					
4 Total risk-weighted assets (RWA)	6,008,356	5,160,906	5,174,911	5,406,413	5,536,310
Capital ratio					
5 CET1 ratio (%)	18.70%	20.92%	19.98%	19.30%	18.69%
6 Tier 1 ratio (%)	21.72%	23.52%	22.46%	21.82%	21.16%
7 Total capital ratio (%)	21.72%	23.52%	22.46%	21.82%	21.16%
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%	0.00%	0.00%	0.00%	0.00%
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%	3.00%	3.00%	3.00%	3.00%
12 CET1 available after meeting the bank's minimum capital requirements (%)	13.72%	15.52%	14.46%	13.82%	13.16%
Leverage ratio					
13 Total leverage ratio exposure measure	18,916,695	18,282,142	18,436,197	18,136,475	20,200,161
14 Leverage ratio (%) including the impact of any applicable temporary exemption of central bank reserves	6.89%	6.64%	6.30%	6.50%	5.80%

## Composition of Capital Disclosure

### CC1: Composition of regulatory capital

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	¥1,244,539	
1a	Common stock and capital surplus	478,048	(i), (j)
2	Retained earnings	912,223	(k)
1c	Treasury stock (Δ)	107,636	(l), (m)
26	Planned distributions (Δ)	38,096	
	Others	—	
1b	Stock subscription rights	9,125	(p)
3	Accumulated other comprehensive income (and other reserves)	51,453	(o)
5	Minority interest after adjustments	—	
6	Common Equity Tier 1 capital before regulatory adjustments	(a) 1,305,118	
	Common Equity Tier 1 capital: regulatory adjustments	(2)	
8+9	Intangible assets other than mortgage-servicing rights (net of related tax liability)	164,084	
8	Goodwill (net of related tax liability)	56,411	(e), (g)
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	107,672	(f)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	348	(d), (h)
11	Cash-flow hedge reserve	(1,556)	(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	329	
15	Defined-benefit pension fund net assets	—	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	31	(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)	18,223	(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) 181,462	
	Common Equity Tier 1 capital		
29	Common Equity Tier 1 capital (CET1) ((a) - (b))	(c) ¥1,123,656	

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		149,100	
	Instruments issued by Special Purpose Companies		—	
34-35	Minority interest after adjustments		47,388	(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)	196,488	
	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)		5,411	(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		9,522	
43	Total regulatory adjustments to Additional Tier 1 capital	(e)	14,934	
	Additional Tier 1 capital			
44	Additional Tier 1 capital ((d) - (e))	(f)	181,554	
	Tier 1 capital			
45	Tier 1 capital ((c) + (f))	(g)	1,305,210	
	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		11,150	(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)	¥ 11,150	

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)		20,673	(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)	20,673	
Tier 2 capital				
58	Tier 2 capital ((h) - (i))	(j)	—	
Total capital				
59	Total capital ((g) + (j))	(k)	1,305,210	
Risk weighted assets				
60	Total risk-weighted assets	(l)	6,008,356	
Consolidated capital adequacy ratio				
61	Common Equity Tier 1 (as a percentage of risk-weighted assets) ((c) / (l))		18.70%	
62	Tier 1 (as a percentage of risk-weighted assets) ((g) / (l))		21.72%	
63	Total capital (as a percentage of risk-weighted assets) ((k) / (l))		21.72%	
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		13.72%	
Amounts below the thresholds for deduction (before risk weighting)				
72	Non-significant investments in the capital of other financials	(6)	114,187	(a), (b), (c), (g)
73	Significant investments in the common stock of financials		68,331	(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)		11,053	(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 standardized 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: 118 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. <sup>1</sup>	Integration and management of subsidiaries
Daiwa Securities Business Center Co. Ltd.	Back office operations
Daiwa Facilities Co., Ltd.	Lending and borrowing of real estate Management of real estate
Daiwa Next Bank, Ltd.	Banking businesses
Daiwa Institute of Research Ltd. <sup>1</sup>	Information services
Daiwa Institute of Research Business Innovation Ltd. <sup>1</sup>	Information services
Daiwa Corporate Investment Co., Ltd.	Investment businesses
Daiwa PI Partners Co. Ltd.	Investment businesses
Daiwa Energy & Infrastructure Co. Ltd.	Investment businesses
Daiwa Real Estate Asset Management Co., Ltd.	Investment management businesses Investment advisory and agency businesses
Daiwa Office Investment Corporation	Investment management for specified assets
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

<sup>1</sup> Daiwa Institute of Research Ltd. and Daiwa Institute of Research Business Innovation Ltd. were merged into Daiwa Institute of Research Holdings Ltd. on April 1, 2021 and the trade name was changed to Daiwa Institute of Research Ltd.

**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 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	¥1,929	¥1,919
Daiwa Investor Relations Co. Ltd.	Research and consulting regarding corporate management policy, finance policy, shareholder policy, corporate image, and IR activities	674	436
DMS Ltd.	Information services		
	Market research and consulting services	248	211
Asian Energy Investments Pte., Ltd.	Investment management businesses		
	Investment advisory and agency businesses	554	502
Daiwa ACA HealthCare Inc.	Investment funds management businesses		
	Asset management business		
	Real estate business	316	257
DS Capital International (NI) Ltd.	Investment businesses	0	0
Daiwa Corporate Investment Asia Ltd.	Investment businesses	107	74
Hubei Gaohe Fund management Co., Ltd.	Investment management businesses		
	Investment advisory and agency businesses	45	43

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>

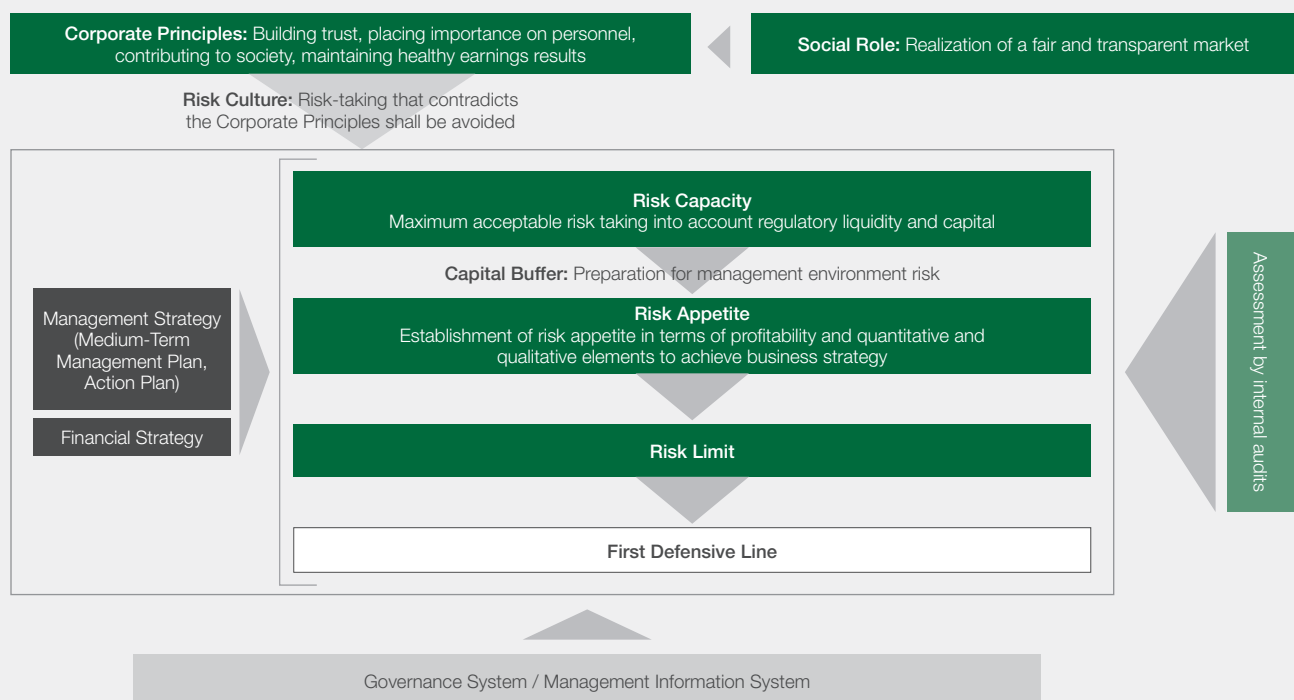
The risk appetite framework defines risk appetite as the type and total amount of risk that should be assumed in order to achieve profit targets and business plans. It is the framework of group-wide risk control.

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.

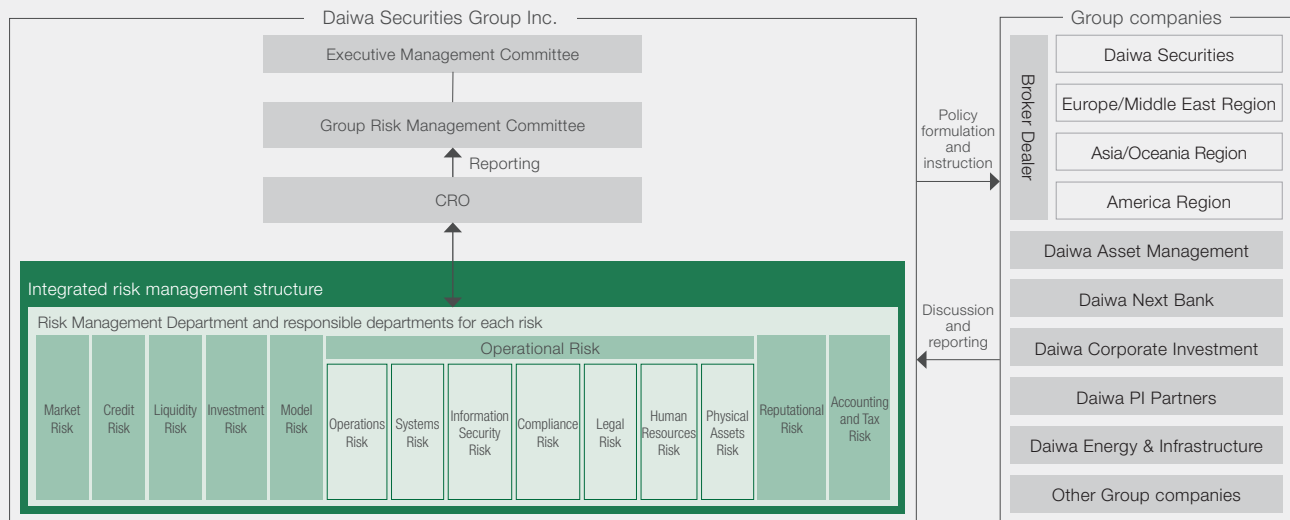
The risk appetite framework is also reviewed properly when business strategies or capital allocation plans are revised or the external environment changes significantly or great excess occurs on the risk profile.

**<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.

—Model risk—

Model risk refers to the risk that the Group will suffer losses due to model development, implementation errors, or model misuse.

—Investment risk—

Investment risk refers to the risk that the value of the investment made by the Group will be damaged, that additional funding will be required, or that the return on investment will be lower than expected due to deterioration of the business performance and credit status of the investee, changes in the market environment.

—Reputational risk—

Reputational risk refers to the possibility of the Group sustaining unforeseen losses and the Group’s counterparties being adversely affected due to a deterioration of its reliability, reputation, and assessment caused by the spread of rumors or erroneous information.

—Accounting and tax risk—

Accounting and tax risk is the risk of not conducting appropriate accounting treatment and disclosure in

accordance with accounting or taxation standards, laws, and regulations, or of not filing or paying taxes appropriately, as well as the risk of losses arising as a result.

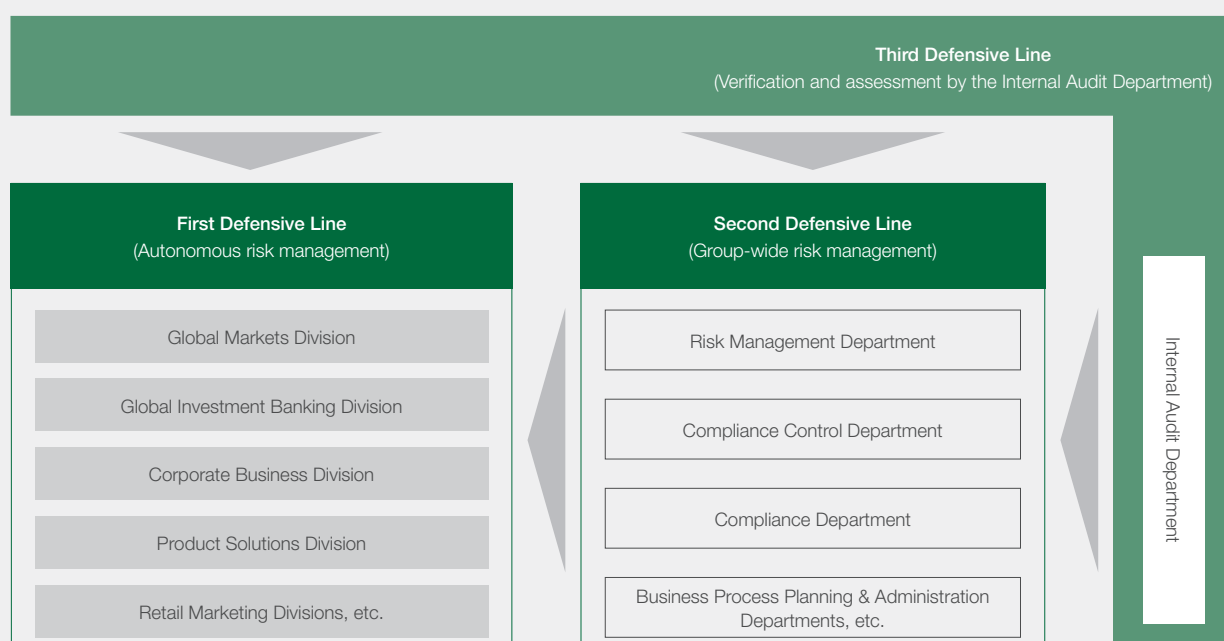
**Executive Management, department and committee (to deliberate and decide the policies and specific measures of risk management) in charge of each risk**

Risk category	Executive management	Department	Committee
Market risk	CRO	Risk Management Department	Group Risk Management Committee
Credit risk	CRO	Risk Management Department	Group Risk Management Committee
Liquidity risk	CRO	Risk Management Department	Group Risk Management Committee
Operational risk	CRO	Risk Management Department	Group Risk Management Committee
Model risk	CRO	Risk Management Department	Group Risk Management Committee
Investment 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 and cash flow estimation 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 Audit Committee for Banks and Other Financial Institutions Report No. 4 October 8, 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 ECAIs) for determining the risk weight under the standardized approach

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

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

##### A) Overview of the basic characteristics of policies, processes and the usage of netting

In securities-secured loans, loans are made up to the maximum borrowing amount within the market value of the securities received as collateral. After the execution of a loan, a netting agreement is conducted for the amount of the loan and the collateral valuation. Additional collateral is called in response to the deterioration of the ratio of the loan amount to the collateral value. Furthermore, collateral disposal is executed to protect loans when the deterioration is regarded as prolonged.

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.

In the event that a business partner defaults, collateral will be sold in the market for claims protection.

For uncollateralized exposures, an allowance amount is calculated based upon the potential exposure calculated by simulation and the CDS spread observed in the market.

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.

### 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.

### 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.

## 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.

### 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.

### 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.

### 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 2021, there were no 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 (unlisted stocks, etc.) and partnership investment are carried at cost by the moving average method.

## 11. Interest rate risk

### A) Overview of risk management policies and procedures

In the scope of market risk management, the Group calculates changes in Economic Value of Equity (hereunder EVE) and Net Interest Income (hereunder NII) to reflect the interest rate risk that arises from the non-trading transactions. The result is reported in the group's risk management meeting.

### B) Overview of the method for measuring interest rate risk

For financial assets and financial liabilities owned by major subsidiaries and Daiwa Securities Group Inc., based on the shock scenario of interest rate fluctuation assuming certain stress every quarter, the Group computes changes in EVE and NII. In all financial assets and liabilities held by the Group, bonds and long-term debts are mainly subject to interest rate risk.

## 12. Reconciliation of regulatory capital to balance sheet

### CC2—Reconciliation of regulatory capital to balance sheet

				Millions of yen
		Balance sheets as in published statements	Under regulatory scope of consolidation	Cross-referenced to CC1
Assets				
Current assets				
Cash and deposits		¥ 4,763,197	¥ 4,765,881	
Cash segregated as deposits		485,876	485,876	
Notes and accounts receivable-trade		21,488	21,488	
Short-term investment securities	(a)	996,683	996,683	8, 18, 39, 54, 72, 73
Trading products	(b)	7,834,093	7,834,093	16, 18, 39, 54, 72, 73
Trading date accrual		—	—	
Operational investment securities	(c)	97,092	97,092	18, 39, 54, 72, 73
Allowance for investment loss		(588)	(588)	
Operating loans		1,996,121	1,996,121	
Work in process		603	603	
Margin transaction assets		162,078	162,078	
Loans secured by securities		7,448,321	7,448,321	
Advances paid		20,131	20,131	
Short-term loans receivable		595	595	
Accrued income		36,229	36,229	
Deferred tax assets	(d)	—	—	10, 75
Other current assets		788,790	789,499	
Allowance for doubtful accounts		(4,401)	(4,401)	
Total current assets		24,646,314	24,649,707	
Noncurrent assets				
Property, plant and equipment		880,477	880,604	
Intangible assets		128,786	128,848	
Goodwill	(e)	21,229	21,229	8
Others	(f)	107,557	107,619	9
Investments and other assets		443,751	442,244	
Investment securities	(g)	402,590	401,036	8, 18, 39, 54, 72, 73
Deferred tax assets	(h)	11,397	11,402	10, 75
Others		29,764	29,805	
Total noncurrent assets		1,453,016	1,451,698	
Total deferred charges		—	—	
Total assets		¥26,099,330	¥26,101,405	

	Millions of yen		
	Balance sheets as in published statements	Under regulatory scope of consolidation	Cross-referenced to CC1
<b>Liabilities</b>			
<b>Current liabilities</b>			
Notes and accounts payable-trade	¥ 5,382	¥ 5,382	
Trading products	4,367,822	4,367,822	
Trading date accrual	1,320,279	1,320,279	
Margin transaction liabilities	64,022	64,022	
Loans payable secured by securities	8,176,094	8,176,094	
Deposits from banking business	4,416,097	4,416,097	
Deposits received	419,994	420,001	
Guarantee deposits received	366,351	366,351	
Short-term loans payable	1,408,288	1,408,288	
Commercial paper	265,000	265,000	
Current portion of bonds	203,774	203,774	
Income taxes payable	17,962	18,012	
Deferred tax liabilities	—	—	
Provision for bonuses	36,316	36,316	
Other current liabilities	151,966	152,221	
<b>Noncurrent liabilities</b>			
Bonds payable	1,557,333	1,557,333	
Long-term loans payable	1,586,913	1,586,913	
Deferred tax liabilities	43,176	43,176	
Net defined benefit liabilities	44,773	44,773	
Provision for loss on litigation	1,809	1,809	
Negative goodwill	—	—	
Other noncurrent liabilities	50,430	50,547	
Reserves under the special laws	3,699	3,699	
<b>Total liabilities</b>	<b>24,507,489</b>	<b>24,507,920</b>	
<b>Net assets</b>			
<b>Shareholders' equity</b>			
Common stock	(i) 247,397	247,397	1a
Capital surplus	(j) 230,651	230,651	1a
Retained earnings	(k) 911,742	912,130	2
Treasury stock	(l) (107,646)	(107,646)	1c
Advances on subscription of treasury stock	(m) 9	9	1c
<b>Total shareholders' equity</b>	<b>1,282,154</b>	<b>1,282,154</b>	
<b>Accumulated other comprehensive income</b>			
Valuation difference on available-for-sale securities	41,587	41,587	
Deferred gains or losses on hedges	(n) (3,058)	(3,058)	11
Foreign currency translation adjustment	12,886	13,017	
<b>Total accumulated other comprehensive income</b>	<b>(o) 51,415</b>	<b>51,415</b>	<b>3</b>
Subscription rights to shares	(p) 9,125	9,125	1b
Minority interests	(q) 249,145	250,268	34-35, 48-49
<b>Total net assets</b>	<b>¥ 1,591,841</b>	<b>¥ 1,593,484</b>	

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

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



## Quantitative Disclosure (Consolidated)

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

Not applicable.

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

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

	Millions of yen			
	Credit risk exposures			
March 2021		Loans	Securities	Others
Japan	¥8,536,949	¥1,403,234	¥1,140,836	¥5,992,878
Overseas	517,751	68,365	31,216	418,169
Total (by area)	9,054,700	1,471,599	1,172,052	6,411,047
Sovereign	5,978,681	1,092,858	728,585	4,157,237
Financial institutions	879,050	—	10,268	868,782
Corporate	681,219	359,993	130,972	190,252
CCPs	30,140	—	—	30,140
Others	1,485,608	18,746	302,226	1,164,634
Total (by industry)	9,054,700	1,471,599	1,172,052	6,411,047
< 1 year	496,777	312,372	152,408	31,997
> 1 year ≤ 3 years	126,586	2	126,573	9
> 3 years ≤ 5 years	58,470	—	58,418	52
> 5 years ≤ 7 years	41,460	—	41,405	55
> 7 years	470,943	—	460,065	10,877
Indeterminate	7,860,461	1,159,224	333,180	6,368,056
Total (by maturity)	¥9,054,700	¥1,471,599	¥1,172,052	¥6,411,047

#### 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 2021	Term-end balance	Term-end allowance	Write-offs for the year
Japan	¥79,944	¥12,668	¥—
Overseas	6,565	366	—
Total (by area)	86,509	13,035	—
Sovereign	—	—	—
Financial institutions	35	—	—
Corporate	74,012	5,006	—
Others	12,461	8,028	—
Total (by industry)	¥86,509	¥13,035	¥—

### 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	¥30,862	¥124	¥36	¥—	¥30,702
Overseas	74	—	—	—	74
Total (by area)	30,937	124	36	—	30,776
Sovereign	—	—	—	—	—
Financial institutions	35	—	—	—	35
Corporate	30,901	124	36	—	30,740
CCPs	—	—	—	—	—
Others	—	—	—	—	—
Total (by industry)	¥30,937	¥124	¥36	¥—	¥30,776

### 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)		¥481,993
Equity investments in funds (mandate-based approach)		22,445
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)		169
Total		¥504,607

## 4. Other quantitative disclosures

### OV1: Overview of RWA

		Millions of yen			
Basel III template number		RWA		Minimum capital requirements	
		March 2021	March 2020	March 2021	March 2020
1	Credit risk (excluding counterparty credit risk) (CCR)	¥2,001,097	¥1,065,998	¥160,088	¥ 85,280
2	Of which standardized approach (SA)	973,879	725,737	77,910	58,059
3	Of which internal rating-based (IRB) approach	—	—	—	—
	Of which significant investments	—	—	—	—
	Of which exposures for estimated residual value of lease	—	—	—	—
	Others	1,027,217	340,260	82,177	27,220
4	Counterparty credit risk	1,216,029	1,015,852	97,282	81,268
5	Of which standardized approach for counterparty credit risk (SA-CCR)	502,669	427,491	40,214	34,199
6	Of which internal model method (IMM)	—	—	—	—
	Of which credit valuation adjustment (CVA) risk	436,339	347,795	34,907	27,823
	Of which exposures to central counterparties (CCPs)	25,311	15,943	2,025	1,275
	Others	251,710	224,621	20,137	17,969
7	Equity positions under market-based approach	—	—	—	—
8	Equity investments in funds (look-through approach)	274,039	516,553	21,923	41,324
9	Equity investments in funds (mandate-based approach)	21,507	73,154	1,721	5,851
	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)	2,119	1,443	169	115

Basel III template number		Millions of yen			
		RWA		Minimum capital requirements	
		March 2021	March 2020	March 2021	March 2020
11	Settlement risk	9	255	1	20
12	Securitization exposures in banking book	121,219	119,868	9,697	9,589
13	Of which internal ratings-based approach (SEC-IRBA) or internal assessment approach (IAA)	—	—	—	—
14	Of which external ratings-based approach (SEC-ERBA)	118,851	117,501	9,508	9,400
15	Of which standardized approach (SEC-SA) Of which 1250% risk weight applied	— 2,367	— 2,367	— 189	— 189
16	Market risk	1,211,121	1,604,159	96,890	128,332
17	Of which standardized approach (SA)	857,501	838,138	68,600	67,051
18	Of which internal model approaches (IMM)	353,621	766,021	28,290	61,281
19	Operational risk	962,612	940,462	77,009	75,237
20	Of which basic indicator approach	962,612	940,462	77,009	75,237
21	Of which standardized approach	—	—	—	—
22	Of which advanced measurement approach	—	—	—	—
23	Amounts below the thresholds for deduction (subject to 250% risk weight)	198,606	198,560	15,888	15,883
	Amounts included in risk weighted asset due to transitional arrangements	—	—	—	—
24	Floor adjustment	—	—	—	—
25	Total	¥6,008,356	¥5,536,310	¥480,669	¥442,904

Basel III template number		Millions of yen			
		RWA		Minimum capital requirements	
		March 2021	December 2020	March 2021	December 2020
1	Credit risk (excluding counterparty credit risk) (CCR)	¥2,001,097	¥1,252,664	¥160,088	¥100,199
2	Of which standardized approach (SA)	973,879	888,237	77,910	71,058
3	Of which internal rating-based (IRB) approach Of which significant investments Of which exposures for estimated residual value of lease Others	— — — 1,027,217	— — — 364,427	— — — 82,177	— — — 29,140
4	Counterparty credit risk	1,216,029	1,087,901	97,282	87,032
5	Of which standardized approach for counterparty credit risk (SA-CCR)	502,669	452,639	40,214	36,211
6	Of which internal model method (IMM) Of which credit valuation adjustment (CVA) risk Of which exposures to central counterparties (CCPs) Others	— 436,339 25,311 251,710	— 384,350 20,519 230,392	— 34,907 2,025 20,137	— 30,748 1,641 18,431
7	Equity positions under market-based approach	—	—	—	—
8	Equity investments in funds (look-through approach)	274,039	475,514	21,923	38,041
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)	21,507 — —	27,256 — —	1,721 — —	2,180 — —
10	Equity investments in funds (fall-back approach)	2,119	543	169	43
11	Settlement risk	9	1,096	1	87
12	Securitization exposures in banking book	121,219	117,841	9,697	9,427
13	Of which internal ratings-based approach (SEC-IRBA) or internal assessment approach (IAA)	—	—	—	—
14	Of which external ratings-based approach (SEC-ERBA)	118,851	115,474	9,508	9,237
15	Of which standardized approach (SEC-SA) Of which 1250% risk weight applied	— 2,367	— 2,367	— 189	— 189
16	Market risk	1,211,121	1,097,422	96,890	87,793
17	Of which standardized approach (SA)	857,501	809,255	68,600	64,740
18	Of which internal model approaches (IMM)	353,621	288,167	28,290	23,053

Basel III template number		Millions of yen			
		RWA		Minimum capital requirements	
		March 2021	December 2020	March 2021	December 2020
19	Operational risk	962,612	907,891	77,009	72,631
20	Of which basic indicator approach	962,612	907,891	77,009	72,631
21	Of which standardized approach	—	—	—	—
22	Of which advanced measurement approach	—	—	—	—
23	Amounts below the thresholds for deduction (subject to 250% risk weight)	198,606	192,773	15,888	15,421
	Amounts included in risk weighted asset due to transitional arrangements	—	—	—	—
24	Floor adjustment	—	—	—	—
25	Total	¥6,008,356	¥5,160,906	¥480,669	¥412,872

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

	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Millions of yen					
			Carrying values of items:					
			Subject to credit risk framework <sup>1</sup>	Subject to counterparty credit risk framework	Subject to the securitization framework <sup>2</sup>	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital	
Assets								
1. Cash and deposits	¥ 4,763,197	¥ 4,765,881	¥4,765,881	¥ —	¥ —	¥ 271,709	¥ —	
2. Cash segregated as deposits	485,876	485,876	485,876	—	—	45,956	—	
3. Notes and accounts receivable-trade	21,488	21,488	21,488	—	—	—	—	
4. Short-term investment securities	996,683	996,683	947,589	—	131,053	309,929	—	
5. Trading products	7,834,093	7,834,093	—	2,426,001	—	7,837,582	(3,489)	
6. Trading date accrual	—	—	—	4,297	—	36	78,438	
7. Operational investment securities	97,092	97,092	97,092	—	—	—	—	
8. Allowance for investment loss	(588)	(588)	(588)	—	—	—	—	
9. Operating loans	1,996,121	1,996,121	1,472,107	—	445,248	337,885	—	
10. Work in process	603	603	603	—	—	—	—	
11. Margin transaction assets	162,078	162,078	—	162,078	—	—	—	
12. Loans secured by securities	7,448,321	7,448,321	—	7,766,248	—	2,837,194	—	
13. Advances paid	20,131	20,131	20,131	—	—	66	—	
14. Short-term loans receivable	595	595	595	—	—	106	—	
15. Accrued income	36,229	36,229	36,229	—	—	12,143	—	
16. Deferred tax assets	—	—	—	—	—	2,800	—	
17. Other current assets	788,790	789,499	732,445	13,810	—	83,064	35,247	
18. Allowance for doubtful accounts	(4,401)	(4,401)	(4,401)	—	—	(341)	—	
19. Total current assets	24,646,314	24,649,707	8,575,047	10,372,437	576,301	11,738,135	110,196	
20. Property, plant and equipment	880,477	880,604	880,604	—	—	26,973	—	
21. Intangible assets	128,786	128,848	—	—	—	6,803	128,848	
22. Goodwill	21,229	21,229	—	—	—	4,650	21,229	
23. Others	107,557	107,619	—	—	—	2,152	107,618	
24. Investments and other assets	443,751	442,244	438,861	232	189	12,180	5	
25. Investment securities	402,590	401,036	400,845	—	189	7,577	—	
26. Deferred tax assets	11,397	11,402	11,386	—	—	2,080	5	
27. Others	29,764	29,805	26,629	232	—	2,522	—	
28. Total noncurrent assets	1,453,016	1,451,698	1,319,465	232	189	45,958	128,853	
29. Total deferred assets	—	—	—	—	—	—	—	
30. Total assets	¥26,099,330	¥26,101,405	¥9,894,512	¥10,372,669	¥576,490	¥11,784,093	¥239,049	

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 of items:									
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to credit risk framework <sup>1</sup>	Subject to counterparty credit risk framework	Subject to the securitization framework <sup>2</sup>	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital		
Liabilities									
31. Notes and accounts payable-trade	¥ 5,382	¥ 5,382	¥ —	¥ —	¥ —	¥ —	¥ 5,382		
32. Trading products	4,367,822	4,367,822	—	2,321,332	—	4,367,822	—		
33. Trading date accrual	1,320,279	1,320,279	—	—	—	785,844	—		
34. Margin transaction liabilities	64,022	64,022	—	64,022	—	—	—		
35. Loans payable secured by securities	8,176,094	8,176,094	—	8,493,512	—	4,266,123	—		
36. Deposits from banking business	4,416,097	4,416,097	—	—	—	—	4,416,097		
37. Deposits received	419,994	420,001	—	—	—	48,695	420,001		
38. Guarantee deposits received	366,351	366,351	355,730	10,621	—	1,993	—		
39. Short-term loans payable	1,408,288	1,408,288	—	—	—	55,877	1,408,288		
40. Commercial paper	265,000	265,000	—	—	—	—	265,000		
41. Current portion of bonds	203,774	203,774	—	—	—	—	203,774		
42. Income taxes payable	17,962	18,012	—	—	—	593	17,995		
43. Deferred tax liabilities	—	—	—	—	—	2,730	—		
44. Provision for bonuses	36,316	36,316	—	—	—	16,703	36,241		
45. Other current liabilities	151,966	152,221	25,438	26,835	—	61,322	126,783		
46. Bonds payable	1,557,333	1,557,333	—	—	—	—	1,557,333		
47. Long-term loans payable	1,586,913	1,586,913	—	—	—	—	1,586,913		
48. Deferred tax liabilities	43,176	43,176	105	—	—	6	43,070		
49. Net defined benefit liabilities	44,773	44,773	—	—	—	—	44,768		
50. Provision for loss on litigation	1,809	1,809	—	—	—	—	1,809		
51. Negative goodwill	—	—	—	—	—	—	—		
52. Other noncurrent liabilities	50,430	50,547	—	500	—	15,450	36,109		
53. Reserves under the special laws	3,699	3,699	—	—	—	—	3,699		
54. Total liabilities	¥24,507,489	¥24,507,920	¥381,273	¥10,916,824	¥—	¥9,623,164	¥10,173,271		

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

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

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

Millions of yen					
	Total		Items subject to:		
		Credit risk framework <sup>1</sup>	Counterparty credit risk framework	Securitization framework <sup>2</sup>	Market risk framework
1. Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	¥25,862,355	¥9,894,512	¥ 10,372,669	¥576,490	¥11,784,093
2. Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	14,334,649	381,273	10,916,824	—	9,623,164
3. Total net amount under regulatory scope of consolidation	11,527,706	9,513,239	(544,155)	576,490	2,160,929
4. Off-balance sheet amounts	199,092	21,952	177,139	—	—
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	3,680,082	—	3,680,082	—	—
10. Differences due to netting and CRM for SFTs	17,377,446	—	17,377,446	—	—
11. Other differences	(8,415,160)	30,551	(18,572,240)	13,510	—
12. Exposure amounts considered for regulatory purposes	14,434,944	9,565,743	2,118,272	590,000	2,160,929

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

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

(Note) Differences are mainly due to the following:

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

### CR1: Credit quality of assets

	Millions of yen			
	Gross carrying values of		Allowances/ impairments	Net values <sup>1</sup>
	Defaulted exposures	Non-defaulted exposures		
On-balance sheet assets				
1. Loans	¥ —	¥1,479,283	¥7,684	¥1,471,600
2. Debt securities	—	843,313	—	843,313
3. Other on-balance sheet assets (debt products)	30,862	4,901,778	2,161	4,930,479
4. Sub-total on-balance sheet assets (1+2+3)	30,862	7,224,374	9,844	7,245,392
Off-balance sheet assets				
5. Acceptances and guarantees	—	13,689	—	13,689
6. Commitments	—	19,054	—	19,054
7. Sub-total off-balance sheet assets (5+6)	—	32,743	—	32,743
Total				
8. Total (4+7)	¥30,862	¥7,257,117	¥9,844	¥7,278,135

<sup>1</sup> "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 2020      Current reporting period end: March 2021		Amounts
1. Defaulted loans and debt securities at end of previous reporting period		¥ 620
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	30,241
6. Defaulted loans and debt securities at end of reporting period (1+2-3-4+5)		30,862

\* 1 Other changes include an increase in bad debt due to change in scope of consolidation.

### 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	¥1,293,206	¥178,394	¥178,394	¥—	¥—
2. Debt securities	843,313	—	—	—	—
3. Other on-balance sheet assets (debt products)	4,930,474	5	5	—	—
4. Total (1+2+3)	7,066,993	178,399	178,399	—	—
5. Of which defaulted	30,776	—	—	—	—



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

Asset classes	Millions of yen, %							
	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA		RWA density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount				
1. Cash	¥ —	¥ —	¥ —	¥ —	¥ —	—	—	—
2. Japanese government and central bank	5,486,908	—	5,486,908	—	—	—	0.00%	—
3. Non-Japanese sovereign and central bank	127,342	—	127,342	—	43	—	0.03%	—
4. Bank for International Settlements (BIS)	—	—	—	—	—	—	—	—
5. Japanese local public authorities	15,464	—	15,464	—	—	—	0.00%	—
6. Non-Japanese public sector entities (excluding sovereign)	487	—	487	—	139	—	28.45%	—
7. Multilateral Development Banks (MDBs)	9,162	—	9,162	—	—	—	0.00%	—
8. Japan Finance Organization for Municipalities (JFM)	9,294	—	9,294	—	1,859	—	20.00%	—
9. Japanese government-sponsored entities	330,024	—	330,024	—	36,514	—	11.06%	—
10. Three major local public corporations of Japan	0	—	0	—	0	—	20.00%	—
11. Financial institutions and securities firms	881,700	19,029	881,700	3,806	180,925	—	20.43%	—
12. Corporates	632,774	30,557	454,375	18,083	452,697	—	95.82%	—
13. SMEs and individuals (risk weight 75% applied)	—	—	—	—	—	—	—	—
14. Residential mortgage loans	—	—	—	—	—	—	—	—
15. Projects including acquisition of real estate properties	18,581	2,585	18,581	2,585	21,167	—	100.00%	—
16. Past due exposures for three months or more (excluding residential mortgage loans)	30,776	—	30,776	—	46,165	—	150.00%	—
17. Past due exposures for three months or more (residential mortgage loans related)	—	—	—	—	—	—	—	—
18. Cash items in process of collection	—	—	—	—	—	—	—	—
19. Exposures secured by Credit Guarantee Association in Japan	—	—	—	—	—	—	—	—
20. Exposures secured by Enterprise Turnaround Initiative Corporation of Japan	—	—	—	—	—	—	—	—
21. Equities (excluding significant investments)	233,572	1,598	233,572	799	234,371	—	100.00%	—
22. Total	¥7,776,085	¥53,769	¥7,597,686	¥25,274	¥973,879	—	12.78%	—

## 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	5,486,908	—	—	—	—	—	—
3. Non-Japanese sovereign and central bank	127,257	—	—	—	—	84	—
4. Bank for International Settlements (BIS)	—	—	—	—	—	—	—
5. Japanese local public authorities	15,464	—	—	—	—	—	—
6. Non-Japanese public sector entities (excluding sovereign)	—	—	436	—	—	—	—
7. Multilateral Development Banks (MDBs)	9,162	—	—	—	—	—	—
8. Japan Finance Organization for Municipalities (JFM)	—	3	9,291	—	—	—	—
9. Japanese government-sponsored entities	—	294,908	35,116	—	—	—	—
10. Three major local public corporations of Japan	—	—	0	—	—	—	—
11. Financial institutions and securities firms	—	—	880,367	—	575	—	—
12. Corporates	—	—	12,007	—	20,317	—	—
13. SMEs and individuals (risk weight 75% applied)	—	—	—	—	—	—	—
14. Residential mortgage loans	—	—	—	—	—	—	—
15. Projects including acquisition of real estate properties	—	—	—	—	—	—	—
16. Past due exposures for three months or more (excluding residential mortgage loans)	—	—	—	—	—	—	—
17. Past due exposures for three months or more (residential mortgage loans related)	—	—	—	—	—	—	—
18. Cash items in process of collection	—	—	—	—	—	—	—
19. Exposures secured by Credit Guarantee Association in Japan	—	—	—	—	—	—	—
20. Exposures secured by Enterprise Turnaround Initiative Corporation of Japan	—	—	—	—	—	—	—
21. Equities (excluding significant investments)	—	—	—	—	—	—	—
22. Total	¥5,638,791	¥294,911	¥937,216	¥—	¥20,976	¥—	¥—

Millions of yen

	Risk weight	Credit risk exposures (post-CCF and post-CRM)				
		100%	150%	250%	1250%	Total
Asset classes						
1. Cash	¥	—	¥	—	¥—	¥—
2. Japanese government and central bank		—	—	—	—	5,486,908
3. Non-Japanese sovereign and central bank		1	—	—	—	127,342
4. Bank for International Settlements (BIS)		—	—	—	—	—
5. Japanese local public authorities		—	—	—	—	15,464
6. Non-Japanese public sector entities (excluding sovereign)		51	—	—	—	487
7. Multilateral Development Banks (MDBs)		—	—	—	—	9,162
8. Japan Finance Organization for Municipalities (JFM)		—	—	—	—	9,294
9. Japanese government-sponsored entities		—	—	—	—	330,024
10. Three major local public corporations of Japan		—	—	—	—	0
11. Financial institutions and securities firms		4,563	—	—	—	885,506
12. Corporates		440,135	—	—	0	472,459
13. SMEs and individuals (risk weight 75% applied)		—	—	—	—	—
14. Residential mortgage loans		—	—	—	—	—
15. Projects including acquisition of real estate properties		21,167	—	—	—	21,167
16. Past due exposures for three months or more (excluding residential mortgage loans)		—	30,776	—	—	30,776
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)		234,371	—	—	—	234,371
22. Total		¥700,289	¥30,776	¥—	¥ 0	¥7,622,960

## CCR1: Analysis of counterparty credit risk (CCR) exposure by approach

Millions of yen

	Replacement cost	PFE	Alpha used for computing		EAD post-CRM	RWA
			EEPE	regulatory EAD		
1. SA-CCR (for derivatives)	¥189,999	¥341,787		1.4	¥744,502	¥502,669
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)					455,405	251,709
5. VaR for SFTs					—	—
6. Total						¥754,378

## 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	675,180	436,339
5. Total subject to the CVA capital charge	¥675,180	¥436,339

## 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		¥ 6,046	¥ —	¥ —
2. Non-Japanese sovereign and central bank		33,711	—	2,103
3. Bank for International Settlements (BIS)		50,275	—	—
4. Japanese local public authorities		529	—	—
5. Non-Japanese public sector entities (excluding sovereign)		—	—	25,577
6. Multilateral Development Banks (MDBs)		7,806	—	—
7. Japan Finance Organization for Municipalities (JFM)		—	—	2,381
8. Japanese government-sponsored entities		—	2,895	9,563
9. Three major local public corporations of Japan		—	—	—
10. Financial institutions and securities firms		—	—	369,273
11. Corporates		—	—	7,262
12. SMEs and individuals (risk weight 75% applied)		—	—	—
13. Other assets		—	—	—
14. Total		¥98,370	¥2,895	¥416,162

		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		9	—		4
3. Bank for International Settlements (BIS)		—	—		—
4. Japanese local public authorities		—	—		—
5. Non-Japanese public sector entities (excluding sovereign)		2,112	—		—
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		553	—		—
11. Corporates		20,568	—		659,229
12. SMEs and individuals (risk weight 75% applied)		—	—		—
13. Other assets		—	—		—
14. Total		¥23,244	¥—		¥659,234

		Millions of yen		
		EAD (post-CRM)		
	Risk weight	150%	Others	Total credit exposure
Regulatory portfolio				
1. Japanese government and central bank		¥—	¥—	¥ 6,046
2. Non-Japanese sovereign and central bank		—	—	35,829
3. Bank for International Settlements (BIS)		—	—	50,275
4. Japanese local public authorities		—	—	529
5. Non-Japanese public sector entities (excluding sovereign)		—	—	27,690
6. Multilateral Development Banks (MDBs)		—	—	7,806
7. Japan Finance Organization for Municipalities (JFM)		—	—	2,381
8. Japanese government-sponsored entities		—	—	12,459
9. Three major local public corporations of Japan		—	—	—
10. Financial institutions and securities firms		—	—	369,827
11. Corporates		—	—	687,060
12. SMEs and individuals (risk weight 75% applied)		—	—	—
13. Other assets		—	—	—
14. Total		¥—	¥—	¥1,199,907

## 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	¥ 33,856	¥167,163	¥108,866	¥291,499	¥ 5,698,901	¥ 4,283,001
2 Cash—other currencies	33,752	15,844	729	23,342	4,447,425	3,663,122
3 Domestic sovereign debt	268	25,542	—	8,989	3,222,244	4,150,875
4 Other sovereign debt	732	—	—	—	3,303,983	3,596,037
5 Government agency debt	1,288	—	—	—	603,833	832,547
6 Corporate bonds	40,481	—	—	—	30,472	85,289
7 Equity securities	13,618	2,031	36,487	41,462	576,011	270,222
8 Other collateral	3,494	—	—	—	24,533	46,072
9 Total	¥127,493	¥210,581	¥146,083	¥365,294	¥17,907,405	¥16,927,168

\* 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	¥ 572,395	¥ 814,518
2 Index credit default swaps	782,046	594,726
3 Total return swaps	—	—
4 Credit options	—	—
5 Other credit derivatives	—	—
6 Total notionals	1,354,441	1,409,244
Fair values		
7 Positive fair value (asset)	416	24,099
8 Negative fair value (liability)	(24,795)	(2,253)

## CCR8: Exposures to central counterparties

		Millions of yen	
		EAD (post-CRM)	RWA
1	Exposures to QCCPs (total)		¥25,311
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which		
3	(i) OTC derivatives	¥709,839	14,384
4	(ii) Exchange-traded derivatives	420,217	8,661
5	(iii) Securities financing transactions	84,708	1,694
6	(iv) Netting sets where cross-product netting has been approved	204,914	4,029
7	Segregated initial margin	—	—
8	Non-segregated initial margin	146,041	522
9	Pre-funded default fund contributions	13,781	10,406
10	Unfunded default fund contributions	48,704	—
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	¥215,761	¥—	¥215,761
2 residential mortgage	130,162	—	130,162
3 credit card	—	—	—
4 other retail exposures	85,599	—	85,599
5 re-securitization	—	—	—
6 Wholesale (total)—of which	374,239	—	374,239
7 loans to corporates	374,050	—	374,050
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	¥1,261	¥—	¥1,261
2 residential mortgage	1,261	—	1,261
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	¥—	¥ —	¥ —
2 residential mortgage	—	—	—
3 credit card	—	—	—
4 other retail exposures	—	—	—
5 re-securitization	—	—	—
6 Wholesale (total)—of which	—	1,106	1,106
7 loans to corporates	—	1,106	1,106
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	¥585,311	¥585,311	¥585,311	¥211,261	¥374,050
2 >20% to 50% RW	—	—	—	—	—
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)	589,811	589,811	589,811	215,761	374,050
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)	118,851	118,851	118,851	44,041	74,810
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)	9,508	9,508	9,508	3,523	5,985
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)	¥585,259
2 Equity risk (general and specific)	134,435
3 Foreign exchange risk	125,606
4 Commodity risk	—
Options	
5 Simplified approach	—
6 Delta-plus method	—
7 Scenario approach	—
8 Securitization	12,198
9 Total	¥857,500

## MR2: RWA flow statements of market risk exposures under an IMA

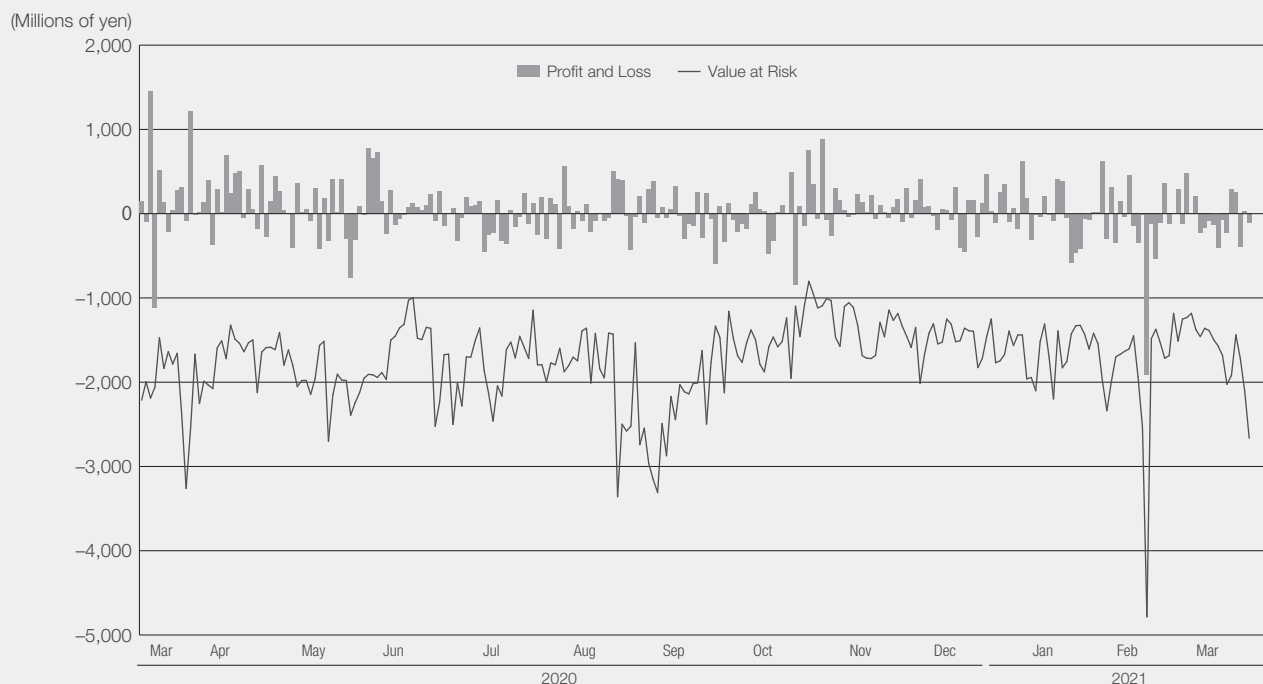
		Millions of yen				
		VaR	Stressed VaR	IRC	CRM	Other
		Total RWA				
1a	RWA at end of previous year	¥219,240	¥546,781	¥—	¥—	¥766,021
1b	Adjustments to RWA based on the regulatory consolidated capital at end of previous year	5.20	3.27	—	—	3.66
1c	Amounts of IMA at end of previous year	42,130	166,785	—	—	208,915
2	Change in Movement in risk levels	30,632	(90,813)	—	—	(60,181)
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	72,762	75,971	—	—	148,734
8b	Adjustments to RWA based on the regulatory consolidated capital at end of reporting period	2.24	2.50	—	—	2.37
8c	RWA at end of reporting period	163,202	190,417	—	—	353,620

		Millions of yen				
		VaR	Stressed VaR	IRC	CRM	Other
		Total RWA				
1a	RWA at previous quarter-end	¥105,650	¥182,516	¥—	¥—	¥288,167
1b	Adjustments to RWA based on the regulatory consolidated capital at previous quarter-end	2.06	3.50	—	—	2.78
1c	Amounts of IMA at previous quarter-end	51,285	52,062	—	—	103,348
2	Change in Movement in risk levels	21,477	23,908	—	—	45,385
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	72,762	75,971	—	—	148,734
8b	Adjustments to RWA based on the regulatory consolidated capital at end of reporting period	2.24	2.50	—	—	2.37
8c	RWA at end of reporting period	163,202	190,417	—	—	353,620

## MR3: IMA values for trading portfolios

		Millions of yen			Millions of yen
VaR (10 day 99%)—			Incremental Risk Charge (99.9%)		
1	Maximum value	¥20,204	9	Maximum value	—
2	Average value	3,480	10	Average value	—
3	Minimum value	1,500	11	Minimum value	—
4	Period end	5,821	12	Period end	—
Stressed VaR (10 day 99%)			Comprehensive Risk capital charge (99.9%)		
5	Maximum value	16,136	13	Maximum value	—
6	Average value	7,111	14	Average value	—
7	Minimum value	1,980	15	Minimum value	—
8	Period end	6,077	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 2021	March 2020
1 Parallel up	¥ 8,123	¥ 4,392
2 Parallel down	19,572	24,566
3 Steepener	3,698	664
4 Flatteners	358	309
5 Short rate up	1,717	1,943
6 Short rate down	12,363	14,668
7 Maximum	19,572	24,566
8 Tier 1 capital	1,305,210	1,171,864

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%	¥ 14,394		
Luxembourg	0.50%	926		
Sum		15,321		
Total		¥3,198,466	0.00%	¥148

\* 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 the ultimate risk method, we adopt the jurisdictions which are recorded in the 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 2021	March 2020
On-balance sheet exposures			(1)	
1		On-balance sheet items before adjustments	¥11,898,008	¥13,296,069
1a	1	Total assets in the consolidated balance sheet	21,973,181	23,822,099
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)	2,075	10,489
1d	3	Assets other than the adjustments that are excluded from the total assets in the consolidated balance sheet	10,077,248	10,536,519
2	7	Common Equity Tier 1 capital: regulatory adjustments	188,100	171,773
3		Total on-balance sheet exposures (excluding derivatives and SFTs)	(A) 11,709,908	13,124,296
Derivative exposures			(2)	
4		Replacement cost associated with all derivatives transactions (with the 1.4 alpha factor applied)	603,503	646,487
5		Add-on amounts for PFE associated with all derivatives transactions (with the 1.4 alpha factor applied)	795,392	434,611
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	43,581	111,454
8		Exempted CCP leg of client-cleared trade exposures		
9		Adjusted effective notional amount of written credit derivatives	1,409,244	1,334,883
10		Adjusted effective notional offsets and add-on deductions for written credit derivatives	1,102,275	1,038,287
11	4	Total derivative exposures	(B) 1,662,283	1,266,240
Securities financing transaction exposures			(3)	
12		Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	8,405,765	7,782,809
13		Netted amounts of cash payables and cash receivables of gross SFT assets	3,143,476	2,260,394
14		CCR exposure for SFT assets	157,761	157,448
15		Agent transaction exposures		
16	5	Total securities financing transaction exposures	(C) 5,420,050	5,679,863
Other off-balance sheet exposures			(4)	
17		Off-balance sheet exposure at gross notional amount	177,566	205,382
18		Adjustments for conversion to credit equivalent amounts	53,112	75,620
19	6	Off-balance sheet items	(D) 124,454	129,762
Capital and total exposures			(5)	
20		Tier 1 capital	(E) 1,305,210	1,171,864
21	8	Total exposures (A)+(B)+(C)+(D)	(F) 18,916,695	20,200,161
22		Leverage ratio on a consolidated basis (E) / (F)	6.89%	5.80%
Leverage ratio (including amount of the central bank reserves)			(6)	
		Total exposures	(F) 18,916,695	
		Amount of the central bank reserves	4,126,149	
		Total exposures (including amount of the central bank reserves)	(F') 23,042,844	
		Leverage ratio (including amount of the central bank reserves) (E) / (F')	5.66%	

### 2. Reasons for significant differences in the consolidated leverage ratio over previous year

The reason of the difference is due to exclusion of central bank reserves from "Total exposures."

## Overview of Main Features of Regulatory Capital Instruments

### CCA: 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	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	1,244,539 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 and redemption amount	—
	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	94 million Yen	133 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 and redemption amount	—	—
	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	126 million Yen	190 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 and redemption amount	—	—
	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 issued in July 2011
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	249 million Yen	339 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	July 1, 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 and redemption amount	—	—
	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 8	Stock subscription right issued in February 2013
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	124 million Yen	394 million Yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Stock subscription right	Stock subscription right
11	Original date of issuance	September 5, 2011	February 12, 2013
12	Perpetual or dated	NA	NA
13	Original maturity date	—	—
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date and redemption amount	—	—
	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 9	Stock subscription right issued in February 2014
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	947 million Yen	335 million Yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Stock subscription right	Stock subscription right
11	Original date of issuance	February 12, 2013	February 10, 2014
12	Perpetual or dated	NA	NA
13	Original maturity date	—	—
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date and redemption amount	—	—
	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 10	Stock subscription right issued in February 2015
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	1,058 million Yen	364 million Yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Stock subscription right	Stock subscription right
11	Original date of issuance	February 10, 2014	February 9, 2015
12	Perpetual or dated	NA	NA
13	Original maturity date	—	—
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date and redemption amount	—	—
	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 11	Stock subscription right issued in February 2016
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	928 million Yen	366 million Yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Stock subscription right	Stock subscription right
11	Original date of issuance	February 9, 2015	February 16, 2016
12	Perpetual or dated	NA	NA
13	Original maturity date	—	—
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date and redemption amount	—	—
	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 12	Stock subscription right issued in February 2017
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	489 million Yen	393 million Yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Stock subscription right	Stock subscription right
11	Original date of issuance	February 16, 2016	February 8, 2017
12	Perpetual or dated	NA	NA
13	Original maturity date	—	—
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date and redemption amount	—	—
	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 13	Stock subscription right issued in February 2018
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	845 million Yen	429 million Yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Stock subscription right	Stock subscription right
11	Original date of issuance	February 8, 2017	February 8, 2018
12	Perpetual or dated	NA	NA
13	Original maturity date	—	—
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date and redemption amount	—	—
	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 14	Stock subscription right series 15
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	653 million Yen	422 million Yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Stock subscription right	Stock subscription right
11	Original date of issuance	February 8, 2018	August 10, 2018
12	Perpetual or dated	NA	NA
13	Original maturity date	—	—
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date and redemption amount	—	—
	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 16	Stock subscription right series 17
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	156 million Yen	80 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 15, 2019	August 17, 2020
12	Perpetual or dated	NA	NA
13	Original maturity date	—	—
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date and redemption amount	—	—
	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 Office Investment Corporation	Samty Residential Investment Corporation
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	Additional Tier 1 capital Tier 2 capital	Additional Tier 1 capital Tier 2 capital
5	Post-transitional Basel III rules	Additional Tier 1 capital Tier 2 capital	Additional Tier 1 capital Tier 2 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)	Common stock	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 40,248 million Yen Tier 2 capital 9,470 million Yen	Additional Tier 1 capital 7,140 million Yen Tier 2 capital 1,680 million Yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Non-controlling interest	Non-controlling interest
11	Original date of issuance	—	—
12	Perpetual or dated	NA	NA
13	Original maturity date	—	—
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date and redemption amount	—	—
	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)	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	124,200 million Yen	24,900 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 and redemption amount	June 5, 2025 at par	June 5, 2030 at par
	Contingent call dates and redemption amount	Tax event or Regulatory event at par	Tax event or Regulatory event at par
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, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2021	2020	2021
<b>Cash and cash deposits:</b>			
Cash and cash equivalents (Note 8)	¥ 1,494,682	¥ 981,809	\$ 13,588,018
Cash segregated as deposits for regulatory purposes (Note 8)	426,580	383,574	3,878,000
Time deposits (Note 8)	1,000	—	9,091
	1,922,262	1,365,383	17,475,109
<b>Receivables:</b>			
Loans receivable from customers (Note 8)	252,352	192,382	2,294,109
Loans receivable from other than customers (Notes 8 and 22)	216,929	332,509	1,972,082
Receivables related to margin transactions (Notes 6 and 8)	156,605	112,046	1,423,682
Short-term guarantee deposits (Note 8)	549,259	596,136	4,993,264
Other (Note 22)	55,465	51,675	504,227
Less: Allowance for doubtful accounts	(83)	(156)	(755)
	1,230,527	1,284,592	11,186,609
<b>Collateralized short-term financing agreements</b> (Notes 7, 8 and 22)	4,692,990	3,370,605	42,663,545
<b>Trading assets</b> (Notes 8, 9, 11 and 22)	5,073,677	5,827,228	46,124,337
<b>Trading account receivables, net</b> (Note 8)	6,513	—	59,209
<b>Other assets:</b>			
Property and equipment, at cost	118,501	26,198	1,077,282
Less: Accumulated depreciation	(71,204)	(17,822)	(647,309)
	47,297	8,376	429,973
Intangible fixed assets	74,472	76,908	677,018
Lease deposits	15,783	15,068	143,482
Investment securities (Notes 8 and 10)	8,747	9,054	79,518
Deferred tax assets (Note 16)	12,191	11,001	110,827
Other (Note 22)	15,822	14,942	143,837
Less: Allowance for doubtful accounts	(2,836)	(2,832)	(25,782)
	171,476	132,517	1,558,873
	¥13,097,445	¥11,980,325	\$119,067,682

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
<b>LIABILITIES AND NET ASSETS</b>			
<b>Debt:</b>			
Short-term borrowings (Notes 8, 11 and 22)	¥ 1,255,100	¥ 1,044,758	\$ 11,410,000
Commercial paper (Note 8)	265,000	199,900	2,409,091
Long-term debt (Notes 8, 14 and 22)	1,580,335	1,555,896	14,366,682
	3,100,435	2,800,554	28,185,773
<b>Payables:</b>			
Payables to customers and counterparties (Notes 8 and 13)	652,558	653,629	5,932,345
Payables related to margin transactions (Notes 6 and 8)	63,118	58,618	573,800
	715,676	712,247	6,506,145
<b>Collateralized short-term financing agreements</b> (Notes 7, 8 and 22)	4,843,328	3,200,853	44,030,254
<b>Trading liabilities</b> (Notes 8, 9 and 22)	3,464,270	4,264,030	31,493,364
<b>Trading account payables, net</b> (Note 8)	—	126,832	—
<b>Accrued and other liabilities:</b>			
Income taxes payable	5,049	1,578	45,900
Accrued bonuses	13,934	10,142	126,673
Retirement benefits (Note 15)	32,634	32,145	296,673
Other (Note 22)	124,016	83,112	1,127,418
	175,633	126,977	1,596,664
<b>Statutory reserves</b> (Note 17)	3,688	3,905	33,527
Total liabilities	12,303,030	11,235,398	111,845,727
<b>Contingent liabilities</b> (Note 18)			
<b>Net assets:</b>			
Owners' equity (Note 19):			
Common stock, no par value;			
Authorized—810,200 shares			
Issued—810,200 shares	100,000	100,000	909,091
Capital surplus	352,359	349,920	3,203,264
Retained earnings	340,170	293,461	3,092,455
	792,529	743,381	7,204,810
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	1,886	1,546	17,145
Total net assets	794,415	744,927	7,221,955
	¥13,097,445	¥11,980,325	\$119,067,682

See accompanying notes.



# Statements of Income

DAIWA SECURITIES Co. Ltd.

Years ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
<b>Operating revenues:</b>			
Commissions (Note 22)	¥186,198	¥177,833	\$1,692,709
Net gain on trading (Note 24)	102,596	76,736	932,691
Interest and dividend income (Note 22)	26,386	44,083	239,873
	315,180	298,652	2,865,273
<b>Interest expense</b> (Note 22)	13,781	28,780	125,282
<b>Net operating revenues</b> (Note 21)	301,399	269,872	2,739,991
<b>Selling, general and administrative expenses</b> (Notes 15 and 25)	235,750	240,567	2,143,182
<b>Operating income</b>	65,649	29,305	596,809
<b>Other income (expenses):</b>			
Provision for statutory reserves, net (Note 17)	217	20	1,973
Other, net (Note 26)	(4,209)	(11,892)	(38,264)
	(3,992)	(11,872)	(36,291)
<b>Income before income taxes</b>	61,657	17,433	560,518
<b>Income taxes</b> (Note 16):			
Current	21,007	8,563	190,973
Deferred	(744)	(2,776)	(6,764)
	20,263	5,787	184,209
<b>Profit</b>	¥ 41,394	¥ 11,646	\$ 376,309
		Yen	U.S. dollars (Note 1)
<b>Per share amounts:</b>			
Net income	¥51,091.03	¥14,374.46	\$464
Cash dividends applicable to the year (Note 19)	51,091	14,374	464

See accompanying notes.

## Statements of Changes in Net Assets

DAIWA SECURITIES Co. Ltd.

Years ended March 31, 2021 and 2020

	Number of shares of common stock	Owners' equity			Millions of yen
					Accumulated other comprehensive income
		Common stock	Capital surplus	Retained earnings	Valuation difference on available-for-sale securities
<b>Balance at March 31, 2019</b>	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)
<b>Balance at March 31, 2020</b>	810,200	¥100,000	¥349,920	¥293,461	¥1,546
Profit				<b>41,394</b>	
Cash dividends paid				<b>(11,646)</b>	
Net changes of items other than owners' equity					<b>340</b>
Increase due to business combinations			<b>2,439</b>	<b>16,961</b>	
<b>Balance at March 31, 2021</b>	<b>810,200</b>	<b>¥100,000</b>	<b>¥352,359</b>	<b>¥340,170</b>	<b>¥1,886</b>

		Owners' equity			Thousands of U.S. dollars (Note 1)
					Accumulated other comprehensive income
		Common stock	Capital surplus	Retained earnings	Valuation difference on available-for-sale securities
<b>Balance at April 1, 2020</b>		\$909,091	\$3,181,091	\$2,667,827	\$14,055
Profit				<b>376,309</b>	
Cash dividends paid				<b>(105,873)</b>	
Net changes of items other than owners' equity					<b>3,090</b>
Increase due to business combinations			<b>22,173</b>	<b>154,192</b>	
<b>Balance at March 31, 2021</b>		<b>\$909,091</b>	<b>\$3,203,264</b>	<b>\$3,092,455</b>	<b>\$17,145</b>

See accompanying notes.

# Statements of Cash Flows

DAIWA SECURITIES Co. Ltd.

Years ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
<b>Cash flows from operating activities:</b>			
Profit	¥ 41,394	¥ 11,646	\$ 376,309
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	23,581	20,140	214,373
Allowance for doubtful accounts, net	(69)	(28)	(627)
Provision for retirement benefits, net	479	420	4,355
Losses (gains) related to investment securities	(88)	(164)	(800)
Impairment loss	2,232	—	20,291
Structural reform cost	2,378	12,702	21,618
Deferred income taxes	(744)	(2,776)	(6,764)
Changes in operating assets and liabilities:			
Receivables and payables related to margin transactions	(40,058)	49,083	(364,164)
Short-term guarantee deposits	46,877	(209,159)	426,155
Other receivables and other payables	52,715	(99,122)	479,227
Collateralized short-term financing agreements	320,091	230,773	2,909,918
Trading assets and liabilities	(179,554)	(248,064)	(1,632,309)
Other, net	(21,290)	(8,343)	(193,545)
Total adjustments	206,550	(254,538)	1,877,728
Net cash flows provided by (used in) operating activities	247,944	(242,892)	2,254,037
<b>Cash flows from investing activities:</b>			
Increase in time deposits	(8,000)	—	(72,727)
Decrease in time deposits	7,000	—	63,636
Payments for purchases of property and equipment	(2,125)	(3,726)	(19,318)
Payments for purchases of intangible fixed assets	(19,499)	(26,880)	(177,264)
Payments for purchases of investment securities	(8)	(56)	(73)
Proceeds from sales and redemption of investment securities	755	674	6,864
Payments for guarantee deposits	(514)	(689)	(4,673)
Proceeds from collection of guarantee deposits	998	1,037	9,073
Other, net	(672)	(305)	(6,109)
Net cash flows provided by (used in) investing activities	(22,065)	(29,945)	(200,591)
<b>Cash flows from financing activities:</b>			
Increase or Decrease in short-term borrowings and commercial paper	279,450	(79,738)	2,540,455
Increase in long-term debt	664,497	280,890	6,040,882
Decrease in long-term debt	(645,307)	(345,236)	(5,866,428)
Payments of cash dividends	(11,646)	(38,297)	(105,873)
Net cash flows provided by (used in) financing activities	286,994	(182,381)	2,609,036
<b>Net increase in cash and cash equivalents</b>	<b>512,873</b>	<b>(455,218)</b>	<b>4,662,482</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>981,809</b>	<b>1,437,027</b>	<b>8,925,536</b>
<b>Cash and cash equivalents at end of year</b>	<b>¥1,494,682</b>	<b>¥ 981,809</b>	<b>\$13,588,018</b>

See accompanying notes.

# Notes to Financial Statements

DAIWA SECURITIES Co. Ltd.

Years ended March 31, 2021 and 2020

## 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, 2021, which was ¥110 to U.S.\$1. The convenience translations should not be construed as representations that the yen amounts have been, could have been, or could be, converted into U.S. dollars at this or any other rate of exchange.

## 2. Significant accounting policies

**Statements of cash flows**—The Company defines cash equivalents as highly 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 26, 2021)

#### (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 applies the standards from the beginning of the fiscal year ending March 31, 2022.

#### (c) Impact of application

There is no significant impact.

## 3. Change in presentation method

The Company adopted ASBJ Statement No. 31 "Accounting Standard for Disclosure of Accounting Estimates" (March 31, 2020) to the financial statements for the current fiscal year end, and notes regarding significant accounting estimates are disclosed in the financial statements.

However, in such notes, the comparative information relating to the prior fiscal year end is not disclosed in accordance with the transitional provision set forth in paragraph 11 of the Accounting Standard.

## 4. Change in accounting policy

"Accounting Standard for Calculation of Fair Value Measurement" (Corporate Accounting Standard No. 30, July 4, 2019, hereinafter referred to as the "Accounting Standard for Fair Value Measurement") has been applied from the beginning of the current fiscal year, and in accordance with the transitional treatment stipulated in Paragraph 19 of the Accounting Standard for Fair Value Measurement, and Paragraph 44-2 of the "Accounting Standard for Financial Instruments" (Corporate Accounting Standard No. 10, July

4, 2019), the new accounting policy stipulated by the Accounting Standard for Fair Value Measurement, etc., is applied for the future. This change has no impact on the financial statements.

In addition, in Note 8 "Financial instruments," the Company has not included the information related to the breakdown of financial instruments by fair value level, etc., relating to the prior fiscal year in such notes.

## 5. Significant accounting estimates

Items for which amounts were booked in the financial statements for the current fiscal year based on accounting estimates and which may have a significant impact on the financial statements for the following fiscal year are as follows:

- Valuation of Level 3 Derivative Transactions classified as trading products

#### (a) Amount recorded in the financial statements for the current fiscal year

Of the derivative transactions classified as trading products, assets and liabilities reported as Level 3 are 47 billion yen and 19.8 billion yen, respectively. The fair value is calculated using inputs that are not readily observable in the market, and therefore there is an estimation of uncertainty involved.

#### (b) Information that contributes to an understanding of the nature of significant accounting estimates for the identified items

The fair value of derivative transactions classified as trading products is estimated using the expected cash flow discount model under a risk-neutral scenario.

The key assumption underlying the accounting estimates to calculate fair value are the inputs used within the pricing model. The pricing model uses a variety of inputs such as interest rates, foreign exchange rates, stock prices, volatility, correlation coefficients, etc. In particular, to calculate the fair value of Level 3 derivatives, the Company uses inputs that are not readily observable in the market, such as long-term



swap rates, long-term currency basis, long-term stock price volatility, long-term credit spreads and correlation coefficients.

These details are described in Note 8, (4) Supplemental explanation for fair value, etc., of financial instruments, "Concerning the fair value and the breakdown of each level for financial instruments," Note 1.

Changes in key assumptions due to changes in the

market environment and other factors may have a significant impact on the valuation of trading products. The impact of changes in key observable inputs on fair value is described in Note 8, (4) Supplemental explanation for fair value, etc., of financial instruments, "Concerning the fair value and the breakdown of each level for financial instruments,," Note 2.

## 6. Margin transactions

Margin transactions at March 31, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
<b>Assets:</b>			
Loans on margin transactions	¥146,648	¥102,894	\$1,333,164
Cash collateral pledged for securities borrowing on margin transactions	9,957	9,152	90,518
	¥156,605	¥112,046	\$1,423,682
<b>Liabilities:</b>			
Borrowings on margin transactions	¥ 3,293	¥ 3,435	\$ 29,936
Cash received for securities lending on margin transactions	59,825	55,183	543,864
	¥ 63,118	¥ 58,618	\$ 573,800

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.

## 7. Collateralized short-term financing agreements

Collateralized short-term financing agreements at March 31, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
<b>Assets:</b>			
Securities purchased under agreements to resell	¥2,433,269	¥1,903,365	\$22,120,627
Securities borrowed	2,259,721	1,467,240	20,542,918
	¥4,692,990	¥3,370,605	\$42,663,545
<b>Liabilities:</b>			
Securities sold under agreements to repurchase	¥3,990,281	¥2,899,520	\$36,275,282
Securities loaned	853,047	301,333	7,754,972
	¥4,843,328	¥3,200,853	\$44,030,254

## 8. 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 risks 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 (over-the-counter (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 risk 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 risks 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 risks 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 risks 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, 2021 (fiscal year-end) was ¥1.2 billion (\$10.9 million) in total.

In the meantime, the Company verifies the models by executing back tests which compare calculated VaR and the actual profit/loss. It should be noted that as the VaR statistically estimates the risks based on historical market fluctuation, it may be unable to completely grasp the risks 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 the risks 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.

##### (c) Management of model risk

Market value models for trading products, under the risk management system model framework, are used after the models have been validated and approved through a process of verification and approval. In addition, in order to prevent unforeseen model risks arising from changes in market conditions, the models are periodically reviewed by the Company to ensure that they are in line with market trends.

#### (ii) Management of risks of financial instruments held for other than trading purpose

The Company holds financial instruments in the business for other trading purposes such as investment securities held for business relationships. In connection with investment securities held 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” held for the business relationship. As of March 31, 2021, if the index, such as TOPIX, were to change by 10%, market prices of the listed equities in “Investment securities” would fluctuate by ¥0.2 billion (\$1.8 million).

Also, the main financial liabilities in the Company that are influenced by market risk are “Bonds and notes” and “Long-term borrowings.” As of March 31, 2021, if all other risks 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 ¥0.7 billion (\$6.4 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.

#### Matters concerning the fair value and fair value hierarchy by level of financial instruments

The tables below show the balance sheet amounts, fair value breakdown by level and their differences as of the fiscal year end. Investment trusts to which transitional measures have been applied in accordance with Article 26 of “Implementation Guidance on Accounting Standards for Fair Value Measurement” (ASBJ Guidance No.31) (hereinafter referred to as “Fair Value Measurement Implementation Guidance”), stocks without market prices, etc., and partnership investments to which transitional measures have been applied in accordance with Article 27 of the Fair Value Measurement Implementation Guidance, are not included in the table (as described in (1) and (Note 3) and (Note 4)).

The fair value of financial instruments is classified into the following three levels according to the observability and significance of the inputs used to measure the fair value.

Level 1:	Quoted prices in an active market for identical assets or liabilities
Level 2:	Observable inputs other than quoted prices
Level 3:	Unobservable inputs

In cases where multiple inputs are used that have a significant impact on fair value, the fair value level is classified into the lowest priority level amongst the inputs used in the fair value measurement.

## (1) Financial instruments booked at fair value on the balance sheet

					Millions of yen
					2021
					Fair Value
	Level 1	Level 2	Level 3		Total
<b>Assets</b>					
(1) Trading products					
[1] Trading securities and other					
Equities	¥ 92,502	¥ 499	¥ 84	¥	93,085
Government bonds, corporate bonds, etc.	1,533,943	261,692	—		1,795,635
General business bonds	759	320,059	1,306		322,124
Foreign bonds	17,110	216,570	3,489		237,169
Other	—	1,000	1,261		2,261
[2] Derivative transactions					
Equity	21,821	157,872	28,822		208,515
Interest rate	896	1,662,200	9,229		1,672,325
Currency	—	502,093	4,119		506,212
Credit / other	—	16,137	4,830		20,967
(2) Securities and investment securities					
Other securities					
Equities	3,315	—	—		3,315
Total assets	¥1,670,346	¥3,138,122	¥53,140		¥4,861,608
<b>Liabilities</b>					
(1) Trading products					
[1] Trading securities and other					
Equities	¥ 153,025	¥ 2,076	¥ —	¥	155,101
Government bonds, corporate bonds, etc.	971,349	—	—		971,349
Foreign bonds	38,545	—	—		38,545
[2] Derivative transactions					
Equity	57,593	153,187	8,808		219,588
Interest rate	114	1,601,735	6,033		1,607,882
Currency	—	440,690	250		440,940
Credit / other	—	26,068	4,793		30,861
Total liabilities	¥1,220,626	¥2,223,756	¥19,884		¥3,464,266

Thousands of U.S. dollars				
2021				
Fair Value				Total
	Level 1	Level 2	Level 3	
<b>Assets</b>				
(1) Trading products				
[1] Trading securities and other				
Equities	\$ 840,927	\$ 4,536	\$ 764	\$ 846,227
Government bonds, corporate bonds, etc.	13,944,937	2,379,018	—	16,323,955
General business bonds	6,900	2,909,627	11,873	2,928,400
Foreign bonds	155,545	1,968,819	31,718	2,156,082
Other	—	9,091	11,464	20,555
[2] Derivative transactions				
Equity	198,373	1,435,200	262,018	1,895,591
Interest rate	8,146	15,110,909	83,900	15,202,955
Currency	—	4,564,482	37,445	4,601,927
Credit / other	—	146,700	43,909	190,609
(2) Securities and investment securities				
Other securities				
Equities	30,136	—	—	30,136
Total assets	\$15,184,964	\$28,528,382	\$483,091	\$44,196,437

**Liabilities**

(1) Trading products				
[1] Trading securities and other				
Equities	\$ 1,391,136	\$ 18,873	\$ —	\$ 1,410,009
Government bonds, corporate bonds, etc.	8,830,445	—	—	8,830,445
Foreign bonds	350,409	—	—	350,409
[2] Derivative transactions				
Equity	523,573	1,392,609	80,073	1,996,255
Interest rate	1,037	14,561,227	54,845	14,617,109
Currency	—	4,006,273	2,273	4,008,546
Credit / other	—	236,982	43,573	280,555
Total liabilities	\$11,096,600	\$20,215,964	\$180,764	\$31,493,328

Investment trusts to which the transitional measures prescribed in Article 2, Paragraph 6 of the Supplementary Provisions of “Cabinet Office Ordinance to Partially Amend Regulations on Terms, Forms and Preparation Methods of Financial Statements, etc.” (Cabinet Office Ordinance No. 9

of March 6, 2020) are applied, are not included in the table above. The amounts of such investment trusts in the balance sheet are ¥215,384 million (\$1,958,036 thousand) in assets and ¥4 million in liabilities (\$36 thousand) booked in “Trading securities and other.”

Millions of yen			
2020			
	Amounts on balance sheet	Fair value	Difference
<b>Assets</b>			
(1) Trading assets	¥5,827,228	¥5,827,228	¥—
(2) Securities and investment securities			
Other securities	2,880	2,880	—
Total Assets	¥5,830,108	¥5,830,108	¥—
<b>Liabilities</b>			
(1) Trading liabilities	¥4,264,030	¥4,264,030	¥—
Total Liabilities	¥4,264,030	¥4,264,030	¥—



## (2) Financial instruments other than those booked on the balance sheet at fair value

Millions of yen						
2021						
	Level 1	Level 2	Level 3	Fair Value Total	Amounts on balance sheet	Difference total
<b>Liabilities</b>						
Long-term debt	¥—	¥1,585,999	¥—	¥1,585,999	¥1,580,335	¥(5,664)
Total liabilities	¥—	¥1,585,999	¥—	¥1,585,999	¥1,580,335	¥(5,664)

Thousands of U.S. dollars						
2021						
	Level 1	Level 2	Level 3	Fair Value Total	Amounts on balance sheet	Difference total
<b>Liabilities</b>						
Long-term debt	\$—	\$14,418,173	\$—	\$14,418,173	\$14,366,682	\$(51,491)
Total liabilities	\$—	\$14,418,173	\$—	\$14,418,173	\$14,366,682	\$(51,491)

Millions of yen				
2020				
	Amounts on balance sheet	Fair value	Difference	
<b>Liabilities</b>				
Long-term debt	¥1,555,896	¥1,562,133	¥(6,237)	
Total liabilities	¥1,555,896	¥1,562,133	¥(6,237)	

“Cash and cash equivalents,” “Cash segregated as deposits for regulatory purposes,” “Trading account receivables,” “Collateralized short-term financing agreements (assets),” “Collateralized short-term financing agreements (liabilities),” “Payables to customers and counterparties,” “Loans receivable from other than customers,” “Commercial paper” are omitted as the fair values approximate their book values because they are cash or settled in a short period of time. The following accounts are also omitted because their fair value approximates their book value due to the nature of the accounts being deemed to be settled in a short period of time.

## (a) Margin trading assets, margin trading liabilities

Margin trading assets are loans to clients and collaterals to securities finance companies in connection with margin trading. Since the former is settled by counter-trading at the will of the customer, and the latter is the collateral price-marked in the lending transaction business, it is assumed that the transaction will be settled in a short period of time.

Margin trading liabilities are the borrowing from securities finance companies associated with customers' margin trading and the amount equivalent to the selling price of securities related to the customer's margin trading. Since the former is price-marked and the latter is settled by counter transactions, etc., at the will of the customer, they are considered to be settled in a short period of time.

## (b) Short-term deposits guarantee, deposit received

These are mainly guarantee deposits in derivative transactions, and are deemed to be settled in a short period of time due to the nature of the transactions, which are marked to market.

(Note 1) Explanation of valuation techniques and inputs used for measurement of fair value

## (1) Trading products

## (a) Trading securities and others

For stocks, etc., the final price or the final quoted price on the primary exchange is used as the fair value, and it is primarily classified into Level 1 fair value.

For Bonds, the fair value is based on quoted market prices, including those of similar bonds (the Company's OTC and broker screen, etc.) or prices that are reasonably calculated using market price information (trading reference statistics, etc.) and the difference between the market price and index interest rates, etc. Some government bonds are classified as Level 1 fair value, and other bonds are classified as Level 2 fair value. However, if the price information necessary to classify it as a Level 2 fair value is not available, it is classified as Level 3 fair value. In addition, the fair value of certain bonds is measured using the same pricing model as for derivative transactions. When fair value is measured using only observable inputs, or when fair value is measured using unobservable inputs but the effect of such inputs is not material, it is classified as Level 2 fair value, and when

fair value is measured using significant unobservable inputs, it is classified as Level 3 fair value.

For investment trusts, the stock exchange close price or close quotation price, or NAV (net asset value) is used as the fair value. However, for the classification of level, transitional measures are applied in accordance with Article 26 of the Fair Value Measurement Implementation Guidance, and no level is assigned accordingly.

#### (b) Derivative transactions

Listed derivative transactions are classified as Level 1 fair value, which is primarily based on the market settlement price or margin calculation standard price. However, if the aforementioned prices are not available or the transactions are not executed frequently, they are classified as Level 2 fair value.

OTC derivative transactions include interest rate swaps, currency swap, equity derivatives, and credit derivatives. In measuring fair value, the Company primarily uses the numerical integration, finite difference and Monte Carlo pricing models to determine the present value of expected cash flows under risk-neutral measurement assumptions commonly used in the market. The pricing models include various inputs such as interest rates, exchange rates, stock prices, volatility, and correlation coefficients. When fair value is measured using only observable inputs, or when the fair value is measured using unobservable inputs but the effect of such inputs is not material, it is classified as Level 2 fair value, and when fair value is measured using significant unobservable inputs, it is classified as Level 3 fair value. The inputs that are not observable in the market include long-term swap rates, long-term currency basis, long-term

volatility of stock price, long-term credit spreads and correlation coefficients.

For OTC derivative transactions, the amount equivalent to credit risk and liquidity risk of the counterparties and the Company are adjusted to the fair value as necessary.

#### (2) Securities and investment securities

For stocks, the close price or close quotation price of the primary exchange is used as the fair value and is classified as Level 1 fair value.

#### (3) Corporate bonds

The fair value of corporate bonds, with a maturity of more than one year to redemption, is measured using the market price (reference statistics for trading, etc.) when available, and classified as Level 2 fair value. Even in cases when the market price is not available, the fair value is measured by adjusting the book value for the amount equivalent to the changes in interest rates and the Company's own credit spread since the time of issuance. The Company's own credit spread is classified as Level 2 fair value because it refers to the most recent funding rate and market price level of similar bonds issued by the Company.

#### (4) Long-term debt

The fair value is measured by adjusting the book value for the amount equivalent to the fluctuation in interest rates and credit spreads since the inception of the borrowing. The Company's own credit spread is classified as Level 2 fair value because it refers to the most recent funding rate and market price level of similar bonds issued by the Company.

(Note 2) Information on the fair value of Level 3 financial instruments recorded on the balance sheet at fair value

#### (1) Quantitative information on significant unobservable inputs

Classification	Evaluation methodology	Significant unobservable input	Input range
Derivative transactions	Expected cash flow discount model under a risk-neutral scenario		
Interest rate / exchange rate		Swap rate	(0.2)-2.4%
		Currency basis	(0.9)-0.5%
Equity		Stock price volatility	19.2-22.1%
Credit / other		Credit spread	0.1-4.1%
		Correlation coefficient	(0.07)-0.91

(2) Reconciliation of the beginning balance to the end balance, valuation gains/losses recognized in profit/loss for the current fiscal year

The following table shows the breakdown of assets and liabilities for which the Level 3 fair value is used as the balance sheet amount and the changes during the period.

	Millions of yen		
	Trading securities and other (Asset)	Derivative transactions (Net amount)	Total
Balance at the beginning of the period	¥ 13,334	¥ 67,417	¥ 80,751
Gain / loss for the current fiscal year			
Recorded in profit and loss <sup>2</sup>	487	(13,715)	(13,228)
Purchase, sale, issuance and settlement			
Purchase	38,176	2,239	40,415
Sale	(43,204)	(17)	(43,221)
Issuance	—	—	—
Settlement	—	(13,451)	(13,451)
Transfer to Level 3 fair value <sup>1, 4</sup>	8,118	(1,111)	7,007
Transfer from Level 3 fair value <sup>1, 5</sup>	(10,770)	(14,246)	(25,016)
Balance at the end of the period	6,141	27,116	33,257
Unrealized gains / losses on financial instruments held on the balance sheet which is booked in profits / losses for the current fiscal year <sup>3</sup>	16	(27,166)	(27,150)

	Thousands of U.S. dollars		
	Trading securities and other (Asset)	Derivative transactions (Net amount)	Total
Balance at the beginning of the period	\$ 121,218	\$ 612,882	\$ 734,100
Gain / loss for the current fiscal year			
Recorded in profit and loss <sup>2</sup>	4,427	(124,682)	(120,255)
Purchase, sale, issuance and settlement			
Purchase	347,054	20,355	367,409
Sale	(392,763)	(155)	(392,918)
Issuance	—	—	—
Settlement	—	(122,282)	(122,282)
Transfer to Level 3 fair value <sup>1, 4</sup>	73,800	(10,100)	63,700
Transfer from Level 3 fair value <sup>1, 5</sup>	(97,909)	(129,509)	(227,418)
Balance at the end of the period	55,827	246,509	302,336
Unrealized gains / losses on financial instruments held on the balance sheet which is booked in profits / losses for the current fiscal year <sup>3</sup>	146	(246,964)	(246,818)

1 Transfers between levels are recognized at the beginning of the period.

2 Gains and losses related to "Trading securities and other (Assets)," and "Derivative transactions (Net amount)" are included in "Net gain on trading."

3 Unrealized gains / losses on Level 3 financial instruments are not only due to unobservable inputs, but also due to fluctuations in observable inputs. In addition, many Level 3 financial instruments are economically hedged by financial instruments classified in other levels (Levels 1 and 2), but the gains and losses of such financial instruments are not included in the above table.

4 The reason for the transfer from Level 1 or Level 2 to Level 3 is that quoted market price for certain securities are no longer available, or inputs to valuation methods are no longer observable.

5 The reason for the transfer from Level 3 to Level 1 or Level 2 is that quoted market price for certain securities have become available, or inputs to valuation methods have become observable.

### (3) Explanation of the fair value valuation process

The fair value of financial instruments held by the trading departments is measured and verified in accordance with the basic policy established by the Company. The results of measurement, including the inputs used in the measurement, are verified by a department independent from the trading department.

The Company has established guidelines regarding the approval process for pricing models used to measure fair value, and in accordance with these guidelines, a department independent from the department which develops the pricing model verifies the assumptions and techniques used in the models. In addition, the Company has built a system to adjust the pricing models in accordance with market trends by comparing and analyzing observable market information and alternative models.

### (4) Explanation of the effect of changes in significant unobservable inputs on fair value

Significant unobservable inputs include long-term swap rates, long-term currency basis, long-term stock price volatility, long-term credit spreads and correlation coefficients.

In measuring the fair value, fluctuations in interest rates affect expected cash flows and discount rates, while fluctuations in credit spreads affect the probability of bankruptcy.

Regarding volatility, the option value increases (decreases) as the volatility increases (decreases). There is a wide range of combinations of correlation coefficients among multiple assets, and the level and direction of fluctuations can vary greatly depending on the combination.

The fair value of OTC derivative transactions is measured based on multiple inputs given for each maturity and currency. When there are movements in the market, the fair value will increase or decrease as the sum of the effects of all inputs. The impact of each input fluctuation on the fair value is determined by the product features for each transaction. The unobservable inputs used to measure the fair value of Level 3 financial instruments are not necessarily independent of each other and may be correlated with other inputs. Many of these relationships are captured through correlation coefficients, and the effects of a wide range of correlation coefficients between multiple assets can increase or decrease the fair value of a financial instrument.

The impact on the fair value of Level 3 financial instruments when using alternative assumptions that can reasonably occur for each product category and is calculated based on the range of significant unobservable inputs described in (1) above is as follows:

	Millions of yen		
	Fair value	Positive fair value fluctuations	Negative fair value fluctuations
Derivatives	¥27,116	¥1,444	¥1,444

	Thousands of U.S. dollars		
	Fair value	Positive fair value fluctuations	Negative fair value fluctuations
Derivatives	\$246,509	\$13,127	\$13,127

(Note 3) In the prior fiscal year, financial instruments for which it was deemed extremely difficult to determine their fair value are listed below, and are not included in the "Assets (2) Other securities."

	Millions of yen
	2020
Subsidiaries' stocks and related companies' stocks	
Unlisted stocks	¥1,136
Other securities	
Unlisted stocks	2,981
Investments in limited liability partnership and other similar partnerships, etc.	734
Others	1,323

(Note 4) In the current fiscal year, stocks, etc. without market prices (unlisted stocks, etc.) and partnership investments, etc. are listed below, and are not included in assets (2) "Other securities."

	Millions of yen	Thousands of U.S. dollars
	2021	2021
Subsidiaries' stocks and related companies' stocks		
Unlisted stocks <sup>1</sup>	¥1,110	\$10,091
Other securities		
Unlisted stocks <sup>1</sup>	2,985	27,136
Partnership investments, etc. <sup>2</sup>	1,337	12,155

<sup>1</sup> Since there is no available market price in regards to unlisted stocks, they are not subject to fair value disclosure in accordance with Article 5 of "Implementation Guidance on Disclosure about Fair Value of Financial Instruments" (Corporate Accounting Standards Application Guideline No. 19, March 31, 2020).

<sup>2</sup> Partnership investment, etc., are not subject to fair value disclosure in accordance with Article 27 of the Fair Value Measurement Implementation Guidance.

(Note 5) Scheduled redemption amount of financial receivables and securities with a maturity date after March 31, 2021  
There is no applicable matter.

(Note 6) Scheduled redemption amount of long-term debt after March 31, 2021:

	Millions of yen			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Long-term debt	¥190,845	¥775,121	¥302,270	¥312,099
Total	¥190,845	¥775,121	¥302,270	¥312,099

	Thousands of U.S. dollars			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Long-term debt	\$1,734,955	\$7,046,555	\$2,747,909	\$2,837,263
Total	\$1,734,955	\$7,046,555	\$2,747,909	\$2,837,263

## 9. Trading assets and trading liabilities

Trading assets and trading liabilities at March 31, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
<b>Trading assets:</b>			
Trading securities:			
Equities	¥ 93,085	¥ 224,916	\$ 846,227
Government, corporate and other bonds	2,354,928	1,815,556	21,408,436
Investment trusts	215,383	97,762	1,958,027
Commercial paper, certificates of deposits and others	2,261	3,523	20,556
Derivatives:			
Equity transactions	208,515	282,518	1,895,591
Interest transactions	1,672,325	2,880,445	15,202,955
Currency transactions	506,213	490,793	4,601,936
Credit and others	20,967	31,715	190,609
	¥5,073,677	¥5,827,228	\$46,124,337

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
<b>Trading liabilities:</b>			
Trading securities:			
Equities	¥ 155,101	¥ 89,606	\$ 1,410,009
Government, corporate and other bonds	1,009,893	675,535	9,180,846
Investment trusts	5	3,466	45
Derivatives:			
Equity transactions	219,588	261,248	1,996,255
Interest transactions	1,607,882	2,807,247	14,617,109
Currency transactions	440,940	391,775	4,008,545
Credit and others	30,861	35,153	280,555
	<b>¥3,464,270</b>	<b>¥4,264,030</b>	<b>\$31,493,364</b>

Government, corporate and other bonds include convertible bonds.

(Change in presentation method)

In the prior fiscal year, the breakdown of the contract amount and market value of derivative transactions was disclosed by transaction type, but as a result of a review in conjunction with the early adoption of the accounting standard for

market value calculation, the breakdown of transaction type by each underlying asset is disclosed in the current fiscal year. In order to reflect this change in presentation method, the notes for the prior fiscal year have been reclassified, as shown in the table below.

Transaction type (prior fiscal year)	Underlying asset (current fiscal year)	Millions of yen	
		Asset	Liability
Option transactions	Equity transactions	¥200,625	¥215,099
	Interest transactions	214	462
	Currency transactions	93,089	94,153
	Subtotal	293,928	309,714
Futures and forward transactions	Equity transactions	23,415	43,242
	Interest transactions	7,838	10,884
	Currency transactions	84,786	76,373
	Subtotal	116,039	130,499
Swap agreements	Equity transactions	58,478	2,907
	Interest transactions	2,872,393	2,795,901
	Currency transactions	312,918	221,249
	Subtotal	3,243,789	3,020,057
Other derivatives	Credit and others	34,669	35,153
	Subtotal	34,669	35,153
Risk reserves	Credit and others	(2,954)	—

## 10. Securities other than trading assets

Cost and fair value of marketable securities as of March 31, 2021 and 2020 consisted of the following:

	Millions of yen		
	Cost	Fair value	Difference
<b>March 31, 2021:</b>			
Equities	¥1,019	¥3,315	¥2,296
Bonds	—	—	—
	<b>¥1,019</b>	<b>¥3,315</b>	<b>¥2,296</b>
<b>March 31, 2020:</b>			
Equities	¥1,019	¥2,880	¥1,861
Bonds	—	—	—
	<b>¥1,019</b>	<b>¥2,880</b>	<b>¥1,861</b>



	Thousands of U.S. dollars		
	Cost	Fair value	Difference
<b>March 31, 2021:</b>			
Equities	\$9,263	\$30,136	\$20,873
Bonds	—	—	—
	<b>\$9,263</b>	<b>\$30,136</b>	<b>\$20,873</b>

Cost/amortized cost of non-marketable securities as of March 31, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Other securities:			
Unlisted equities	¥4,095	¥4,117	\$37,227
Investments in limited partnership and other similar partnerships	216	734	1,964
Other	1,121	1,323	10,191
	<b>¥5,432</b>	<b>¥6,174</b>	<b>\$49,382</b>

## 11. Pledged assets

Secured obligations at March 31, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Short-term borrowings	¥100,100	¥278,358	\$910,000
	<b>¥100,100</b>	<b>¥278,358</b>	<b>\$910,000</b>

The above obligations at March 31, 2021 and 2020 were secured by the following assets:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Trading assets	¥417,560	¥530,220	\$3,796,000
	<b>¥417,560</b>	<b>¥530,220</b>	<b>\$3,796,000</b>

In addition to the above, securities borrowed amounting to ¥28,967 million (\$263,336 thousand) and ¥35,918 million were pledged as guarantees at March 31, 2021 and 2020, respectively.

Total fair value of the securities pledged as collateral at March 31, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Securities loaned	¥ 851,631	¥ 300,522	\$ 7,742,100
Securities sold under agreements to repurchase	3,524,973	2,619,626	32,045,209
Other	365,365	354,560	3,321,500
	<b>¥4,741,969</b>	<b>¥3,274,708</b>	<b>\$43,108,809</b>

Total fair value of the securities received as collateral at March 31, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Securities borrowed	<b>¥2,250,216</b>	¥1,488,683	<b>\$20,456,509</b>
Securities purchased under agreements to resell	<b>1,954,354</b>	1,593,217	<b>17,766,855</b>
Other	<b>259,203</b>	172,785	<b>2,356,391</b>
	<b>¥4,463,773</b>	¥3,254,685	<b>\$40,579,755</b>

## 12. Lease transactions

The information concerning operating leases at March 31, 2021 and 2020 is as follows:

Lessee:	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Operating leases:			
Future lease payments in respect of operating leases	<b>¥53,136</b>	¥39,855	<b>\$483,055</b>
Due within one year	<b>8,845</b>	7,476	<b>80,409</b>

## 13. Payables to customers and counterparties

Payables to customers and counterparties at March 31, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Deposits from customers	<b>¥288,278</b>	¥224,449	<b>\$2,620,709</b>
Guarantee deposits received	<b>359,538</b>	407,696	<b>3,268,527</b>
Other	<b>4,742</b>	21,484	<b>43,109</b>
	<b>¥652,558</b>	¥653,629	<b>\$5,932,345</b>

## 14. Long-term debt

Long-term debt as of March 31, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Bond payable in yen: 1.72% due CY2020	<b>¥ —</b>	¥ 18,400	<b>\$ —</b>
Bond payable in yen: 2.16% due CY2025	<b>7,800</b>	7,800	<b>70,909</b>
Bond payable in yen: 2.41% due CY2026	<b>3,000</b>	3,000	<b>27,273</b>
Bond payable in yen: 2.24% due CY2026	<b>5,000</b>	5,000	<b>45,455</b>
Bond payable in yen: 0.14% due CY2034	<b>—</b>	—	<b>—</b>
Bond payable in yen: 0.14% due CY2038	<b>2,000</b>	2,000	<b>18,182</b>
Medium-term notes maturing through CY2050	<b>813,813</b>	703,328	<b>7,398,300</b>
Subordinated medium-term notes maturing through CY2021	<b>—</b>	5,900	<b>—</b>
Subordinated borrowings in yen maturing through CY2025	<b>50,000</b>	50,000	<b>454,545</b>
Long-term borrowings in yen maturing through CY2049	<b>698,722</b>	760,468	<b>6,352,018</b>
	<b>¥1,580,335</b>	¥1,555,896	<b>\$14,366,682</b>

The amount for medium-term notes as of March 31, 2021 includes US\$727,609 thousand of foreign-currency notes.

## 15. Retirement benefits

### Retirement benefits for employees

#### (1) Defined benefit plans

Retirement benefits in the balance sheets as of March 31, 2021 and 2020 are ¥32,576 million (\$296,145 thousand)

and ¥32,097 million, respectively. Benefit expenses stated in the statements of income for the years ended March 31, 2021 and 2020 were ¥2,677 million (\$24,336 thousand) and ¥2,658 million, respectively.

Movement in retirement benefit obligations consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
At beginning of period	¥32,097	¥31,677	\$291,791
Service cost	2,677	2,658	24,336
Benefits paid	(2,475)	(2,527)	(22,500)
Other	277	289	2,518
At end of period	¥32,576	¥32,097	\$296,145

#### (2) Defined contribution plan

Benefit expenses to "Defined contribution" for the years ended March 31, 2021 and 2020 were ¥2,408 million (\$21,891 thousand) and ¥2,392 million, respectively.

### Retirement benefits for directors

Directors' and corporate auditors' retirement benefits of ¥58 million (\$528 thousand) and ¥48 million are included in "Retirement benefits" in the accompanying balance sheets as of March 31, 2021 and 2020. Benefit expenses stated in the statements of income for the years ended March 31, 2021 and 2020 were ¥9 million (\$82 thousand) and ¥14 million, respectively.

## 16. 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, 2021 and 2020 is as follows:

	2021	2020
Statutory tax rate:	30.6%	30.6%
Valuation allowance	1.5	(0.4)
Permanent difference (expense)	0.8	3.6
Permanent difference (income)	(0.2)	(1.1)
Other	0.2	0.5
Effective tax rate	32.9%	33.2%

Details of deferred tax assets and liabilities as of March 31, 2021 and 2020 are as follows:

		Millions of yen	Thousands of U.S. dollars
	2021	2020	2021
<b>Deferred tax assets:</b>			
Impairment losses	¥ 12,013	¥ 900	\$ 109,209
Retirement benefits	9,992	9,843	90,836
Compensation and bonuses	4,068	2,995	36,982
Asset retirement obligations	2,579	2,553	23,445
Loss on trading	2,008	1,824	18,255
Enterprise tax and Office taxes	1,180	499	10,727
Statutory reserves	1,129	1,196	10,264
Write-down of investment securities	700	641	6,364
Depreciation	330	349	3,000
Other	6,772	6,546	61,563
Gross deferred tax assets	40,771	27,346	370,645
Less: Valuation allowance	(27,050)	(14,979)	(245,909)
Total deferred tax assets	13,721	12,367	124,736
<b>Deferred tax liabilities</b>	<b>1,530</b>	<b>1,366</b>	<b>13,909</b>
<b>Net deferred tax assets</b>	<b>¥ 12,191</b>	<b>¥ 11,001</b>	<b>\$ 110,827</b>

The Company provided a valuation allowance to reflect the estimated unrealized amount of gross deferred tax assets.

## 17. 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.

## 18. Contingent liabilities

The outstanding balances of the guarantees obligated by the Company arising as guarantors of employees' borrowings were ¥15 million (\$136 thousand) and ¥24 million at March 31, 2021 and 2020, respectively. The outstanding balances

of the guarantees obligated by the Company arising as guarantors of derivative transactions of fellow subsidiaries were ¥376 million (\$3,418 thousand) and ¥317 million at March 31, 2021 and 2020, respectively.

## 19. 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 ¥51,091 (\$464) per share amounting to ¥41,394 million (\$376,309 thousand) were approved by the shareholders' meeting on June 17, 2021.

## 20. Business combinations and related matters

Details of business combinations and related matters for the year ended March 31, 2021 are as follows:

### Outline of the business combination

- (i) Name of the acquired company and its business  
Daiwa Property Co., Ltd. and Daiwa Office Services Co., Ltd. (Real estate leasing and management business)
- (ii) Main reason for the business combination  
To further improve the efficiency and strengthening of real estate management and operation functions within the group, and to obtain the effect of improving income and expenditure.

- (iii) Date of business combination  
October 1, 2020
- (iv) Legal form of business combination  
Absorption-type merger method in which the Company is the surviving company in the absorption-type merger, and Daiwa Property Co., Ltd. and Daiwa Office Service Co., Ltd.
- (v) Corporate name after business combination  
Unchanged

### Amount of assets and liabilities acquired on the date of the business combination

Daiwa Property Co., Ltd.	Millions of yen	Thousands of U.S. dollars
	2021	2021
Current assets	¥ 1,601	\$ 14,555
Fixed assets	59,338	539,436
Total assets	60,939	553,991
Current liabilities	2,191	19,918
Fixed liabilities	39,348	357,709
Total liabilities	41,539	377,627

Daiwa Office Services Co., Ltd.	Millions of yen	Thousands of U.S. dollars
	2021	2021
Current assets	¥ —	\$ —
Fixed assets	34	309
Total assets	34	309
Current liabilities	34	309
Fixed liabilities	—	—
Total liabilities	34	309

### 2. Outline of accounting treatment applied

The transaction was accounted for as a transaction under common control in accordance with “Accounting Standard for Business Combinations” (ASBJ Statement No.21, January

16, 2019), and “Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No.10, January 16, 2019).

## 21. 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
<b>Year ended March 31, 2021:</b>					
Net operating revenues:					
Sales to customers	¥165,145	¥135,996	¥301,141	¥(6,857)	¥294,284
Intersegment sales and transfers	—	—	—	—	—
<b>Total</b>	<b>¥165,145</b>	<b>¥135,996</b>	<b>¥301,141</b>	<b>¥(6,857)</b>	<b>¥294,284</b>

	Millions of yen				
	Retail sales	Domestic wholesale	Reportable segment total	Others	Total
<b>Year ended March 31, 2020:</b>					
Net operating revenues:					
Sales to customers	¥161,715	¥103,865	¥265,580	¥(3,138)	¥262,442
Intersegment sales and transfers	—	—	—	—	—
<b>Total</b>	<b>¥161,715</b>	<b>¥103,865</b>	<b>¥265,580</b>	<b>¥(3,138)</b>	<b>¥262,442</b>

	Thousands of U.S. dollars				
	Retail sales	Domestic wholesale	Reportable segment total	Others	Total
<b>Year ended March 31, 2021:</b>					
Net operating revenues:					
Sales to customers	\$1,501,318	\$1,236,327	\$2,737,645	\$(62,336)	\$2,675,309
Intersegment sales and transfers	—	—	—	—	—
<b>Total</b>	<b>\$1,501,318</b>	<b>\$1,236,327</b>	<b>\$2,737,645</b>	<b>\$(62,336)</b>	<b>\$2,675,309</b>

\* "Others" are the business segments which are not included in the reportable segments.

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

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

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

## (Adjustment of difference)

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Net operating revenues			
Reportable segment total	¥301,141	¥265,580	\$2,737,645
Net operating revenues from "Others"	(6,857)	(3,138)	(62,336)
Commission fee deducted from net operating revenues	8,838	8,656	80,345
Other adjustments	(1,723)	(1,226)	(15,663)
Net operating revenues of financial statements	¥301,399	¥269,872	\$2,739,991

## (Impairment losses on fixed assets by reportable segment)

The impairment losses recognized on fixed assets in "Others" for the year ended March 31, 2021 are ¥2,232 million (\$20,291 thousand). For the year ended March 31, 2020 they are ¥2,339 million, included in "Structural reform cost" in the statement of income.

## (Gains on negative goodwill by reportable segment)

Not applicable.



## 22. Transactions with related parties

The information on the Company's material transactions with its related parties and individuals for the years ended March 31, 2021 and 2020, 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
				2021
Daiwa Securities Group Inc.	¥247,397 million	Proceeds from Borrowings	Short-term borrowings	¥120,000
		Interest expense (Note 1)	Long-term debt	404,221
			Accrued and other liabilities—Other	1,919
		Acceptance of rent, etc. (Note 2)	Other assets—Other	¥ 4,562
				¥ 1,501
Daiwa Capital Markets Europe Limited	£732 million	Recurring transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	¥ 1,100
		Interest income (Note 4)	Collateralized short-term financing agreements (Liabilities)	163,588
		Interest expense (Note 4)		(387)
		Recurring transactions of loans	Loans receivable from other than customers	¥114,363
		Interest income (Note 4)	Receivables—Other	180
		Recurring transactions of purchase and sale of securities (Notes 3, 4)		—
		Recurring transactions of derivatives (Notes 3, 4)	Trading assets	¥ 41,659
Daiwa Capital Markets America Inc.	\$100 million		Trading liabilities	48,769
		Recurring transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	¥ 85,597
		Interest income (Note 4)	Collateralized short-term financing agreements (Liabilities)	367,696
		Interest expense (Note 4)		(85)
		Recurring transactions of purchase and sale of securities (Notes 3, 4)		—
Daiwa Asset Management Co. Ltd.	¥15,174 million	Agency service agreement for investment trust funds	Receivables—Other	¥ 3,325
		Commissions (Note 4)		¥14,917
Daiwa Next Bank, Ltd.	¥50,000 million	Recurring transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	¥ —
		Interest income (Note 4)		¥ 5
		Interest expense (Note 4)		—
		Recurring transactions of purchase and sale of securities (Notes 3, 4)		—
		Recurring transactions of derivatives (Notes 3, 4)	Trading assets	¥ 47
			Trading liabilities	175

\* "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) Rents are determined based on the formula prescribed by the Company and are reviewed as appropriate in consideration of market rent. In addition, other conditions such as cancellation penalties are determined after negotiation.

(Note 3) The description of transaction amount is omitted because these are recurring transactions.

(Note 4) Terms of transaction are determined based on market trends.

(Note 5) 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 2020
Daiwa Securities Group Inc.	¥247,397 million	Proceeds from Borrowings	Short-term borrowings	¥231,400
		Interest expense (Note 1)      ¥ 9,282	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)      ¥ 43	Collateralized short-term financing agreements (Liabilities)	368,046
		Interest expense (Note 3)      471		
		Recurring transactions of loans	Loans receivable from other than customers	¥179,651
		Interest income (Note 3)      ¥ 4,811	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)      ¥ 461	Collateralized short-term financing agreements (Liabilities)	197,845
		Interest expense (Note 3)      7,730		
		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)      ¥ 350		
		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

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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
				<b>2021</b>
Daiwa Securities Group Inc.	¥247,397 million	Proceeds from Borrowings	Short-term borrowings	<b>\$1,090,909</b>
		Interest expense (Note 1) <b>\$ 54,727</b>	Long-term debt	<b>3,674,736</b>
			Accrued and other liabilities—Other	<b>17,445</b>
		Acceptance of rent, etc. (Note 2) <b>\$ 13,645</b>	Other assets—Other	<b>\$ 41,473</b>
Daiwa Capital Markets Europe Limited	£732 million	Recurring transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	<b>\$ 10,000</b>
		Interest income (Note 4) <b>\$ 373</b>	Collateralized short-term financing agreements (Liabilities)	<b>1,487,164</b>
		Interest expense (Note 4) <b>(3,518)</b>		
		Recurring transactions of loans	Loans receivable from other than customers	<b>\$1,039,664</b>
		Interest income (Note 4) <b>\$ 12,436</b>	Receivables—Other	<b>1,636</b>
		Recurring transactions of purchase and sale of securities (Notes 3, 4) <b>—</b>		
		Recurring transactions of derivatives (Notes 3, 4)	Trading assets	<b>\$ 378,718</b>
			Trading liabilities	<b>443,355</b>
Daiwa Capital Markets America Inc.	\$100 million	Recurring transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	<b>\$ 778,155</b>
		Interest income (Note 4) <b>\$ (773)</b>	Collateralized short-term financing agreements (Liabilities)	<b>3,342,691</b>
		Interest expense (Note 4) <b>8,855</b>		
		Recurring transactions of purchase and sale of securities (Notes 3, 4) <b>—</b>		
Daiwa Asset Management Co. Ltd.	¥15,174 million	Agency service agreement for investment trust funds	Receivables—Other	<b>\$ 30,227</b>
		Commissions (Note 4) <b>\$135,609</b>		
Daiwa Next Bank, Ltd.	¥50,000 million	Recurring transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	<b>\$ —</b>
		Interest income (Note 4) <b>\$ 45</b>		
		Interest expense (Note 4) <b>—</b>		
		Recurring transactions of purchase and sale of securities (Notes 3, 4) <b>—</b>		
		Recurring transactions of derivatives (Notes 3, 4)	Trading assets	<b>\$ 427</b>
			Trading liabilities	<b>1,591</b>

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\* "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) Rents are determined based on the formula prescribed by the Company and are reviewed as appropriate in consideration of market rent. In addition, other conditions such as cancellation penalties are determined after negotiation.

(Note 3) The description of transaction amount is omitted because these are recurring transactions.

(Note 4) Terms of transaction are determined based on market trends.

(Note 5) These are based on the investment trust contract of each fund. The fee is determined in the same manner as other sales companies.

### 23. Special purpose entities subject to disclosure

The Company utilized six special purpose entities for the year ended March 31, 2021 (six for the year ended March 31, 2020) 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, 2021 and 2020 are ¥748,788 million (\$6,807,164 thousand) and ¥677,459 million, respectively.

### 24. Net gain on trading

Net gain on trading for the years ended March 31, 2021 and 2020 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Equities and others	¥ 57,590	¥40,030	\$523,545
Bonds, forex and others	45,006	36,706	409,146
	¥102,596	¥76,736	\$932,691

### 25. Selling, general and administrative expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2021 and 2020 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Employees' compensation and benefits	¥ 96,845	¥ 95,095	\$ 880,409
Commissions and brokerage	20,249	20,995	184,082
Communications	10,225	11,982	92,955
Occupancy and rental	24,194	25,006	219,945
Data processing and office supplies	47,190	47,377	429,000
Taxes other than income taxes	4,583	3,917	41,664
Depreciation	23,081	20,140	209,827
Other	9,383	16,055	85,300
	¥235,750	¥240,567	\$2,143,182

### 26. Other income (expenses)

Details of "Other, net" in the accompanying statements of income for the years ended March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Rental income from real estate	¥ 3,203	¥ —	\$ 29,118
Rental costs on real estate	(2,844)	—	(25,855)
Gains on sales of investment securities	88	164	800
Structural reform cost	(2,378)	(12,702)	(21,618)
Impairment loss	(2,232)	—	(20,291)
Other	(46)	646	(418)
	¥(4,209)	¥(11,892)	\$(38,264)

## Impairment loss

(Fiscal year ended March 31, 2021)

The Company recognized impairment losses for the following asset group as follows:

	Condition	Location	Millions of yen Impairment loss	Thousands of U.S. dollars Impairment loss
Assets to be disposed of	Low operating assets	Tohoku, Kanto, Chubu, Kinki, Chugoku, Shikoku region	¥2,232	\$20,291
Total			¥2,232	\$20,291

Assets are grouped in accordance with classifications used for management accounting. Assets to be disposed of are grouped by individual property.

As a result of the decision to dispose of the assets, book values were reduced to recoverable amounts, and the amount of the differences between the book values and recoverable amounts were recorded as an impairment loss of ¥2,232

million (\$20,291 thousand) for the year ended March 31, 2021.

The breakdown of the amounts is as follows: 895 million yen—buildings, 984 million yen—land, 349 million yen—telephone subscription rights, and 4 million yen—others.

The recoverable amount of assets to be disposed is measured by net sales value, and which is determined by the appraisal value.

(Fiscal year ended March 31, 2020)

The Company recognized impairment losses for the following asset group as follows:

	Condition	Location	Millions of yen Impairment loss	Thousands of U.S. dollars Impairment loss
Assets to be held and used	Low profit-earning assets	Kanto region	¥1,016	\$ 9,407
Assets to be disposed of	Low operating assets	Kanto region	¥1,323	\$12,250
Total			¥2,339	\$21,657

Assets are grouped in accordance with classifications used for management accounting. Assets to be disposed are grouped by individual property.

As a result of a significant decline in profitability and a change in use, the book values of certain software were reduced to the recoverable amounts, and the amount of the

differences between the book values and recoverable amount were recorded as an impairment loss of ¥2,339 million (\$21,657 thousand), which is 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.

## 27. 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, 2021 and 2020, 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, 2021 and 2020, and its financial performance and its 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.

## Key Audit Matter

Key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the financial statements of the current period. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

## Reasonableness of the valuation of Level 3 derivative instruments held as part of trading products

### The key audit matter

As described in Note 8, "Financial instruments, Matters concerning the fair value and fair value hierarchy by level of financial instruments" to the financial statements, the Company recognized derivative instruments held as part of trading products of ¥2,408 billion and ¥2,292 billion in assets and liabilities, respectively. As described in the same note, the derivative assets and liabilities held as part of trading products categorized within Level 3 of the fair value hierarchy, or Level 3 derivative assets and liabilities, were ¥47 billion and ¥19 billion, respectively.

In the trading business, in order to meet customers' needs, the Company provides customers with various financial instruments by entering into derivative transactions as a freestanding instrument or as a feature embedded in structured notes or other host instruments. The Company also utilizes derivative transactions to hedge interest rate risk of its financial assets and liabilities as well as its trading positions.

As described in Note 2, "Significant accounting policies, Trading assets and trading liabilities" to the financial

### How the matter was addressed in our audit

To assess the reasonableness of the valuation of Level 3 derivative instruments held as part of trading products, we primarily performed the following audit procedures:

#### (1) Internal control testing

We tested the design and operating effectiveness of certain of the Company's internal controls relevant to the valuation of Level 3 derivative instruments held as part of trading products. In this assessment, we focused our testing on the following controls:

- controls that inputs used in the pricing models and the marked-to-market valuation are validated by a department independent of the trading department; and
- controls that the reasonableness of assumptions embedded in the pricing models and the appropriateness of valuation techniques, as well as adjustments to the pricing models are validated by a department independent of the department which developed the pricing models.



statements, derivative instruments held as part of trading assets and trading liabilities are measured at fair value in the balance sheets, while valuation gains or losses are reported within net gains or losses on trading in the income statements. In addition, as described in Note 4, "Change in accounting policy", the "Accounting Standard for Calculation of Fair Value Measurement" was adopted from the beginning of the current fiscal year, and the information regarding Level 3 fair value is provided in Note 8, "Financial instruments, Matters concerning the fair value and fair value hierarchy by level of financial instruments" to the financial statements.

The fair values of over-the-counter derivative instruments are calculated using pricing models including those generally recognized in the market or the updated versions thereof. These pricing models are adjusted to reflect market trends by performing an analysis through the comparison with observable market information and alternative pricing models, or other means.

To calculate fair values using pricing models, various inputs, including interest rates, exchange rates, stock prices, volatilities and correlation coefficients, are used. In particular, unobservable inputs, including long-term swap-rates, long-term currency basis, long-term volatilities of stock prices, long-term credit spreads and correlation coefficients, are used to calculate the fair value of Level 3 derivative instruments.

Selecting and adjusting pricing models and determining inputs used in the pricing models to estimate the market value of Level 3 derivative instruments required management judgments. In addition, since complex processes involving a high level of expertise in the market and valuation methodologies were necessary while making management judgments, the fair value of Level 3 derivative instruments involved a high degree of estimation uncertainty.

We, therefore, determined that our assessment of the reasonableness of the valuation of Level 3 derivative instruments held as part of trading products was the most significant matter in our audit of the financial statements for the current fiscal year, and accordingly, a key audit matter.

## (2) Assessment of the reasonableness of the valuation of the Level 3 derivative instruments held as part of trading products

- **Assessment of the reasonableness of pricing models**  
We assessed the continuing appropriateness of assumptions embedded in the pricing models used to calculate the valuation of derivative instruments and the reasonableness of adjustments to those assumptions. We involved valuation specialists in financial instruments within our international network firms (hereinafter, the "financial instrument valuation specialists") who assisted our assessment of the reasonableness of the adjustments made to the pricing models during the current fiscal year.
- **Assessment of the reasonableness of inputs**  
We compared observable market inputs with data we independently obtained from information vendors and other sources. We also compared unobservable inputs mainly with consensus pricing data provided by a consensus pricing service provider and the values we estimated independently.
- **Assessment of the reasonableness of the valuation of derivative instrument calculated using the pricing models**  
For a selection of derivative instruments selected considering quantitative and qualitative significance, we independently calculated the valuation of those derivative instruments and compared them with the fair values calculated by management, with the assistance of the financial instrument valuation specialists.
- **Assessment of the appropriateness of relevant disclosures**  
We assessed the accuracy of the balances by level and the information related to Level 3 fair value disclosed in accordance with the "Accounting Standard for Calculation of Fair Value Measurement."

## 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 with regard to 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.

From the matters communicated with corporate auditors and the board of corporate auditor, we determine the matter that was of most significance in the audit of the financial statements of the current period and is therefore the key audit matter. We describe this matter in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Convenience Translation

The U.S. dollar amounts in the accompanying financial statements with respect to the year ended March 31, 2021 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  
August 6, 2021

### 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

GranTokyo North Tower  
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, 2021)

## Number of Shareholders

150,789 (as of March 31, 2021)

## Independent Public Accountant

KPMG AZSA LLC

## Stock Exchange Listings

Tokyo, Nagoya

## Transfer Agent and Registrar

Sumitomo Mitsui Trust Bank, Limited  
Stock Transfer Agency Department  
1-4-1, Marunouchi, Chiyoda-ku,  
Tokyo 100-8233, Japan

## For further information, please contact:

### Daiwa Securities Group Inc.

#### Investor Relations Office

Tel: (81) 3-5555-1300

Fax: (81) 3-5555-0661

Email: [ir-section@daiwa.co.jp](mailto:ir-section@daiwa.co.jp)

URL: <https://www.daiwa-grp.jp/english/ir/>

## Stock Information

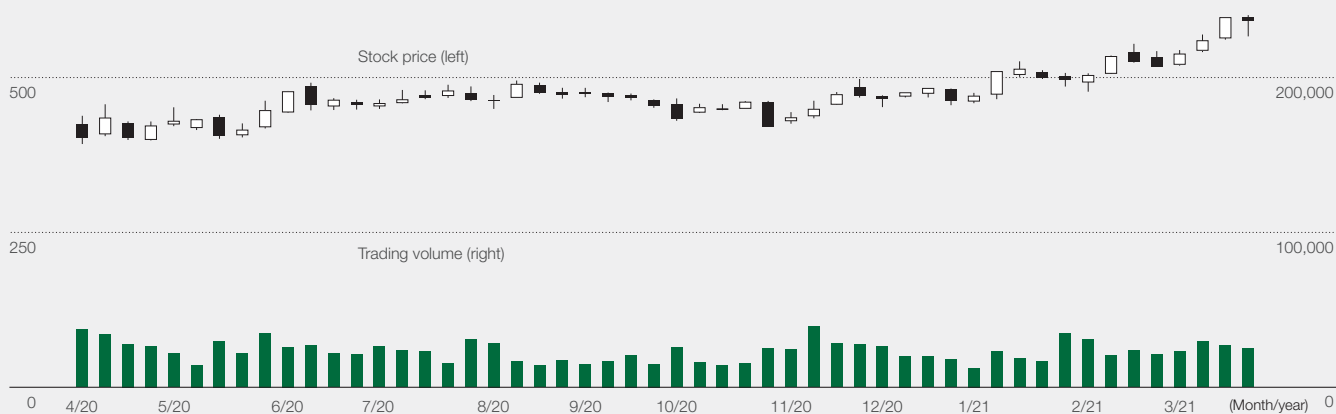
### 1. Stock Price and Trading Volume on the Tokyo Stock Exchange (April 1, 2020– March 31, 2021)

(Yen)

(Thousand shares)

750

300,000



### 2. Major Shareholders (As of March 31, 2021)

Name	Number of shares held (Thousands)	% of total outstanding shares
The Master Trust Bank of Japan, Ltd. Trust Account	129,328	8.48%
Custody Bank of Japan, Ltd. Trust Account	61,931	4.06%
Taiyo Life Insurance Company	41,140	2.69%
Barclays Securities Japan, Ltd.	34,390	2.25%
Nippon Life Insurance Company	31,164	2.04%
NORTHERN TRUST CO. (AVFC) RE SILCHESTER INTERNATIONAL INVESTORS INTERNATIONAL VALUE EQUITY TRUST	30,973	2.03%
JAPAN POST HOLDINGS Co., Ltd.	30,000	1.96%
Daiwa's Employee Stock Ownership Association	23,389	1.53%
Custody Bank of Japan, Ltd. Trust Account 5	22,649	1.48%
STATE STREET BANK WEST CLIENT - TREATY 505234	22,299	1.46%

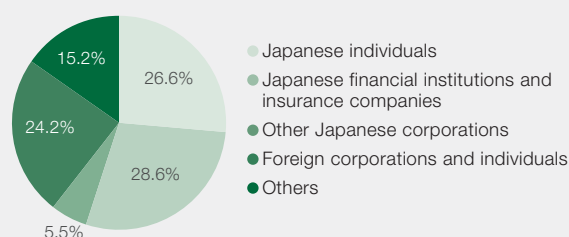
Note: Treasury stock of 175,501,735 shares is excluded for calculating the percentage of the above list of major shareholders.

### 3. Stock Price on the Tokyo Stock Exchange

(April 1, 2020–March 31, 2021)

Open	High	Low	Close	Average daily trading volume
¥413.6	¥600.8	¥392.7	¥572.1	5,048 thousand shares

### 4. Breakdown of Shareholders (As of March 31, 2021)



# Officers

(As of September 1, 2021)

## Daiwa Securities Group Inc.

### Directors

(Members of the Board)

Chairman of the Board	Outside Directors
Takashi Hibino	Michiaki Ogasawara Hirotaka Takeuchi
Directors	Ikuo Nishikawa
Seiji Nakata	Eriko Kawai
Toshihiro Matsui	Katsuyuki Nishikawa
Keiko Tashiro	Toshio Iwamoto
Akihiko Ogino	Yumiko Murakami
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 (CHO)
Keiko Tashiro	Tomoyuki Murase (CIO)
Kazuo Takahashi	Eiji Sato (CFO)
Mikita Komatsu	
Koichi Matsushita	
Masahisa Nakagawa	
Senior Executive Managing Directors	Corporate Executive Officer
Akihiko Ogino	Takashi Hibino
Shinsuke Niizuma	
Atsushi Mochizuki	

### Executive Officers

Senior Executive Managing Director	Senior Managing Directors
Hironori Oka	Yukiko Takeuchi
	Naoki Suzuki
Executive Managing Directors	Nensuke Tanaka
Hideki Araki	Takashi Yamada
Shiko Yanagisawa	Atsushi Itaya
Akira Yamanouchi	Yuki Hayakawa
Hiddenobu Shiota	
Tsutomu Kobayashi	

\* 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
President	Atsushi Mochizuki*
Seiji Nakata*	Hiroshi Hara
	Yoshihisa Kaneko
Deputy Presidents	Executive Managing Directors
Toshihiro Matsui*	Junichi Arihara
Kazuo Takahashi*	Yoshifumi Otsuka
Keiko Tashiro*	Tomoo Fujioka
Mikita Komatsu*	Kana Shirakawa
Senior Executive Managing Directors	Tomoyuki Murase
Masahiro Kobayashi	Sungho Kang
Yoshinori Matsumoto	Toshiya Tadokoro
Naoto Shimomura	Hiroko Sakurai
Shinsuke Niizuma	Hiroki Ikeda
Akihiko Ogino	Shiko Yanagisawa

### Audit & Supervisory Board Members

Kenichi Shiratori
Sachiko Hanaoka
Hiromasa Kawashima
Hiroshi Obayashi

### Executive Officers

Executive Managing Directors	Senior Managing Directors	Senior Managing Directors
Hirota Shirokawa	Tsutomu Takahashi	Yoshinori Nakazawa
Kei Sano	Yoshiaki Tanaka	Masahiro Fujisawa
Futoshi Sekine	Takaaki Narieda	Katsuyasu Murata
Tomonori Tsuji	Yukiko Takeuchi	Isao Niwa
Eiji Sato	Tomohide Wakayama	Yusuke Morimoto
Toru Yamamoto	Nensuke Tanaka	Yoshinori Ohashi
Junichi Serizawa	Takashi Yamada	Kotaro Yoshida
Isao Tsujioka	Atsushi Itaya	Toyobumi Naruge
Tsutomu Kobayashi	Kenichi Ueno	Kenichi Tazawa
	Katsumi Maekawa	Takemichi Kobayashi

\* Representative Directors

## Domestic Group Companies

(As of September 30, 2021)

### Daiwa Securities Co. Ltd.

GranTokyo North Tower  
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6752, Japan  
Tel: +(81) 3-5555-2111

### Daiwa Asset Management Co. Ltd.

GranTokyo North Tower  
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6753, Japan  
Tel: +(81) 3-5555-3111

### Daiwa Institute of Research Ltd.

15-6, Fuyuki, Koto-ku, Tokyo 135-8460, Japan  
Tel: +(81) 3-5620-5100

### DIR Information Systems Co., Ltd.

Daiwa Eidai Building  
1-14-6, Eidai, Koto-ku, Tokyo 135-0034, Japan  
Tel: +(81) 3-6365-2580

### Daiwa Securities Business Center Co. Ltd.

3-2, Toyo 2-chome, Koto-ku, Tokyo 135-0016, Japan  
Tel: +(81) 3-5633-6100

### Daiwa Facilities Co., Ltd.

2-1, Kyobashi 1-chome, Chuo-ku, Tokyo 104-0031, Japan  
Tel: +(81) 3-5555-4700

### Daiwa Next Bank, Ltd.

GranTokyo North Tower  
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6756, Japan  
Tel: +(81) 3-5555-6500

### Daiwa Corporate Investment Co., Ltd.

GranTokyo North Tower  
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6756, Japan  
Tel: +(81) 3-5555-6300

### Daiwa PI Partners Co. Ltd.

GranTokyo North Tower  
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6730, Japan  
Tel: +(81) 3-5555-6001

### Daiwa Energy & Infrastructure Co. Ltd.

GranTokyo North Tower  
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6730, Japan  
Tel: +(81) 3-5555-6100

### Daiwa Fund Consulting Co. Ltd.

GranTokyo North Tower  
9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6756, Japan  
Tel: +(81) 3-5555-6550

### Daiwa Real Estate Asset Management Co. Ltd.

2-1, Ginza 6-chome, Chuo-ku, Tokyo 104-0061, Japan  
Tel: +(81) 3-6215-9500

### Daiwa Investor Relations Co. Ltd.

2-1, Kyobashi 1-chome, Chuo-ku, Tokyo 104-0031, Japan  
Tel: +(81) 3-5555-4111

### Retela Crea Securities Co., Ltd.

2-1, Kyobashi 1-chome, Chuo-ku, Tokyo 104-0031, Japan  
Tel: +(81) 3-6385-0611

### Fintertech Co. Ltd.

6th floor, Atlas building  
5, Ichibancho, Chiyoda-ku, Tokyo 102-0082, Japan  
Tel: +(81) 3-3222-7333

### Good Time Living Co. Ltd.

RBM Kyobashi Building, 7th floor,  
4-8, Hatchobori 3-chome, Chuo-ku, Tokyo 104-0032, Japan  
Tel: +(81) 3-6845-8020

### Daiwa Food & Agriculture Co. Ltd.

Toranomon Hills Business Tower 4th floor, "ARCH",  
17-1, Toranomon 1-chome, Minato-ku, Tokyo 105-6404, Japan

### CONNECT Co. Ltd.

1-2-1, Kyobashi, Chuo-ku, Tokyo 104-0031, Japan

### Daiwa Securities Realty Co. Ltd.

2-1, Ginza 6-chome, Chuo-ku, Tokyo 104-0061, Japan



# Overseas Group Companies

(As of September 30, 2021)

## Daiwa Securities Group Inc.

### Daiwa Capital Markets America Inc.

New York Head Office  
Financial Square, 32 Old Slip, New York, NY 10005  
Tel: +(1) 212-612-7000

San Francisco Branch  
555 California Street, Suite 4325, San Francisco, CA 94104  
Tel: +(1) 415-955-8100

### Daiwa Corporate Advisory LLC (New York)

605 Third Avenue, 11th Floor New York, NY 10158  
Tel: +(1) 212-904-9400

### Daiwa Capital Markets Europe Limited

London Head Office  
5 King William Street, London EC4N 7AX  
Tel: +(44) 20-7597-8000

Geneva Branch  
50, rue du Rhône, P.O. Box 3198, 1211 Geneva 3  
Tel: +(41) 22-818-74-00

Bahrain Branch  
31st Floor, East Tower, Bahrain World Trade Center,  
P.O. Box 30069, Manama  
Tel: +(973) 1753-4452

Paris Representative Office  
106 Boulevard Haussmann, Paris 75008  
Tel: +(33) 06-12-99-95-80

Moscow Representative Office  
11, Gogolevsky boulevard, 2nd Floor, Moscow, 119019  
Tel: +(7) 495-641-3416

### Daiwa Capital Markets Deutschland GmbH

Neue Mainzer Str. 1, 60311 Frankfurt am Main  
Tel: +(49) 69-27139-8100

### Daiwa Corporate Advisory Limited (UK)

5 King William Street, London EC4N 7DA  
Tel: +(44) 20-7856-0999

### Daiwa Corporate Advisory GmbH (Germany)

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Tel: +(49) 69-9720-040

### Daiwa Corporate Advisory SAS (France)

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Tel: +(33) 1-4212-4900

### Daiwa Corporate Advisory Srl (Italy)

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Tel: +(39) 02-09942-669

### Daiwa Corporate Advisory SL (Spain)

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Tel: +(34) 91-524-11-23

### Daiwa Capital Markets Hong Kong Limited

One Pacific Place, 88 Queensway, Hong Kong  
Tel: +(852) 2525-0121

### Daiwa Capital Markets Singapore Limited

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Tel: +(65) 6387-8888

Sydney Branch  
Aurora Place (15th Floor) 88 Phillip St., Sydney NSW 2000  
Tel: +(61) 2-8199-1500

### Daiwa Securities Capital Markets Korea Co., Ltd.

21 Fl. One IFC, 10 Gukjegeumyung-Ro, Yeongdeungpo-Gu, Seoul, 07326  
Tel: +(82) 2-787-9100

### Daiwa Capital Markets Australia Limited

Level 34, Rialto North Tower, 525 Collins Street, Melbourne, Victoria 3000  
Tel: +(61) 3-9916-1300

### Daiwa Capital Markets India Private Limited

Unit No. 503, 5th floor, Windsor, Kole Kalyan, off CST Road,  
Vidyanagari Marg, Kalina, Santacruz - (East), Mumbai - 400 098  
Tel: +(91) 22-6622-1000

### Daiwa-Cathay Capital Markets Co., Ltd.

14th Floor, 200 Keelung Road, Sec. 1, Taipei  
Tel: +(886) 2-2723-9698

### DBP-Daiwa Capital Markets Philippines, Inc.

18/F BDO Towers Valero 8741 Paseo de Roxas Makati City, 1226  
Tel: +(632) 8737-3000

### Daiwa Securities (China) Co., Ltd.

7/F, North Tower, Kerry Centre, 1 Guanghua Road, Chaoyang District,  
Beijing 100020  
Tel: +(86) 10-8093-6899

### Daiwa (Shanghai) Corporate Strategic Advisory Co. Ltd.

7/F, Hang Seng Bank Tower, 1000 Lujiazui Ring Road,  
Pudong, Shanghai  
Tel: +(86) 21-6841-3292

### Myanmar Securities Exchange Centre Co., Ltd.

1st Floor, MEB (H.O.) Building, 21-25 Sule Pagoda Road Pabedan  
Township, Yangon  
Tel: +(95) 1-8387032

### DC Advisory (Thailand) Co., Ltd.

18th Floor, M.Thai Tower, All Seasons Place, 87 Wireless Road, Lumpini,  
Pathumwan, Bangkok 10330  
Tel: +(66) 2-252-5650

## Daiwa Securities Co. Ltd.

### Beijing Representative Office

Room 721/722, South Tower, Kerry Centre, No. 1 Guanghua Road,  
Chaoyang District, Beijing  
Tel: +(86) 10-6500-6688

### Bangkok Representative Office

18th Floor, M.Thai Tower, All Seasons Place, 87 Wireless Road, Lumpini,  
Pathumwan, Bangkok 10330  
Tel: +(66) 2-252-5650

### Hanoi Representative Office

Suite 1101, Tower 2, Capital Place Building, 29 Lieu Giai, Ba Dinh  
District, Hanoi  
Tel: +(84) 24-3946-0460

# Daiwa Securities Group

<https://www.daiwa-grp.jp/english/>

