

Daiwa Securities Group

<https://www.daiwa-grp.jp/english/>



Daiwa Securities Group

Integrated Report 2022

Daiwa Securities Group



Integrated Report 2022

Year ended March 31, 2022

Take on new challenges

From savings to **SDGs**

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ESG Index Selection

Daiwa Securities Group Inc. has been selected for inclusion in the following indexes. In addition to the Dow Jones Sustainability World Index and the FTSE4Good Index, it is included in all the domestic ESG stock indexes selected by Government Pension Investment Fund (GPIF): the FTSE Blossom Japan Index, the FTSE Blossom Japan Sector Relative Index, the MSCI Japan ESG Select Leaders Index, the MSCI Japan Empowering Women Index, and the S&P/JPX Carbon Efficient Index.



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. “FY2021” refers to the fiscal year ended March 31, 2022, 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 2022

Daiwa Securities Group marked its 120th anniversary in May 2022. I would like to express my heartfelt gratitude to our shareholders and other stakeholders, recognizing that reaching this milestone was only possible because of your support.

FY2022 is the second year of Vision 2030, which shows the kind of company we are aiming to be in 2030, and of 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 2030 and Medium-Term Management Plan while continuously enhancing corporate value. To deepen understanding of the corporate activities the Group is undertaking and to generate value together with all of our stakeholders, we have created this Integrated Report as a tool for dialogue.

Integrated Report 2022 showcases the Group's initiatives and progress with regard to our Materiality from both financial and non-financial perspectives. In addition, in line with the Group's emphasis on human capital, rooted in the conviction that the capabilities of our employees are the source of our competitiveness, the Report discusses how initiatives such as the pursuit of job satisfaction and measures to increase engagement and productivity will lead to the enhancement of corporate value, bringing in the voices of employees.

Aside from financial information, the Group places high value on active dialogue with investors and stakeholders through the disclosure of non-financial information essential to enhancing medium- to long-term corporate value. Based on feedback regarding last year's Integrated Report 2021 and other advice received through dialogue with stakeholders, we sought to enhance the content of Integrated Report 2022 to make it 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, and would like to ask for your continued support.

中田 誠 司

Seiji Nakata

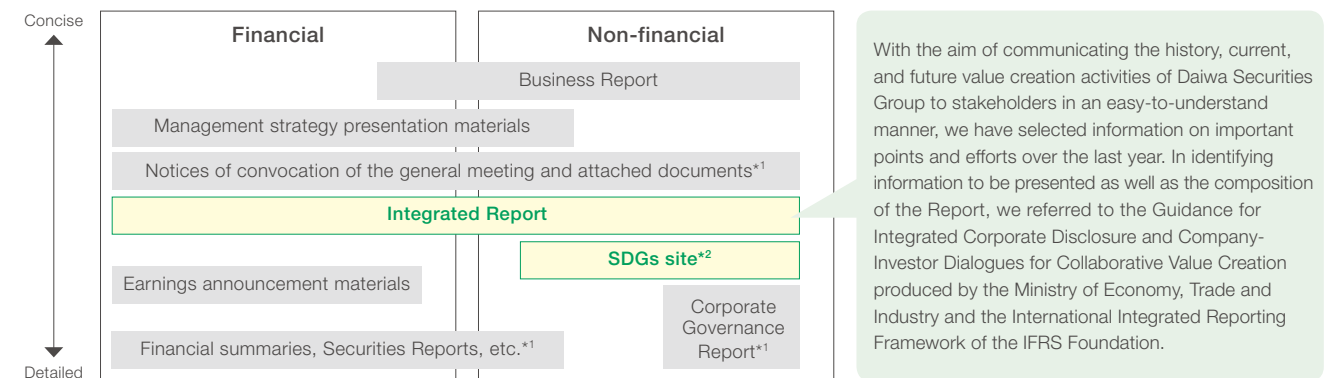
President and CEO
Daiwa Securities Group Inc.



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/>



120 years of continuing to embrace “challenge”

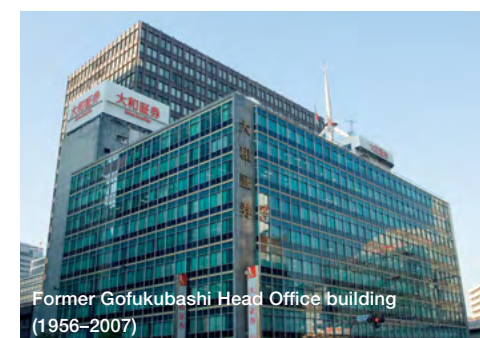


1902

Commenced operations as Fujimoto Bill Broker

Daiwa Securities Group was established with the aim of becoming a full-fledged bill broker*. Since starting up operations, the company built up a position in the market by seeking to grow the business based on its proprietary accounts, procuring funds from the call market and buying bills. The ability to raise adequate funds directly from the call market led to Daiwa Securities' later independence from any bank.

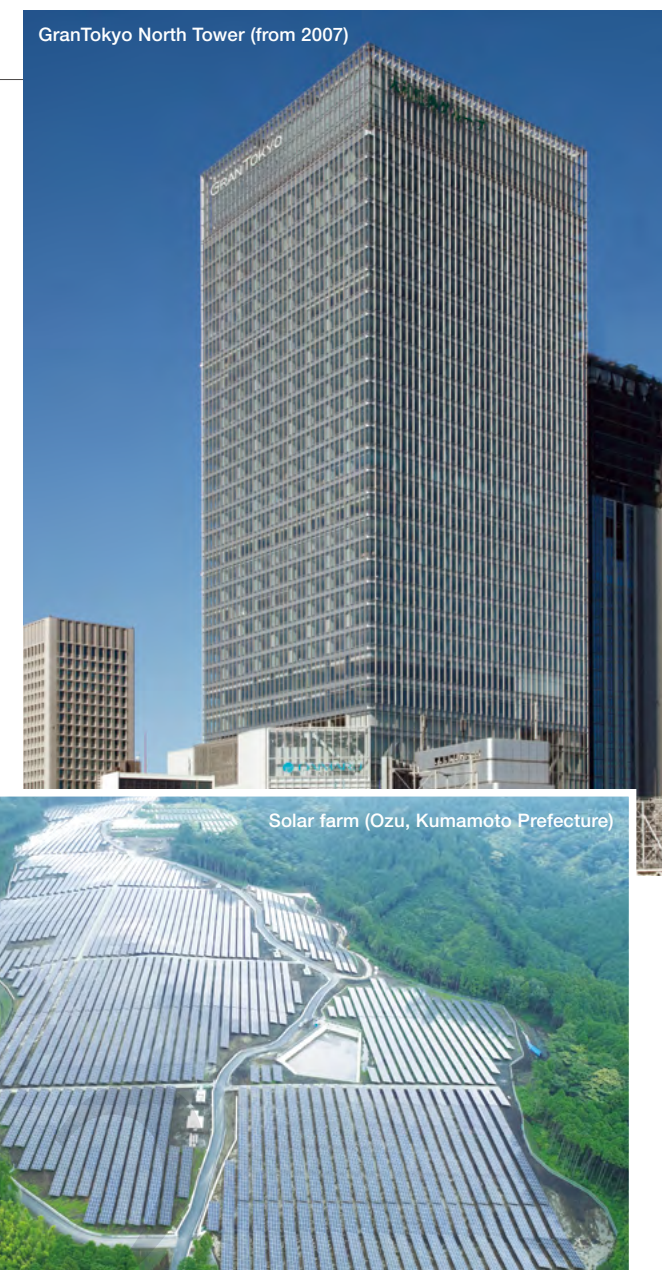
* A buyer and seller of bills of exchange



2022

A financial and capital market pioneer that creates the future

Over the course of its long history, the Daiwa Securities Group has repeatedly experienced major swings and turmoil in the economic environment and in the financial markets. Nonetheless, we have maintained and grown the business by always adapting to the changing times. Today, as a comprehensive securities group with a hybrid business model, the Group continues to expand the business portfolio with a series of flourishing hybrid businesses, including the real estate asset management business, investment in renewable energy, and entry into the agricultural business.



120 years of continuing to embrace challenge

History of Daiwa Securities Group as a Pioneer



1986

Start of Japan's first home trading with PCs

On May 9, we launched Japan's first computer-based home trading service. In addition to trading in stocks and buying medium-term government bond funds, users could obtain current stock price quotes and other information through their computers.

1999

Daiwa Securities Group Inc. starts out as the first listed company in Japan to move to a holding company structure

On April 26, Daiwa Securities Co. Ltd. changed its corporate name to Daiwa Securities Group Inc., and started operations as a holding company. To enable each independent business area to draw on its individual strengths while maintaining a cohesive organization, and to boost competitiveness and growth potential, the Group moved out ahead of other companies in the financial sector to adopt a holding company structure.



Press conference to mark the launch of Daiwa Securities Group Inc.
(photograph is of then-President Yoshinari Hara)

2008

Underwriting and sale of Japan's first vaccine bonds

The Group sold South African rand-denominated vaccine bonds to finance healthcare and immunization services in developing countries. This was the first attempt in the world to sell vaccine bonds to individual investors, sparking interest among a wide range of investors.



Corporate Principles of Daiwa Securities Group

Establishment of the Corporate Principles

Since the start of operations in 1902, each and every employee has been creating the history of the Group.

The background to the compilation of the Corporate Principles was the Group taking another look back at its history, and its determination to reunite and rebuild the relationship of trust that had been built together with society.

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.

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.

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.

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.

Formulation of the Daiwa Spirit

We have nurtured our corporate culture since the foundation of our business. 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. The Daiwa Spirit enhances employees' sense of unity and togetherness and thus the Group's overall strength.

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.

120 years of continuing to embrace challenge

Corporate History

Since its establishment, the Group has been steadily building relationships with clients while encouraging the formation and development of Japan's financial markets. In line with our thoughts on prioritizing customer needs, Daiwa Securities Group cultivates products and schemes and works as a pioneer in the financial and capital market.

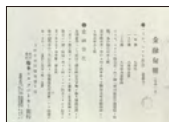
In 2021, Daiwa Securities Group formulated a vision leading up to 2030 as well as a Medium-Term Management Plan covering the first three years of that period. Seizing on changes in society as opportunities, the Group is working to transform the business model while enhancing corporate value and contributing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

1902-
Origin

Amid rapid industrialization following the Sino-Japanese War (1894-1895), the number of ordinary banks skyrocketed in Japan, with numerous small banks cropping up, finally peaking in 1901. Since many of these small banks had a weak financial base and poor creditworthiness, they were often embroiled in a banking panic when a financial crisis struck. In this unsettled climate, Group founder Seibei Fujimoto resolved to go beyond mere bill broking and enter the business of mediating funds between financial institutions and the business world as a full-fledged bill broker, establishing Fujimoto Bill Broker in 1902. This was the origin of the current Daiwa Securities Group.

1902
Commenced operations as Fujimoto Bill Broker

1910
Publication of the regularly issued Kinyu-Shunpo (recent news in the financial market) publication



First edition of Kinyu-Shunpo, October 1910

1917
First import of foreign currency government bonds as a Japanese securities company

1919
Establishment of representative office in New York

1933-
Name changed to Fujimoto Bill Broker Securities

In 1907, the company changed its name to Fujimoto Bill Broker Bank, and business continued to expand steadily. Subsequently, prompted by a series of bank failures, the Japanese government enacted a new banking law in 1927, significantly restricting concurrent banking and brokerage business operations, and disallowing the buying and selling of public and corporate bonds except in cases where this remained an auxiliary business of a bank. At the time, Fujimoto Bill Broker Bank was much more heavily involved in the securities trading business than in the deposit and exchange businesses. It thus opted to discontinue the banking business and set out as a pure securities company. The company changed its name to Fujimoto Bill Broker Securities Co. Ltd. in 1933.

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

1964-
Expanding international presence

In 1964, the Group established a subsidiary in New York, called Daiwa Securities America Inc. The gradual liberalization of capital markets from the 1960s into the early 1970s ushered in signs of a shift in the investing patterns of foreign investors in Japan. To meet growing overseas interest in Japanese stocks, Daiwa was first among financial companies in Japan to start holding seminars on Japanese stocks. Meanwhile, we expanded the overseas branch network as well as the scope of overseas operations. Daiwa's reputation in the overseas business took hold, and the company came to be known for its robust presence in the international sector.

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 US 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-
Corporate split, adoption of holding company structure

As Japan's financial Big Bang touched off industry restructuring at an unimagined pace, boosting competitiveness as quickly as possible became a matter of pressing urgency. After reassessing the characteristics of each business, we recognized the need to undertake drastic reforms and organizational improvements. In 1999, the Group moved to a holding company structure to maintain Group-wide synergies while providing the highest-level financial services by leveraging the agility and specialization unique to each business area. We also established Daiwa Securities SB Capital Markets Co. Ltd., a wholesale securities company, through a strategic alliance with Sumitomo Bank.

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.

2001
Daiwa Securities SB Capital Markets Co. Ltd. changed its corporate name to Daiwa Securities SMBC Co. Ltd.

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

2010
Daiwa Securities SMBC Co. Ltd. changed its corporate name to Daiwa Securities Capital Markets Co. Ltd.

2011
Commenced Daiwa Next Bank, Ltd.

The Medium-Term Management Plan (2012–2023).

2021 “Passion for the Best” 2023

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 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.

2018 “Passion for the Best” 2020

Be a financial and capital market pioneer by providing both high-value-added solutions through the use of Quality No. 1 consulting capabilities and new value as a comprehensive securities group with a hybrid business model.

2015 “Passion for the Best” 2017

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

2012 “Passion for the Best” 2014

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

2012
Birth of “new” Daiwa Securities

We dissolved the ten-year joint venture with Sumitomo Mitsui Financial Group in the wholesale securities business in 2009, and Daiwa Securities Group became an independent securities company. In 2012, Daiwa Securities Co. Ltd. merged with Daiwa Securities Capital Markets Co. Ltd., and the Group set out on a new path as the “new” Daiwa Securities. We had put various measures in place to expand stable revenues and streamline organizational management, but the merger of the two companies made it possible to achieve even more efficient organizational management and augment our ability to respond to increasingly diverse customer needs.

2012
Merger of Daiwa Securities Co. Ltd. and Daiwa Securities Capital Markets Co. Ltd. to create “new” Daiwa Securities

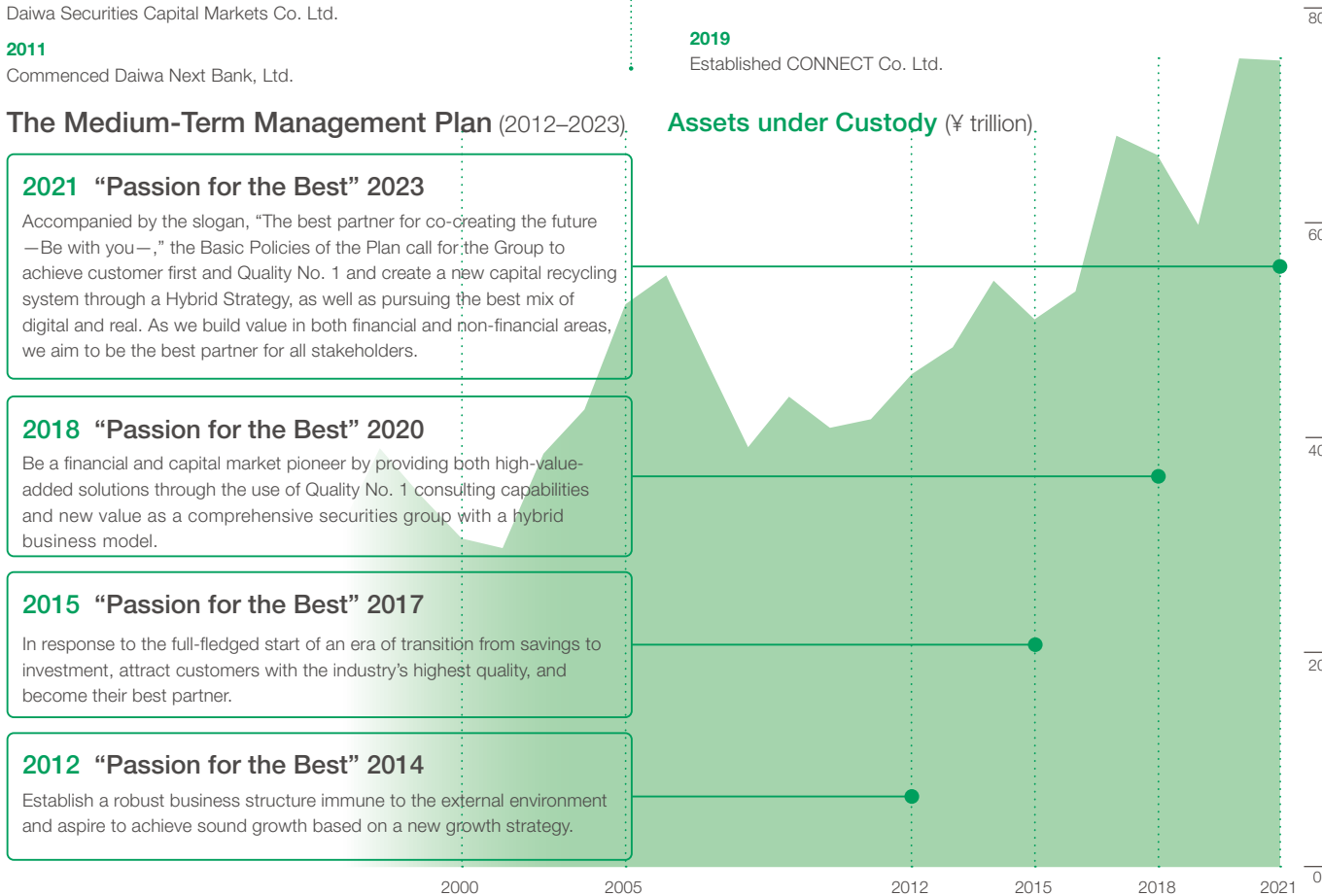
2016
Opening of Myanmar Securities Exchange Centre, acquisition of securities license
Saigon Securities (Currently SSI Securities) became an equity-method affiliate

2017
Acquisition of Sagent Advisors and Signal Hill (Currently DC Advisory)

2018
Established Fintertech Co. Ltd.
Established Daiwa Energy & Infrastructure Co. Ltd.
Established Daiwa Food & Agriculture Co. Ltd.
Became the first Japanese securities company to introduce NPS®*

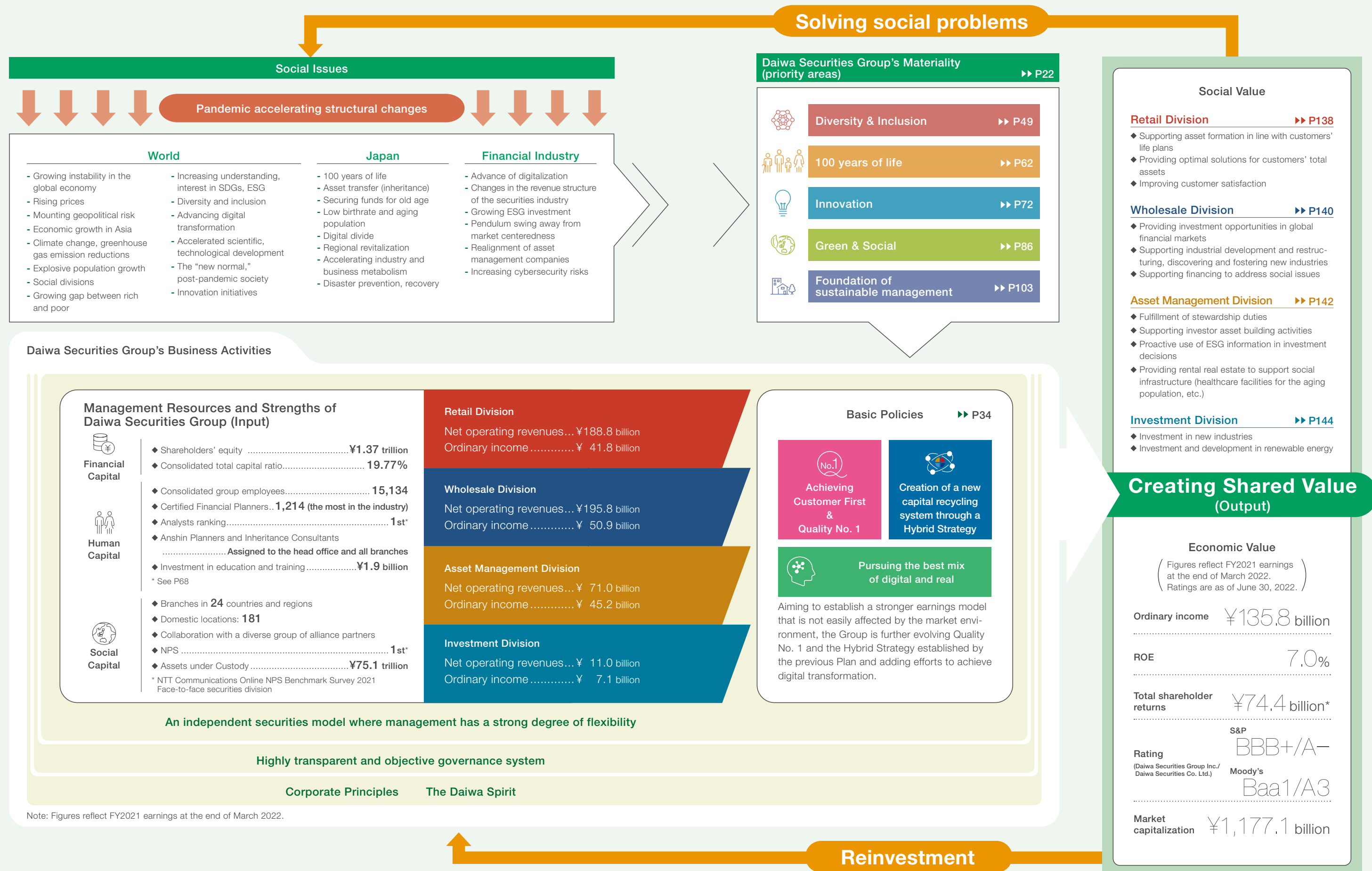
2019
Established CONNECT Co. Ltd.

Assets under Custody (¥ trillion).



* 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.

Daiwa Securities Group Value Creation Model



* On April 27, 2022, the Group resolved to buy back shares of the company, up to a total of 33 million shares at a total acquisition value of up to ¥25 billion. Total shareholder returns are the maximum value when ¥25 billion worth of shares have been acquired, and may be lower depending on the total acquisition value during the buyback period.

Daiwa Securities Group Approach to Human Capital

Our management strategies are grounded in the conviction that placing importance on employees ultimately leads to higher levels of customer and shareholder satisfaction. For details, see [Diversity & Inclusion \(Human Capital\)](#) (▶▶P49).

Aiming to create corporate value and achieve sustainable growth by maximizing performance of individuals and organizations through improved engagement

Corporate Principles	Building trust	Placing importance on personnel	Contributing to society	Maintaining healthy earnings results
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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.

The Daiwa Spirit (excerpt)

Employees are our primary source of corporate value, and we strive to inspire loyalty and passion among team members. We adopt aggressive initiatives to create a corporate culture where employees can take full advantage of their abilities.

Human Resources Strategies (basic policy)

<p>1. Staff development and career support</p> <ul style="list-style-type: none">- Provision of well-customized training program- Wide choice of career path- Visualization of skills, ability and experience	<p>2. Training professionals who will craft the future</p> <ul style="list-style-type: none">- Nurturing of staff to lead digital transformation- HR/compensation system to attract external staff with greater specialties and diversity, e.g., PhDs
<p>3. Improvement in engagement and productivity</p> <ul style="list-style-type: none">- Corporate culture encouraging change to increase engagement- Encourage individuality to realize strong gains in productivity	<p>4. Further evolution of healthy management*</p> <ul style="list-style-type: none">- Ensure the well-being of staff by paying full heed to physical/mental needs and offering freer work styles- Establishing a fair working environment in which all can thrive <p><small>* Promoted in Health Management Promotion Meetings sponsored by the CHO</small></p>

KPI Results				
Number of CFPs and CMAs	Number of Digital IT Masters	Ratio of women on the Board of Directors (Daiwa Securities Group Inc.)	Ratio of women in management positions (Daiwa Securities)	Employee satisfaction
Target: 3,000 personnel or more	Target: 200 personnel or more	Target: 30% or higher by 2030	Target: 25% or higher by FY2025	Target: maintain at 80% or higher
Result: 2,830 personnel	Result: First batch of 34 Digital IT Masters certified in July 2022	Result: 28.6%	Result: 18.3%	Result: 95%

What makes for a highly engaged employee?

We define engagement in the following ways. Under these shared values, we are fostering a new corporate culture by enhancing engagement.

Has a **sense of attachment to and trust in the Group**

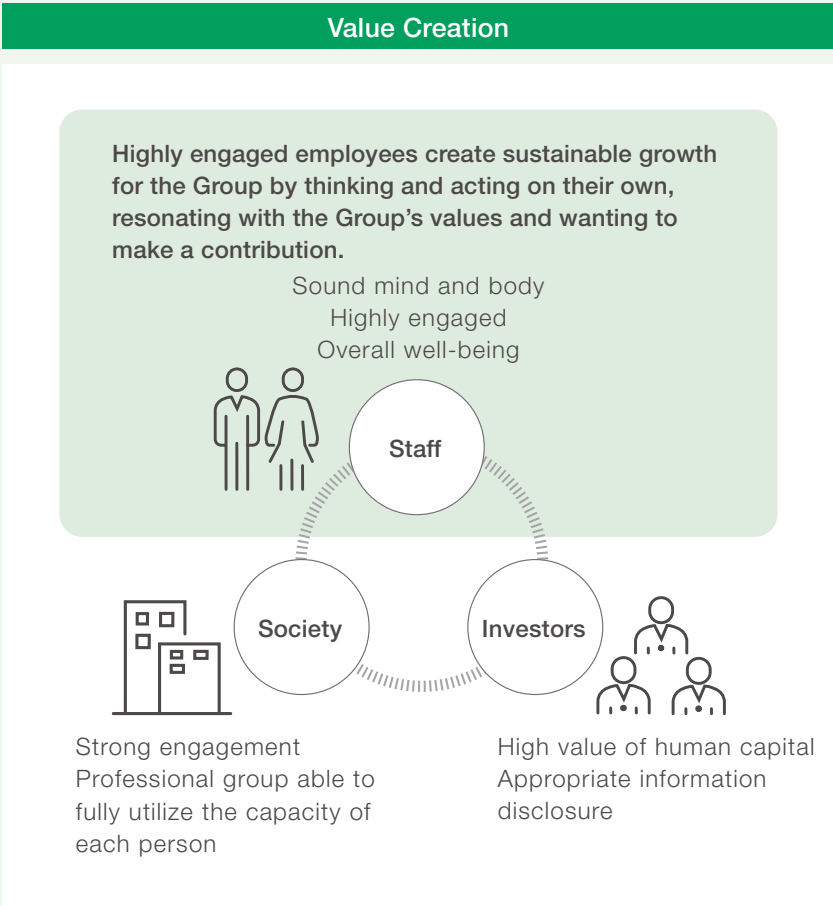
- Resonates with the Corporate Principles and the Daiwa Spirit
- Feels a sense of belonging to the Group and the organization in which placed, and has a firm trust relationship with senior management

Understands what **ought to be done personally**

- Rightly gauges business priorities based on the Medium-Term Management Plan and Vision 2030
- Has a comprehensive grasp on issues in the organization from observing the surrounding context

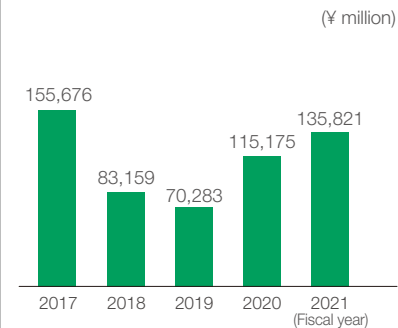
Is highly motivated to **work autonomously to enhance business performance, provide value to customers, and contribute to society**

- Creates and carries out new tasks in addition to assigned tasks
- Positively impacts colleagues and leads the organization in the right direction
- Actively identifies customer needs and delivers high added value

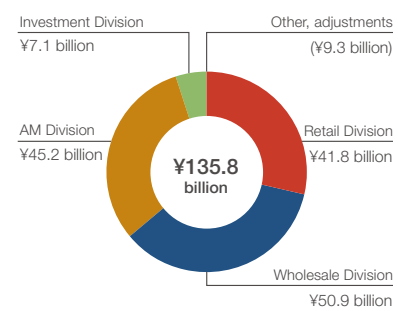


Financial Highlights

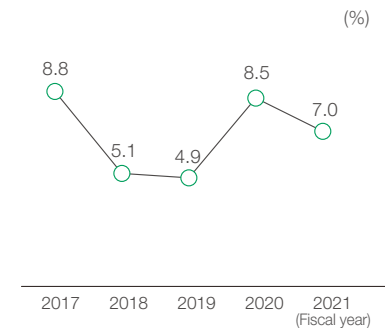
Ordinary Income



FY2021 Ordinary Income by Segment

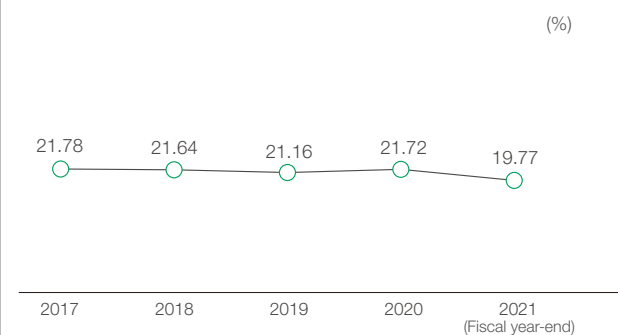


ROE



Consolidated ordinary income for FY2021 was ¥135.8 billion and ROE was 7.0%, representing a strong start for the first year of the Medium-Term Management Plan. We were able to generate balanced earnings in each division. We aim to achieve ordinary income of ¥200 billion or more in FY2023 while appropriately addressing changes in the business environment.

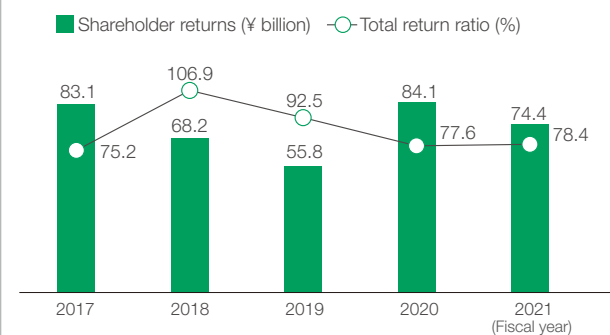
Consolidated Total Capital Ratio



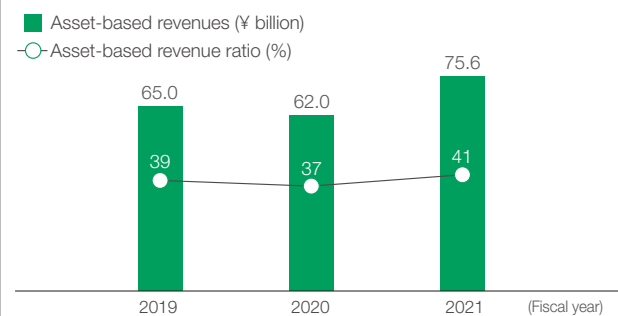
The consolidated total capital ratio stood at 19.77% as of the end of March 2022. We will work to strengthen shareholder returns while continuing to maintain the financial KPI of the Medium-Term Management Plan of an 18% or higher capital ratio. The total return ratio in FY2021 was 78.4%*.

* Shareholder returns are the sum of all dividends paid for the fiscal year (mid-term dividend in December and year-end dividend in June) combined with the acquisition price of share buybacks determined by the date of announcing full year earnings results. The total return ratio is obtained by dividing shareholder returns by profit attributable to owners of parent for the fiscal year. The total shareholder return is the maximum value when the acquisition price is ¥25 billion, and may be less than this depending on the total acquisition price during the share buyback period.

Shareholder Returns

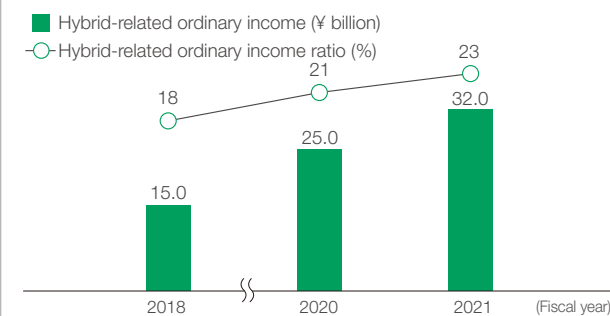


Retail Division Asset-based Revenue Ratio



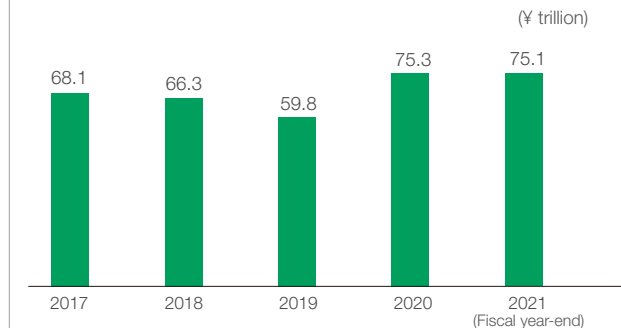
Asset-based revenues in the Retail Division were ¥75.6 billion, and the asset-based revenue ratio increased steadily to 41%. Through increased sales of fund wraps and other asset-based products, we aim to achieve an asset-based revenue ratio of 50% or higher in the fourth quarter of FY2023. Hybrid-related ordinary income was ¥32 billion (23% of consolidated ordinary income). We are steadily moving upward toward our FY2023 target of ¥50 billion or more (around 25% of ordinary income).

Hybrid-related Ordinary Income



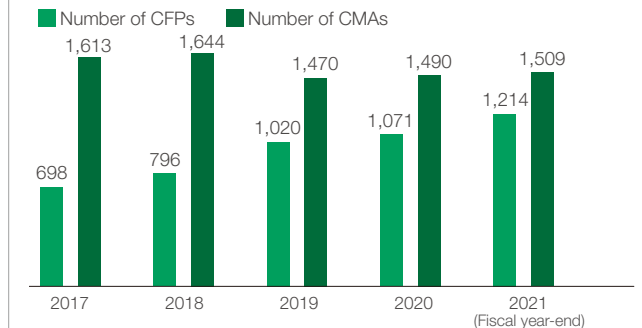
Non-financial Highlights

Daiwa Securities Assets under Custody



The balance of assets under custody, a testimony to the trust our customers place in us, reached a record high level of ¥75.1 trillion.

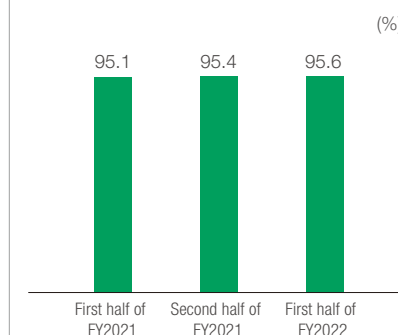
Number of CFPs and CMAs



Daiwa Securities continues to rank No. 1 in the financial industry for the number of CFP certification holders.

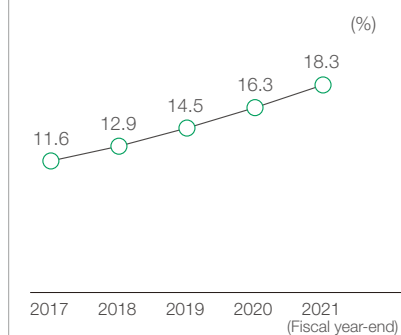
Note: CFPs are those of Daiwa Securities, and CMAs are the total of seven Group companies.

Group Employee Satisfaction



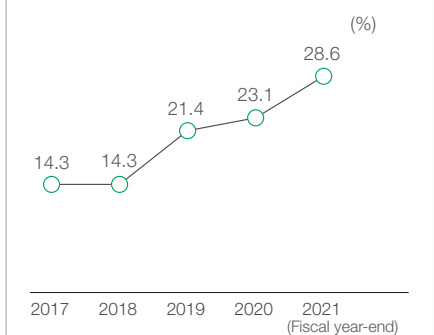
Employee satisfaction for the entire Group was 95.6%, well above the KPI in the Medium-Term Management Plan of maintaining 80% or higher. The Group has been carrying out engagement surveys since FY2021 (▶P54).

Ratio of Women in Management Positions (Daiwa Securities)



At Daiwa Securities, the ratio of women in management positions was 18.3%. In terms of the empowerment of women, Daiwa Securities has been a pioneer in the industry in putting in place an array of initiatives and systems, increasing the pool of qualified manager candidates. The ratio of women in management positions is increasing every year, as we aim for a level of 25% or higher by FY2025. The ratio of women on the Board of Directors of Daiwa Securities Group is also increasing.

Ratio of Women on the Board of Directors (Daiwa Securities Group Inc.)



External Evaluations



2022 CONSTITUENT MSCI JAPAN
ESG SELECT LEADERS INDEX



2022 CONSTITUENT MSCI JAPAN
EMPOWERING WOMEN INDEX (WIN)



Selected eight
years running



Selected eight
years running



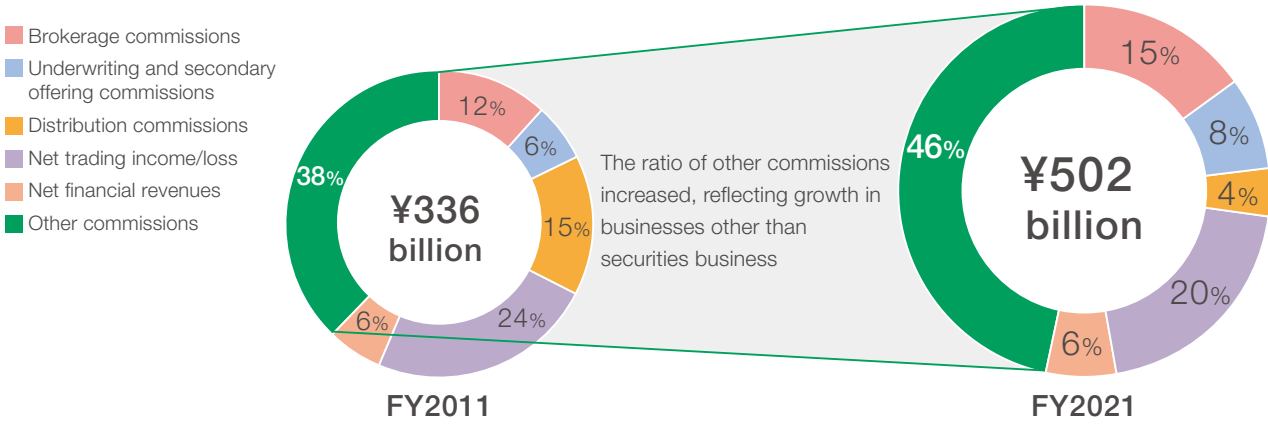
Selected six
years running

Selected for inclusion in all domestic ESG stock indexes selected by Government Pension Investment Fund (GPIF)

We have been selected 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 (TSE), for eight years in a row. Only two companies listed on the TSE have been selected for both categories for that length of time.

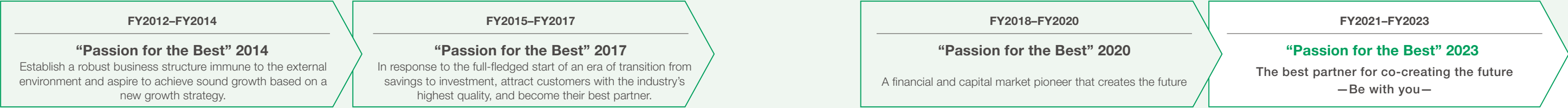
Business Portfolio and Medium-Term Management Plan

Business Portfolio (Net Operating Revenues)



The Group has sought to transform its business model and portfolio to address changes in the business environment. Performance of the Group's core securities business is vulnerable to the markets and subject to fluctuations. To weather any circumstances, we have been pursuing a Hybrid Strategy aimed at steadily expanding earnings across the entire Group while curtailing fluctuations in performance. We are working to accomplish this while generating synergies with the securities business by pursuing businesses carrying risk profiles that have relatively low correlation to the securities business. For this reason, we entered the real estate asset management business in 2009 and the banking business in 2011. As a result, the ratio of other commissions, which includes commissions from hybrid businesses other than the traditional securities business, was up from 38% in FY2011 to 46% in FY2021.

Medium-Term Management Plan



Basic Policies

- ◆ Return to profitability by pursuing management efficiency
- ◆ Achieve client-based high-quality earnings growth
- ◆ Pursue best quality
- ◆ Dramatically expand our customer base and revenue
- ◆ Support the sustainable growth of companies and the development of new industries

KPI	Target	FY2014 results	Target	FY2017 results
Return to profitability in the first year		Achieved	ROE	10% or higher
Ordinary income	¥120 billion	¥184.5 billion	Fixed cost coverage ratio	75% or higher
Fixed cost coverage ratio*	60% or higher	64%		68%

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

Outcomes

- ◆ Shareholders' equity reached a record high of ¥1.23 trillion.
- ◆ The amount of stable revenues in the fourth quarter of FY2014 expanded 1.7 times compared to the fourth quarter of FY2011, while the diversification of revenue sources made headway.
- ◆ Sought to expand stable revenues immune to the market conditions and diversify revenue sources through business diversification. Also set direction for managing the business with constant reference to capital efficiency.
- ◆ Transitioned to a bottom-up sales structure.

Issues and Direction for the Next Medium-Term Plan

- ◆ Target dramatic expansion of the customer base and revenue levels through appropriate investments.
- ◆ Shifting course from a foundation that generates stable revenues to a growth phase.
- ◆ Further evolution of Customer First operations.

- ◆ Providing high-value-added solutions through the use of Quality No. 1
- ◆ Providing new value as a comprehensive securities group with a hybrid business model

	Target	FY2020 results
Customer satisfaction	NPS, etc.	Score increase
AUC at Daiwa Securities	¥80 trillion or more	¥75.3 trillion
Consolidated total capital ratio	18% or higher	21.72%
ROE	10% or higher	8.5%
Ordinary income	¥200 billion or more	¥115.1 billion

- ◆ 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

	Target	FY2021 results
Ordinary income	¥200 billion or more	¥135.8 billion
ROE	10% or higher	7.0%
Consolidated total capital ratio	Maintain at 18% or higher	19.77%
Retail Division Asset-based Revenue Ratio	50% or higher* (4Q)	46.1%
Hybrid-related ordinary income	¥50 billion or more	¥32 billion
Hybrid-related ordinary income ratio	Around 25%	23%

* 4Q, FY2023

See Non-financial KPIs (▶▶P35)

Current Status

- ◆ In the first year of the plan, we made steady headway with the shift to a wealth management business model. Progress with the Hybrid Strategy drove the creation of high-value-added products and services and efforts to diversify the revenue structure.
- ◆ In FY2022, the second year of the plan, we will expand the lineup of products and services informed by concerns related to the SDGs and ESG. We will also work to provide new products and management options, including alternative assets generated by the Hybrid Strategy.

- ◆ Establish an even more robust revenue base that is less vulnerable to market conditions (achieve ordinary income and ROE targets).
- ◆ Further pare down costs.

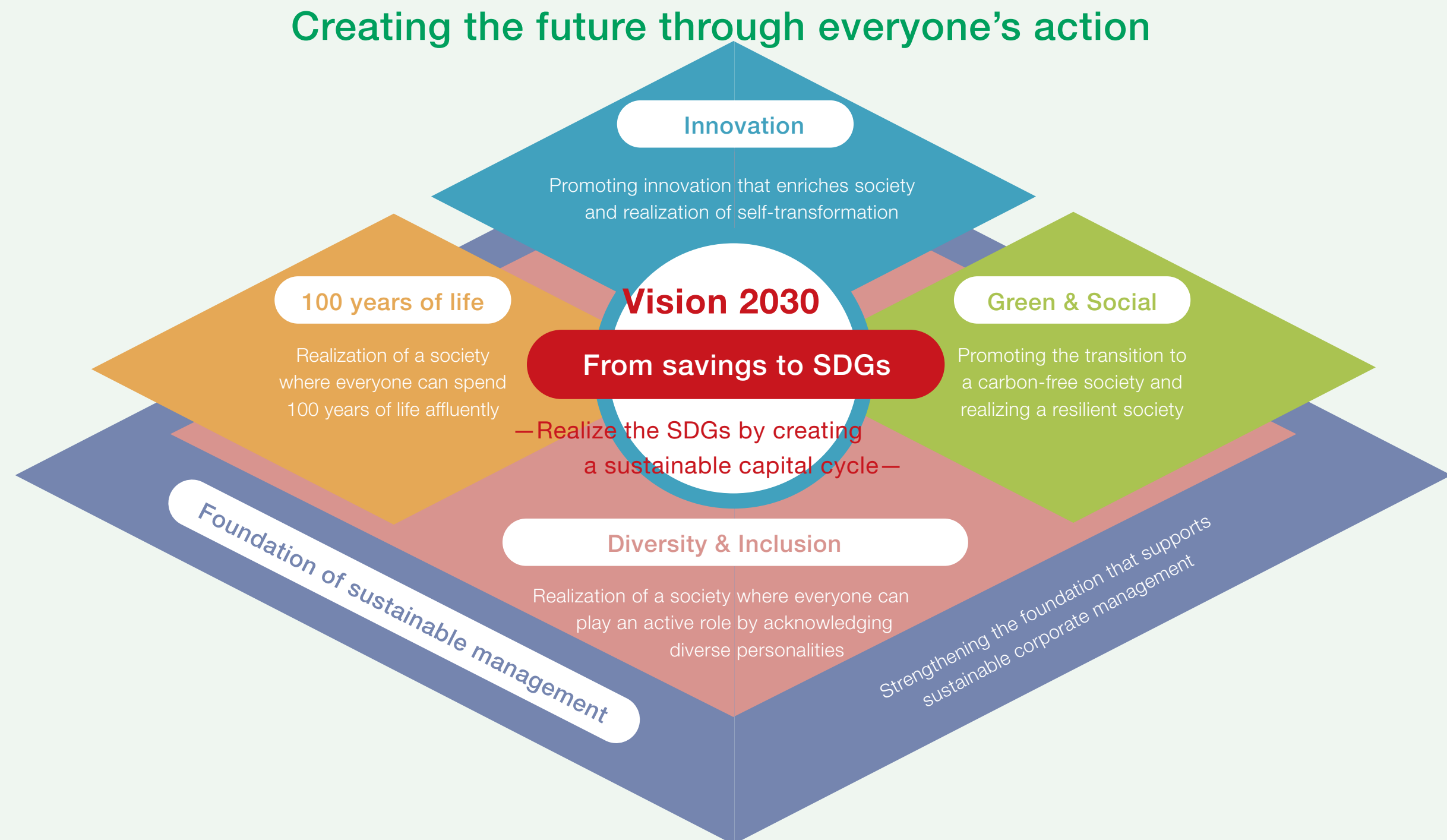
Vision 2030 —From Savings to SDGs—

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.

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.”

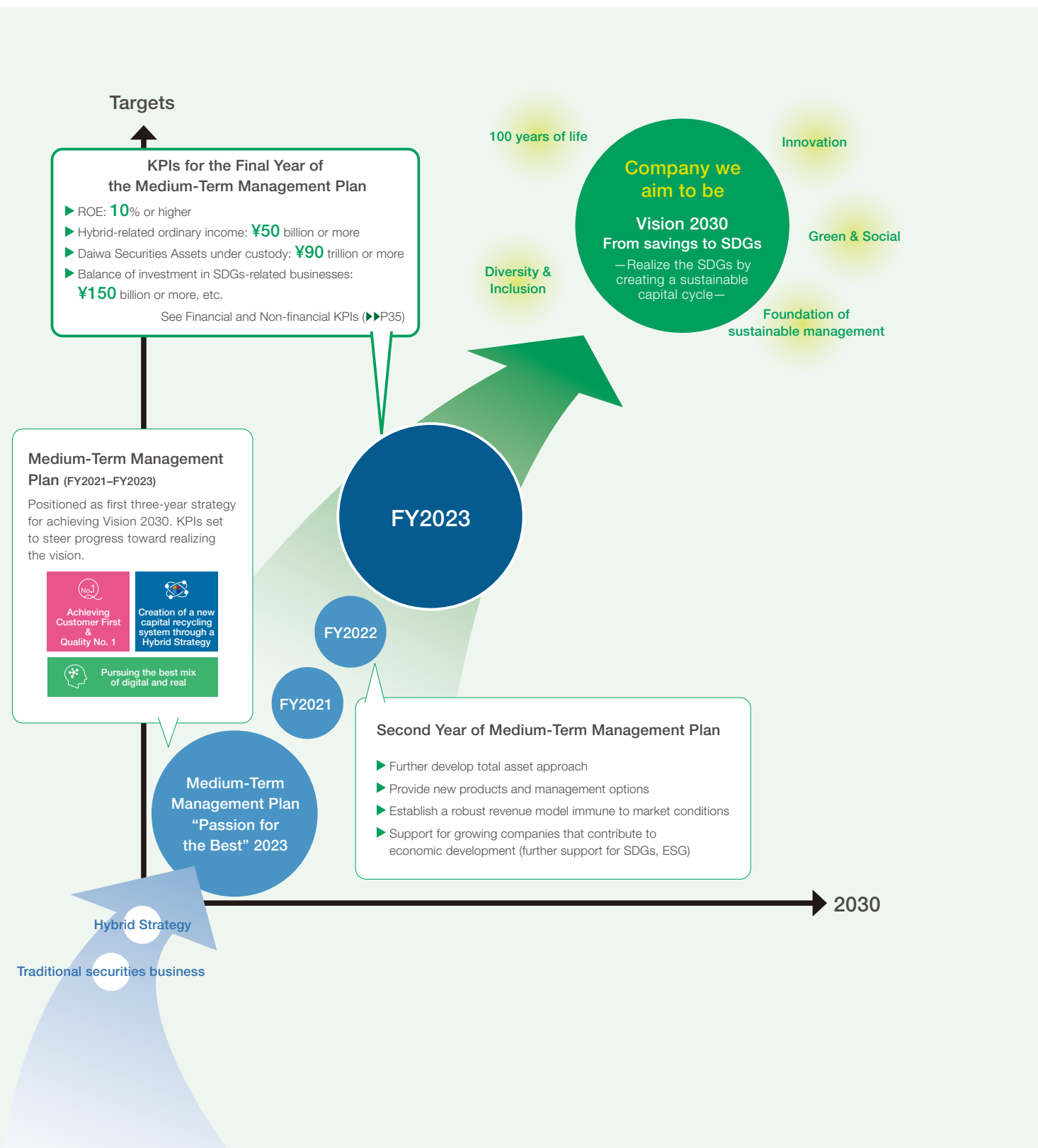
Under Vision 2030, the Group is aiming to create sustainable added value and continue to be a company that is indispensable to society well into 2030 and beyond.



Roadmap for Achieving Vision 2030

The Daiwa Securities Group positioned the Medium-Term Management Plan “Passion for the Best” 2023, formulated in April 2021, as the first three-year strategy for achieving Vision 2030. We have set out KPIs in the plan to steer progress toward making the vision a reality.

Looking ahead, the Group is called on to pursue a strategy of targeting growth while striking a balance between what needs to be done in the short term in the right way and issues demanding to be addressed over the longer term. Much of the groundwork we have put in place so far is steadily bearing fruit. We will work across the Group to impress stakeholders with our progress into the next stage of growth.



Progress of Vision 2030

In FY2021, the first year after Vision 2030 was formulated, although the global economy began to return to normal from the sluggishness brought about by the COVID-19 pandemic, the Group faced ongoing uncertainties in the business environment arising from the emergence of geopolitical risks and other factors.

Even in this context, we made steady headway in efforts to address priority areas. These included pursuing the Hybrid Strategy to create innovation; measures to expand diversity and inclusion, the source of that innovation; and switching to renewable energy at the head office building to shore up the foundation of our sustainable management.

On the other hand, we saw a tightening of the global energy supply and a resulting increase in inflationary pressure. This brought to the fore issues related to the transition to a carbon-neutral society identified in the Green & Social section of Vision 2030 as well as issues related to supporting household asset formation and conservation in the era of 100 years of life. We recognize the need to step up our focus in these areas.

Going forward, while responding flexibly to changes in the environment, we will work together across the Group to carry forward initiatives aimed at helping realize the SDGs by creating a sustainable capital cycle.

See Progress on KPIs linked to priority areas (P35)

Priority Areas	Examples of Major Initiatives
 Diversity & Inclusion	<ul style="list-style-type: none"> ▶ Further promoting the empowerment of women <ul style="list-style-type: none"> ■ Appointed a female CEO of Daiwa Capital Markets Europe ▶ Reforms to enhance job satisfaction <ul style="list-style-type: none"> ■ Carried out an engagement survey ■ Launched in-house social networking site ANSWERS
 100 years of life	<ul style="list-style-type: none"> ▶ Promoting collaboration in the area of asset formation <ul style="list-style-type: none"> ■ Formed a comprehensive business alliance with Shikoku Bank ■ Began providing Yucho Fund Wrap services ▶ Expanding solutions to meet asset and business succession needs <ul style="list-style-type: none"> ■ Provided Anshin-Tsunagaru Wrap services
 Innovation	<ul style="list-style-type: none"> ▶ Promoting a capital recycling model <ul style="list-style-type: none"> ■ Formed DSREF Amaterasu Core Fund, Investment Limited Partnership private core solar fund ▶ Reinforcing open innovation initiatives <ul style="list-style-type: none"> ■ Held Daiwa Innovation Network* Online Australia SDGs event
 Green & Social	<ul style="list-style-type: none"> ▶ Further promoting SDGs financing <ul style="list-style-type: none"> ■ Arranged various SDGs-IPOs and SDG bonds ■ Established Sustainability Solutions Department and Securitization and SDG Bonds Group ▶ Reinforcing commitment to achieving the SDGs <ul style="list-style-type: none"> ■ Announced Daiwa Securities Group Net Zero Carbon Declaration ■ Revised Environmental and Social Policy Framework
 Foundation of sustainable management	<ul style="list-style-type: none"> ▶ Reducing the Group's environmental impact <ul style="list-style-type: none"> ■ Switched to renewable energy at the head office building ▶ Supporting children who will lead the future <ul style="list-style-type: none"> ■ Launched Daiwa Securities Group 120th Anniversary Children's Future Project

* A business matching event between large companies and venture companies aimed at discovering and cultivating new industries.

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 to improve the Group's value and realize a sustainable society.



Process of identifying Materiality
https://www.daiwa-grp.jp/english/sdgs/group_sdgs/value.html

Monitoring progress toward realizing Vision 2030

The SDGs managers of headquarters and Group companies take the lead in promoting measures to address the priority areas the Group has identified and continuously monitor the KPIs linked to these areas. The Head of SDGs, who oversees SDGs- and ESG-related businesses for the entire Group, and the various SDGs managers share information on issues identified in the process and future measures to be taken. They report to the SDGs Promotion Committee and the Board of Directors. Active discussions take place at these meetings, which include the participation of outside experts and outside directors who have specialized knowledge in various facets of sustainability.

To gauge the progress of various initiatives, we held a Vision Meeting 2022 in August 2022, roughly a year after the announcement of Vision 2030. The Head of SDGs and about 60 employees from headquarters and Group companies met to share best practices for realizing the core concept of the Vision 2030, "From savings to SDGs." Discussions are also ongoing to determine actions to focus on going forward.

The results of these discussions were reported to the SDGs Promotion Committee meeting held the following month. The committee also considered the future direction of Vision 2030 initiatives in light of developments in international social issues and changes in the business environment. We will continue to take in the opinions of stakeholders from inside and outside the company, revising Vision 2030 as appropriate as we work together to make the vision a reality.



Vision Meeting on August 17, 2022.

Sustainability Promotion Structure

Corporations are now expected to act as the driving force behind the solutions to social issues. Daiwa Securities 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," we seek to help realize the SDGs by creating a sustainable capital cycle.

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

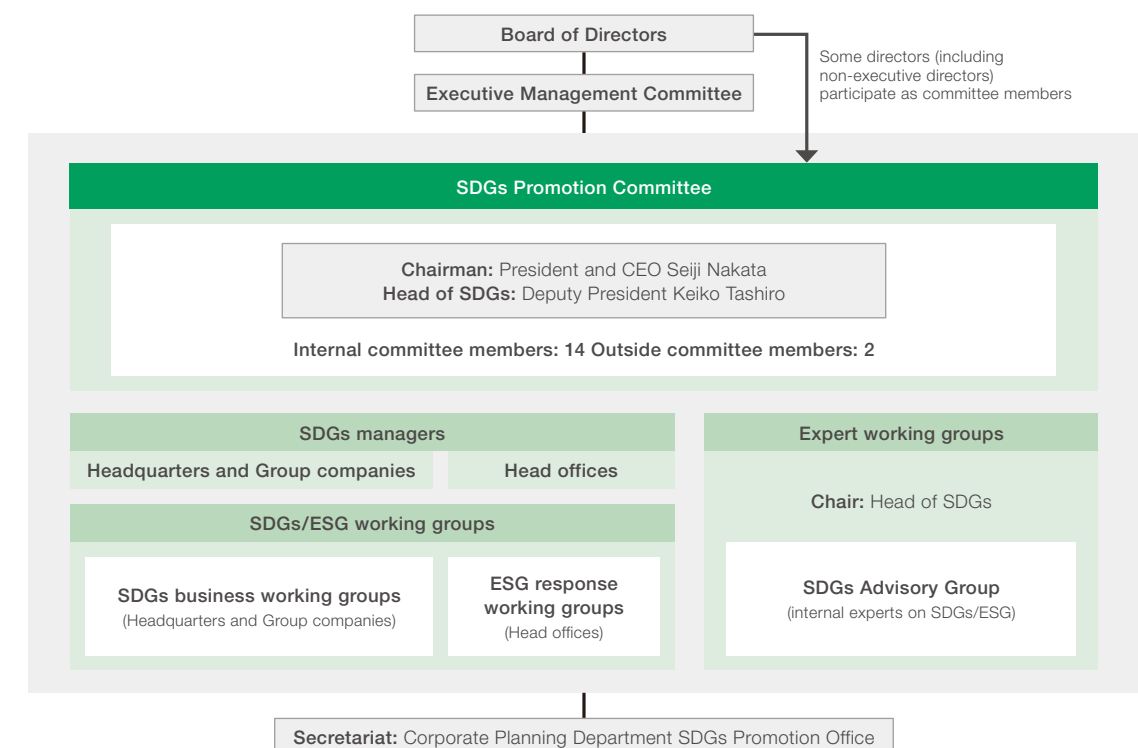
the SDGs and various ESG-related issues.

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.

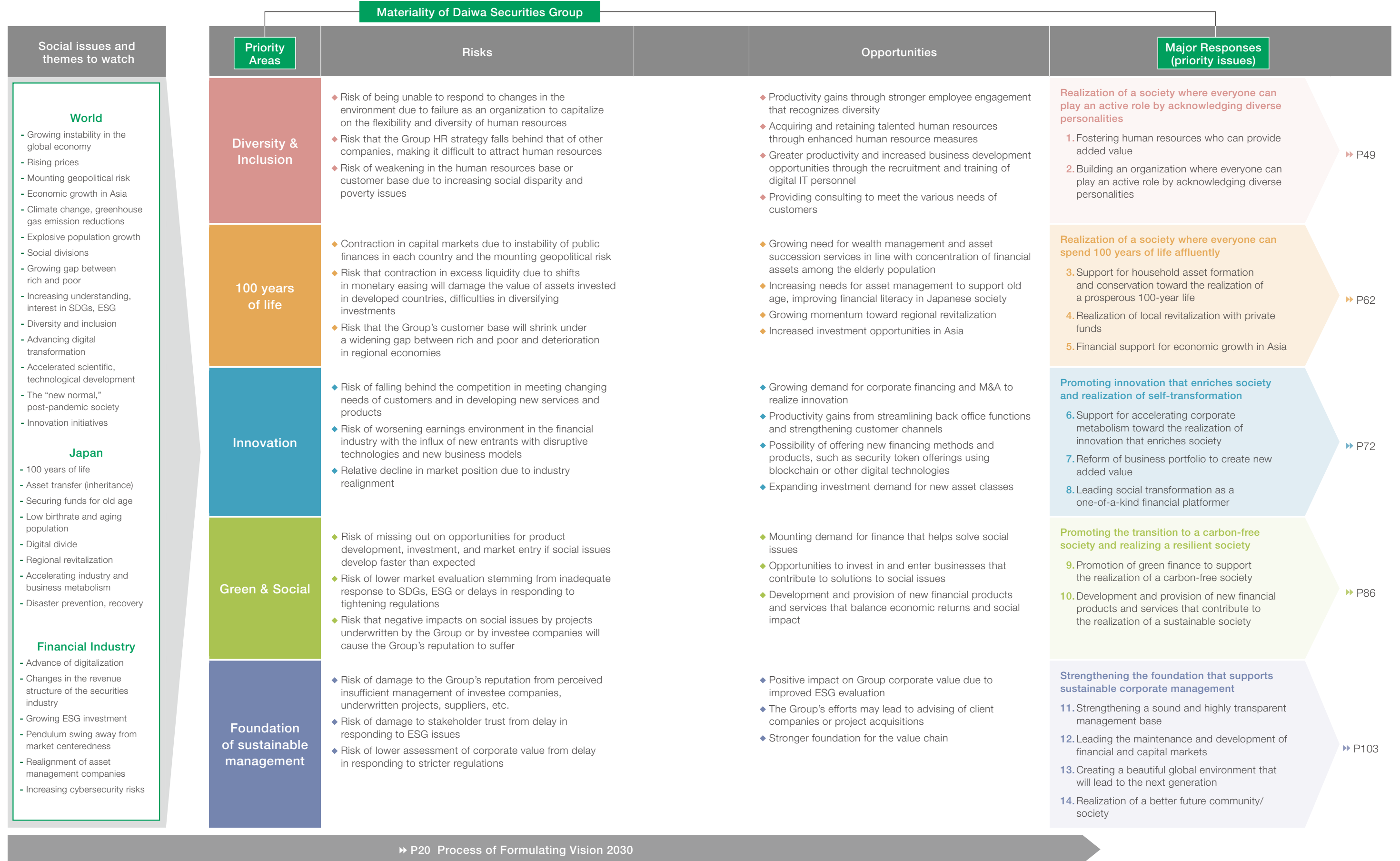
SDGs promotion structure and SDGs Promotion Committee members list
https://www.daiwa-grp.jp/english/sdgs/group_sdgs/system.html

FY2022 SDGs promotion structure (as of the end of September 2022)



Head of SDGs	Promotes businesses that contribute to the SDGs throughout Daiwa Securities Group, and oversees initiatives to enhance the foundation for sustainable management	SDGs business working groups	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.
SDGs managers	Promote businesses that contribute to the SDGs and conduct KPI progress management for each organization (Headquarters and Group companies) within the Group	ESG response working groups	Enhance and strengthen ESG response in reference to external evaluations (investors and evaluation organizations) regarding ESG at Daiwa Securities Group Inc.
SDGs Advisory Group	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		

Risks and Opportunities



Message from the CEO

Continuing to change with the times, aiming to become one of the most outstanding firms

Seiji Nakata

President and CEO
Daiwa Securities Group Inc.

Always change, willingness to change

It is said that we are living in a so-called VUCA era as exemplified by events like the COVID-19 pandemic, Russia's invasion of Ukraine, and worldwide inflation. It is nearly impossible to know what lies ahead. Faced with this context, at the beginning of the year I set "challenge" as a keyword for 2022. In confusing times, when determining the right course is difficult, I believe embracing challenges takes on even greater significance, since only those who unhesitatingly seize opportunities can achieve results. I am constantly pushing our employees to make Daiwa Securities Group one of the most outstanding firms. Being the most outstanding firm has three definitions. The first is to be a company where all executives and employees have integrity, high ethical standards, and advanced, specialized skills, and to earn trust and respect not only from customers but also from their peers, their families, and society as a whole. The second is to operate the business in a way that always makes a contribution to people and society. The third is to be a company that, through its actions, consistently ensures sound earnings and distributes these earnings appropriately to shareholders, employees, and other stakeholders. Together, these definitions form the backbone, or the credo, of our Group.

Some might see these three definitions as being somewhat idealistic. Of course, the Group still has a way to go to reach the pinnacle of what the most outstanding firm ought to be, but that is exactly why I want us to value a mindset of embracing challenges. Embracing challenges requires us to address change—but adapting to change should be par for the course for us. That's why, at the conference held biannually for managers nationwide, I address the importance of the attitude of embracing challenge with two key phrases: "always change, willingness to change."

* VUCA: characterized by volatility, uncertainty, complexity, and ambiguity

A steadfast corporate culture and flexible thinking

2022 marks the 120th anniversary of the founding of Fujimoto Bill Broker, the predecessor of the Group, in 1902. Throughout the Group's long history, even in times of great turbulence, we take pride in having never lost sight of the things that ought not to be changed. What ought not to be changed is our corporate culture, which can be called the continuity of the Group. For example, there is an unending stream of corporate scandals, regardless of industry or the size of a company. People often remark that preventing such scandals requires creating tighter internal rules and double- and triple-checking mechanisms. But while this may treat the symptoms of the problem, I don't think it can solve the underlying issue—because, unless the culture that the company is rooted in changes, there is always a high risk that another scandal will crop up again at some point. At the same time, even if a company has a healthy corporate culture, a change in parent company or in capital affiliation can disrupt the continuity of that culture. No one is perfect, and companies that recognize their own shortcomings will address them through a process of repeated self-reform. The ability to do this determines whether or not a company can refine its corporate culture.

While our corporate culture is something we must always hold fast to, the business side is always characterized by discontinuity, which constantly demands a new and flexible mindset. In our specific context, Japan's version of the financial Big Bang happened in the latter 1990s, with the liberalization of stock brokerage commissions. Online brokerages emerged along with the spread of the Internet and companies from other industries

Message from the CEO

entered the market one after another. Daiwa Securities Group would not exist today if we had clung to a business-as-usual approach in that rapidly changing environment. It is and will continue to be essential for us to adjust constantly to discontinuous diversity.

Medium-Term Management Plan off to a strong start in the first year

Our Medium-Term Management Plan “Passion for the Best” 2023, which started in April 2021, is now in its second year. Ordinary income for FY2021 was ¥135.8 billion, which represents a reasonably good start for the first year out. We entered FY2022 facing a highly challenging environment, however. The magnitude and speed of interest rate hikes in the United States, spurred by the soaring costs of resources and accompanying inflation, conjoined with other factors at the start of 2022, were greater than expected. Around the same time, Russia invaded Ukraine. The market entered an adjustment period in the fourth quarter of FY2021 and that trajectory hasn’t changed even after the first quarter of FY2022. In particular, uncertainties in the market outlook have sapped momentum, temporarily lowering brokerage income, or one-off earnings from transactions.

However, we must not let this disconcert us. My consistent message to employees is: Whatever the circumstances, never take your eyes off the goal set out in the Plan, that in three years, we will generate more than half of revenue in the Retail Division from assets under custody. It is precisely when the market is down that we have a real chance to offer customers longer-term investment opportunities through fund wraps, investment trusts, and other products. In fact, we are in the process of steadily transitioning to a wealth management business model by building up assets under custody. We are also in a phase of rising global interest rates, so widening buy-sell spreads for bonds, for instance, are a boon for the bond business. Taking these developments into account, we have readjusted the numerical targets of the Plan. Nevertheless, I am confident that targeting ¥200 billion or more in ordinary income in the final year of the Plan is a challenge that doesn’t require revision.

Cultivating initiatives with Japan Post Bank over a long timeline

The major topic for the year in the Retail Division was our collaboration with the Japan Post Group, starting in May 2022, on a fund wrap service. Japan Post Bank is Japan’s largest retail bank, outstripping even major banks, with a total deposit balance of more than ¥190 trillion. The Bank has 233 directly managed branches nationwide. It’s no exaggeration to say that its network represents a microcosm of individual financial assets and demographics in Japan. I think the impact of being able to provide fund wraps through Japan Post Bank will be huge. So-called fund wrap asset management services did not even exist two decades ago. Moreover, the average holding period of the fund wraps of Daiwa Securities customers is roughly eight years (as of the end of March 2022), meaning that this is a product that can be cultivated over a long timeframe. We will devote sales support to Japan Post Bank and hope to help expand the balance of its fund wrap assets over upcoming years.

▶▶ P34
Medium-Term Management Plan

▶▶ P70
Yucho Fund Wrap

It was about five years ago, not long after becoming CEO, that I had my first opportunity to discuss collaboration with Japan Post Bank. Since then, we’ve had several top-level meetings as negotiations with the Bank progressed. Going forward, I would like to see this alliance grow to include the inheritance and business succession business areas as well.

Fund wraps are the ideal product for asset protection

Japan’s Prime Minister Fumio Kishida has proposed the Doubling Asset-based Incomes Plan. Individual financial assets in this country currently stand at around ¥2,000 trillion—however, the majority of this is tied up in bank accounts. Without a shift from deposits to securities, asset-based income will not increase. I believe fund wraps are the ideal product to facilitate this shift. Daiwa Securities was out ahead of other companies in our focus on fund wraps, and we have made steady headway in expanding the asset balance of this product. In uncertain times, when it is hard to know what the future holds, I am confident that we can offer customers peace of mind by enabling them to entrust their assets to us as financial professionals and choosing fund wraps that allow globally diversified investments.

In terms of getting the message out to more people about the advantages of fund wraps, Daiwa Securities Group network alone is not enough. That is why our tie-up with Japan Post Bank is so significant—it represents a powerful platform for broadcasting the advantages of fund wraps. Individuals who are the age of 60 and over currently account for 63% of all individual financial assets in Japan, and it is estimated that in 20 years, this demographic will account for 70% of the total. This demographic is also precisely our core customer base, so I believe it is our duty and mission to help resolve social issues by offering customers robust protection for the bulk of their assets and supporting the smooth passing-down of those assets to the next generation.

Advantages of the real estate asset management business

We have been pursuing a Hybrid Strategy to ensure that the performance of the Group as a whole is not overly vulnerable to market volatility. While our hybrid businesses encompass a broad range of areas, the core is the real estate asset management business, centered on real estate investment trusts (REITs), and the renewable energy field. We already have a decade-long track record in the real estate asset management business, and our balance of assets under management (AUM) here has nearly grown to

▶▶ P40
Real estate AM



Message from the CEO

over ¥1.3 trillion. Aside from commercial facilities that require special tenant management, we have a nearly full lineup of REIT products, including offices, residential and healthcare facilities, logistics facilities, and hotels. My sense during the past two and a half years of the pandemic in particular has been that demand is brisk for residences and that A- and B-class office buildings are gaining more popularity than larger S-class buildings, and capacity utilization for both has remained high. In a post-pandemic context, I am confident that REITs will take root as products that offer extremely stable yields.

Additionally, Daiwa Securities Realty, established in April 2021, packages small-lot real estate investment products and offers them to Daiwa Securities customers. Alternative real estate-derived products have traditionally been focused mainly on institutional investors and there were few products for individual investors, but we are working to make such products available to a wider range of customers.

Looking at the financial industry in Japan as a whole, the Group alone among major financial companies has a REIT management company in the Group that allows us to do business directly in the real estate asset management field. This is a strong competitive advantage. I would like to touch on the renewable energy field, the other pillar of the Hybrid Strategy, when I discuss the SDGs later.

Seeking to transition toward a Data-Driven Business Model

COVID-19 sparked calls for digital transformation across a wide range of industries. Digital technology is not a cure-all, though, as business in any era is done mainly in actual physical settings. That said, it will become increasingly critical going forward to harness the power of digital tools to analyze, research, and utilize data that has been collected and create efficient business frameworks. Recognizing this, I have called for the transition toward a Data-Driven Business Model, and in May 2022 we established a committee to promote this transition. I also chair the committee—rather than leave that responsibility to the CDO or CIO, I chose to serve as chair because I wanted to send a strong signal throughout the Group that we are determined to see this transition through to completion.

We need personnel—we refer to them as digital IT personnel—who can make use of digital technology to transform the Group's businesses. To produce such personnel, we have introduced a Digital IT Master certification system. When we called for the first batch of applicants from within the Group, nearly 900 people applied. Through examinations and aptitude tests, we narrowed the pool to 54 candidates and provided them with classroom and on-the-job training for two years, finally selecting graduates. This year saw 34 new Digital IT Masters graduate. We have placed them in various departments as data scientists and AI professionals. We also launched Daiwa Digital College in April 2022 to elevate the IT skill level of all the employees in the departments where Digital IT Masters have been assigned. So, on top of assigning Digital IT Masters, our corps of leading-edge specialists, to major departments, our approach is to raise the IT baseline so that the entire organization can move ahead smoothly in carrying out data-driven digital transformation.

▶▶ P80
Real estate-related investment products for retail customers

▶▶ P76
Digital Strategy

Hoping to invigorate Group chemistry by hiring 200 mid-career employees—six times more than FY2021

Another challenging attempt in FY2022 was the hiring of 200 mid-career employees. Until now, most mid-career hires tended to be for the purpose of filling specialist staff vacancies, and was limited to around 30–40 people a year. I had a reason for directing that this number be suddenly raised to 200. In a nutshell, it was from the standpoint of diversity. In Japan, discussions about diversity tend to focus on the perspective of women's empowerment, and of course that is also important. But diversity is a much broader concept. As I said, up to now, most mid-careers hires were limited to truly specialist positions, such as in global markets, derivatives, or global investment banking.

Meeting the 200 planned hiring target, though, would be impossible without expanding the scope of hiring to also include, say, sales staff in the Retail Division. My thought was that we should just dive in and take on the challenge of achieving diversity. If we recruit 200 mid-career hires, I think it will be the first time in the Group's history. Naturally, we hope the influx of staff with previous working experience will invigorate the chemistry of the Group. Even if there is some downside, though, I am confident that, as long as we maintain the steadfast corporate culture I mentioned earlier, we will be able to move beyond any issues that arise.

Embracing inflation and the yen's depreciation as opportunities

I feel the VUCA era we are currently facing gives us, in a sense, a unique opportunity to protect and skillfully manage the assets of our customers. For many years there have been calls for a shift from savings to investment, but when it comes to asset management, the fact is that many Japanese investors are more cautious and conservative than their overseas counterparts. Three decades of deflation ingrained that tendency. In an environment of deflation and zero interest rates, since the value of cash will not go down, people can safely deposit their money in savings accounts. But if the environment turns around and becomes inflationary, the value of cash will go down. So, the moderate inflation today is something people in Japan haven't experienced in the last 30 years.

Of course, steps must be taken to improve the recent cost-push inflation. Looking back, however, the bubble economy from the late 1980s to around 1990 saw the consumer price index increase from 1.5% to 2.3%. Given that assets are easier to move in such an environment of moderate inflation, it's safe to say that there is finally the real possibility of huge amounts of savings shifting toward investment in Japan. Also, the popular conception up to now was that yen-based assets offered safety or that the yen was better for rainy days. Given the current world situation, though, in terms of natural resources and energy and self-sufficiency in food production, as well as in terms of military strength, Japan lags behind other advanced economies. Going forward, I don't see many factors making the yen preferable over other currencies. Asset management will likely be more difficult than before for people who continue holding assets in Japanese yen. A mere 3.1% of individual financial assets in Japan are foreign currency-denominated, and these are skewed heavily towards the wealthy.

In this sense as well, Japanese investors also have to think about protecting their assets against the backdrop of global inflation, rising interest rates, and the yen's continued depreciation. We will come alongside them as they do so, ready to deliver the best asset management options.

▶▶ P61
Mid-career hiring

Message from the CEO

Toward the realization of a carbon-neutral society

Here, I would like to say a word about the renewable energy business. As I mentioned earlier, this business is positioned as another pillar of the Hybrid Strategy. Since the U.N. adopted the SDGs in 2015, a growing number of voices around the world have been calling for the building of carbon-neutral societies to address the issue of global warming. In 2018, we established Daiwa Energy & Infrastructure, a company specializing in renewable energy business investments. Going back even further, after the global financial crisis in 2008, our Group continued to engage in the principal investment business—investments using our own rather than other people's funds—and one project in 2012 involved investments related to renewable energy.

European countries lead the world in the pursuit of renewable energy. In 2020, we formed a capital and business alliance with Aquila Capital, which has a strong presence in Europe. Building on this alliance, in addition to promoting a capital recycling model in Japan and elsewhere in Asia, I would like us to increase our balance of investments and loans in projects in Europe. We have gotten many inquiries about bond transactions related to renewable energy among other areas. In the past, we have sold vaccine bonds and water bonds, followed in recent years by green bonds. There are also sustainability bonds that consider the use of funds to achieve the SDGs in a broader sense. Recently, in light of the global understanding that transitioning abruptly to a carbon-neutral society is impossible, there are a growing number of transition bonds that use funds to support the transition to carbon neutrality. In February 2022, Japan Airlines issued the airline industry's first such bond, with Daiwa Securities acting as lead manager as well as transition bond structuring agent*. Clearly, our mission to society includes facilitating the transition to a carbon-neutral society.

Never ceasing to pursue the SDGs

We established an in-house SDGs Promotion Committee in 2018, which I continue to chair. However, the global context has changed dramatically in the past few years, including the pandemic and Russia's invasion of Ukraine. From a longer-term perspective, there is no question that the SDGs are headed in the right direction, and we have expressed our



Minister (at the time) Noda and President Nakata at a ceremony presenting the list of donation recipients

▶▶ P91
Daiwa Energy &
Infrastructure

▶▶ P81
Capital recycling model

▶▶ P87
SDG bonds

* Supporting the issuance of transition bonds by advising issuers on the development of a transition bond framework and on obtaining a second-party opinion.


support for the Task Force on Climate-related Financial Disclosures (TCFD). I believe we must not stray from the direction in which we are heading. Nonetheless, although not limited to the transition bonds I mentioned earlier, it is true that the transition to a carbon-neutral society requires time and money. The invasion of Ukraine has strained the global energy situation, with Germany, for instance, announcing it will temporarily restart its coal-fired power plants.

We came out with our own long-term vision, Vision 2030, in 2021, with the concept of “From savings to SDGs.” The final year of the vision, 2030, happens to coincide with the deadline for achieving the SDGs. However, considering the deepening turmoil in the global economy, I sense that it would be better for us to extend the targets of the long-term vision out to 2035, or even around 2040 in some cases, while adjusting to changing circumstances. The key thing is not to lose sight of the direction we are heading in, and to never cease to pursue efforts to get there.

Moreover, given the philosophy of the SDGs that “no one must be left behind,” it is my conviction that poverty is the number one social issue the SDGs should address. I recall a formative experience I had many years ago. There was a children's home next to the kindergarten my child attended. The presence of those children, forced to live under the care of society, brought up a range of emotions in me. For years now, we have heard that one in seven children in Japan already lives in relative poverty. I am convinced that exploring ways to save children from poverty and support their healthy development is the greatest mission of adults in this society—and even the greatest task human society is obliged to carry out. Desiring to help address issues of poverty in some small way, in 2022, to mark the 120th anniversary of the Group's founding, we made total donations of ¥120 million. The head office and branches of Daiwa Securities donated ¥110 million to child support organizations in various regions. The remaining ¥10 million was donated to the Children's Future Support Fund of the Cabinet Office. I heard that almost no private-sector companies in Japan have made sizeable donations to this fund. In April 2023, the government also plans to set up a new agency for children and families. Our hope is that the Group's donations will serve as an encouragement to other companies to further expand their charitable activities in this area.

The Group will continue to contribute to social and economic progress through the financial and capital markets. At the same time, seeking to become a company that is indispensable to all our stakeholders, we will work together across the Group to create a new capital cycle framework to bring about a sustainable, flourishing society. I hope you will continue to look forward to the efforts of Daiwa Securities Group.

▶▶ P16
Vision 2030

 Daiwa Securities Group
120th Anniversary
Children's Future Project

Click here for details of regional child support organizations (a total of 314) to which the head office and branches of Daiwa Securities made donations (Japanese only).
<https://www.daiwa-grp.jp/sdgs/stakeholder/120th.html>

中田 誠 司

Seiji Nakata

President and CEO
Daiwa Securities Group Inc.

Message from the COO



Daiwa Securities Group as a supporting presence for society's capital cycles

Amid global movements attempting to realize a sustainable society, considering ESG throughout the investment chain is becoming a matter of course in the financial sector. The driving forces required to further accelerate the various global initiatives and activities relating to sustainability are continuous capital flows and stocks. And it is therefore essential that we efficiently and skillfully allocate capital to where it is needed and stock capital in society. The role of Daiwa Securities Group within society is to act as a financial professional that serves to provide the lubrication that allows market-based resource allocation mechanisms to ensure capital reaches every corner of society where it is needed.

Daiwa Securities Group's spirit of innovation

Daiwa Securities Group must constantly question the status quo and undertake new challenges in order to continue fulfilling these kinds of roles in society. In fact, the Group's history consists of a long series of innovations and challenges. Looking back over the past, we see that Daiwa Securities has developed various industry-firsts in terms of products and services in Japan and abroad, including being the first in Japan to import UK and French government bonds (1917), forming a securities investment union that practically pioneered investment

trusts in Japan (1937), establishing Japan's first open investment trust (1952), serving as the lead manager of the first European yen-denominated bond issuance on the European market (European Investment Bank, 1977), starting Japan's first home trading services using PCs (1986), and managing Japan's first public offering under a shelf registration system (1994).

When we look at the changes in the earnings structure of Daiwa Securities on a stand-alone basis, as well, the company has made a major transition away from an earnings structure that was dependent on stock brokerage commissions and interest income from margin transaction balances in the era of fixed commissions, to a more diversified source of earnings today. This shift was realized by increasing the ratio of stable earnings while expanding our product offerings. In short, both the earnings structure and sales structure have changed significantly from the past. And this is the result of Daiwa Securities' efforts to pursue the investment banking and securities businesses that each era has demanded, and to have transformed its business model in order to address changes in the business conditions and needs of customers.

From the perspective of Group management, since 2010 we have broadened the Group's business sectors with an awareness of profitability, ROE, and other KPIs, for example by establishing Daiwa Next Bank, expanding the real estate asset management and energy infrastructure investment businesses, extending business into the field of Fintech, and pursuing synergy between

financial services and healthcare, agriculture, and other new business sectors. Specifically, because we have engaged in repeated challenges under the spirit of "always change, willingness to change," as discussed in the Message from the CEO, the Group has become what it is today, and will continue to successfully fulfill the role of a lubricant for sustainable capital cycles in society from now on.

Investing in human capital as the source of competitiveness

One of the areas in which the Group is currently focusing its energies is investment in human capital. This is because an organization and human resources that can undertake innovation are essential for the Group if we are to continue our transformation. We have also made repeated revisions to the Daiwa Securities compensation system in order to ensure that it encourages employees in the Retail and Wholesale Divisions and that it provides an appropriate level of payment for their results. And we have revised the training system on an ongoing basis from the perspective of ensuring that investments are made in superior human capital that connects to outcomes. Every year we have modified and strengthened the details and frequency of each training program, starting from training for new employees and skills training through the fifth year of employment, to management training for mid-level employees, training for executive candidates, and training for executives.

We have also constructed a training program to develop high-level digital IT personnel, and initiated the Digital IT Master certification system. Through FY2023, we plan to develop more than 200 high-level IT staff members. Moreover, we newly established the Daiwa Digital College in April 2022 in an effort to enhance the skills of all employees on an ongoing basis. As part of the Hybrid Strategy that we have promoted since the start of the previous Medium-Term Management Plan, we have been developing and recruiting specialists in alternative investment fields. These specialists are becoming the foundation for providing a broader range of investment opportunities and investment ideas to our customers and for raising the added value we deliver as a Group.

Nurturing diversity and co-creativity with an open mind to resolve social issues

A Diversity & Inclusion perspective is also required for assembling an organization in which all employees find their work to be rewarding and that can provide high-added-value to customers. For example, we are encouraging women to contribute and supporting the participation of veteran employees so that the organization remains one in which everyone can excel equitably in an unrestricted manner.

Investing in social and relationship capital through collaboration with other companies and organizations is also an important strategic theme that will bring about a level of diversity that forms the basis of innovation for management. The corporate name Daiwa essentially means to work in harmony to achieve great success. As this name indicates, the Group possesses a culture that accepts different streams of thought with an open mind and that intentionally mixes these schools in an effort to create something interesting. Just looking at our initiatives from the past few years, we have promoted partnerships with Japan Post Group, Shinkin Central Bank/Shinkin Banks, Credit Saison, and regional financial institutions like Shikoku Bank. And we have engaged in collaboration with outside partners in various fields, including service partnerships with other companies in CONNECT, joint management of VC funds with Digital Garage and WIL, and establishment of a joint venture (Global X Japan) with Global X.

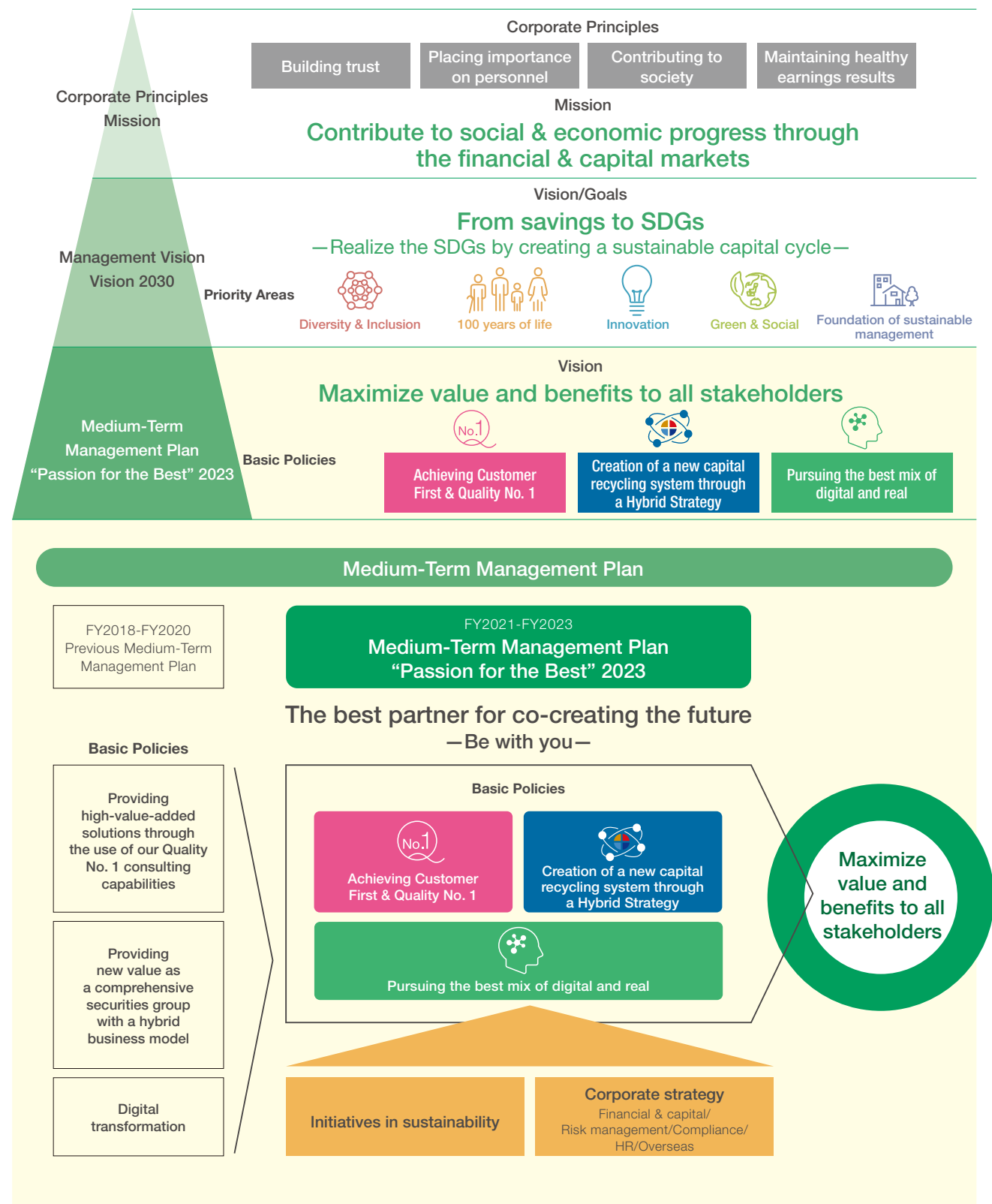
I am confident that we will successfully realize the grand goal of achieving a sustainable society if individual players tackle each and every social issue through co-creation.

The Group will continue to take up challenges and promote transformation in order to fulfill its critical role as a financial institution that represents Japan, and to contribute to the realization of a sustainable society.



Daiwa Securities Group Vision and Strategy

Daiwa Securities Group formulated its long-term management vision for 2030, Vision 2030 in 2021. At the same time, we compiled the Medium-Term Management Plan, “Passion for the Best” 2023, which covers the first three years of our efforts to realize this vision and summarizes concrete actions in priority areas. 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.



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

Under the slogan, “The best partner for co-creating the future —Be with you—,” the three Basic Policies of the Medium-Term Management Plan call for the Group to achieve Customer First and Quality No. 1, create a new capital recycling system through a Hybrid Strategy as well as pursuing the best mix of digital and real. Guided

by these policies, we are reinforcing corporate strategies as a foundation for supporting individual strategies, including SDGs/ESG-related initiatives in sustainability while promoting a customer-centered approach.

Medium-Term Management Plan numerical targets and progress

We identified KPIs that place considerable importance on the sustainable enhancement of corporate value through financial and non-financial initiatives as numerical targets under the Medium-Term Management Plan. From a financial perspective, Performance KPIs include ordinary income of ¥200 billion or more and ROE of 10% or higher.

In addition, 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 for the development of digital IT personnel and the promotion of efforts to empower women in the workplace with an emphasis on human resources-related initiatives aimed at building a sustainable management structure.

Progress on quantitative targets (KPIs) to achieve in FY2023

Strategy		Issues	Target	FY2021
Financial KPIs	Performance	Ordinary income	¥200 billion or more	¥135.8 billion
		ROE	10% or higher	7.0%
	Financial Base	Consolidated total capital ratio	Maintain at 18% or higher Phased reduction after the application of regulations	19.77%
	Quality No. 1	Retail Division asset-based revenue ratio	50% or higher*1	(4Q) 46.1%
	Hybrid	Hybrid-related ordinary income	¥50 billion or more	¥32 billion
		Hybrid-related ordinary income ratio	Around 25%	23%

Strategy		Issues	Target	FY2021 4Q
Non-financial KPIs	Quality No. 1	Daiwa Securities Assets under Custody (AUC)	¥90 trillion or more	¥75.1 trillion
	Human Resources	Number of Digital IT Masters	200 personnel or more	34 personnel*4
		Number of CFPs and CMAs	3,000 personnel or more	2,830 personnel
	Sustainability	Balance of investment in SDGs-related businesses	¥150 billion or more	¥116.2 billion
		SDG bond league table	In top 3	4th
		Ouen (Supporting) term deposits balance	¥200 billion or more	¥152.5 billion
		Ratio of women in management positions (Daiwa Securities)	25% or higher*2	18.3%
		Ratio of women on the Board of Directors (Daiwa Securities Group Inc.)	30% or higher*3	28.6%
		Employee satisfaction	Maintain at 80% or higher	95%

*1 4Q, FY2023 *2 FY2025 *3 By 2030 *4 Certified in July 2022

As far as the market from the second half of FY2021 is concerned, conditions have deteriorated as a result of the renewed wave of COVID-19 and the rising tensions between Russia and Ukraine. Coupled with such factors as the increase in global interest rates, the market has experienced a substantial adjustment phase. Despite this environment, the Group has made a steady start in the first year of its Medium-Term Management Plan with

ordinary income coming in at ¥135.8 billion. Looking at a breakdown of results, the Group did not rely on any specified division with performance generally well-balanced. In this regard, the Group maintains a stable revenue structure that is less susceptible to market conditions through the diversification of its business portfolio.

Daiwa Securities Group Vision and Strategy

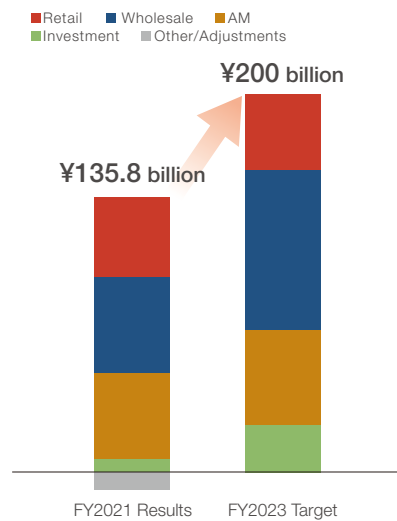
Future direction of the Medium-Term Management Plan

Daiwa Securities Group has identified an ordinary income target of ¥200 billion or more in the final fiscal year of its Medium-Term Management Plan. With the dramatic change in the market environment since the second half of FY2021, there are those who believe that the Group will experience difficulties in achieving this final fiscal year target in the event that these conditions were to continue. Japan's stock market is indeed performing at a low level compared with projections at the time the Plan was formulated. On the other hand,

the operating environment is exhibiting both positive and negative attributes. On the plus side, for example, the potential exists for an upswing in business opportunities on the back of growing volatility in interest as well as foreign exchange currency rates.

The Group is characterized by its diversified business portfolio. Based on an analysis of the business impact of market changes in each of the Group's business divisions, we believe there is no need to revise final fiscal year targets at this time.

FY2023 ordinary income target



The aforementioned data is a momentum analysis for each division's targets. The Retail Division seeks to secure a steady increase in asset-based revenue and a better-than-expected recovery in transaction-based revenues. Anticipating that equity revenue will be lower than initially expected, plans are in place to offset the shortfall in equity to a certain degree by expanding interest and foreign exchange revenues in Global

Status of progress in revenue restructuring

The Group is making steady progress in improving revenue.

In addition to cost reductions totaling ¥24 billion up to FY2021 in line with the previous Medium-Term Management Plan, steps will be taken to cut costs by a further ¥6 billion by FY2023. Meanwhile, the Group as a whole achieved a reduction of approximately ¥5 billion in FY2021. Of this amount, approximately ¥3 billion was

Momentum toward target (¥ billions)

◎ above target, ○ as targeted, △ below target

Retail Division		40		
40	◎	• Fund wrap growth buoys asset-based revenues (¥92 billion) while flow revenues rebound		
Wholesale Division		85		
GM 69	△	• Decline in Japanese equity-related revenue • Higher earnings from increased bond/FX volatility		
GIB 16	○	• IPO business expected to recover • M&A business to remain on the rise		
AM Division		50		
Securities AM 24	○	• Fund inflow to offset lower trust earnings from projected stock drop (weak yen and foreign stock increase are positive factors)		
Real Estate AM 26	◎	• Boost in equity interest in Samty from 20% to 31% to contribute over the full year • AUM balance targeted at ¥1.5 trillion		
Investment Division		25		
Investment Division (ex. DEI) 10	◎	• Smooth exit from existing deals and new quality investment		
Daiwa Energy & Infrastructure 15	○~△	• Higher renewable energy investment • Attainment of income/capital gains • Greater renewable energy investment through equity-method affiliate Aquila Capital		
Other/Adjustments		0		
Daiwa Next Bank 6	○	• Higher interest income from rising interest rates		

Market operations despite the difficult conditions encountered in achieving ordinary income of ¥69 billion. In addition, momentum in the real estate asset management and investment businesses is set to exceed initial targets. Daiwa Energy & Infrastructure expects to achieve its goal depending on the amount and timing of capital gain recognition.

achieved in the Retail Division, mainly due to the relocation of sales offices* and the consolidation of middle- and back-office operations.

On the other hand, in light of the gradual upward trend in IT expenses due to aggressive IT investments aimed at improving customer convenience and operational efficiency, we recognize the need to continuously reduce costs in the future.

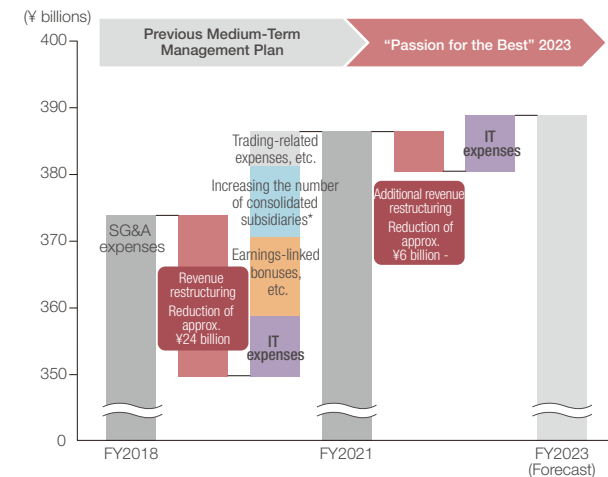
In addition, the Group is strategically shifting middle- and back-office personnel to front office operations against the backdrop of improved operational efficiency due to digitalization. Plans are in place to relocate approximately 1,100 employees by March 2024. A cumulative total of approximately 1,000 had already been reassigned by April 2022, which is more

than 90% of the total planned.

Shifting personnel not only contributes to top-line growth, but also reduces personnel expenses by limiting outside hiring.

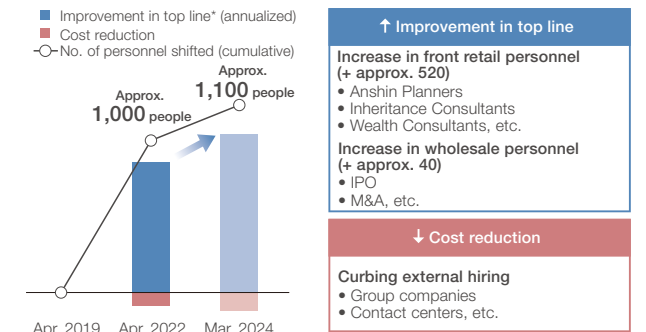
* Relocation of sales offices to the second floor or higher as opposed to street-level floors.

Results of revenue structuring and future outlook



* Daiwa Office Investment, Samty Residential Investment, CONNECT Daiwa Securities (China) Co., Ltd., etc.

Benefits from shifting middle and back office personnel

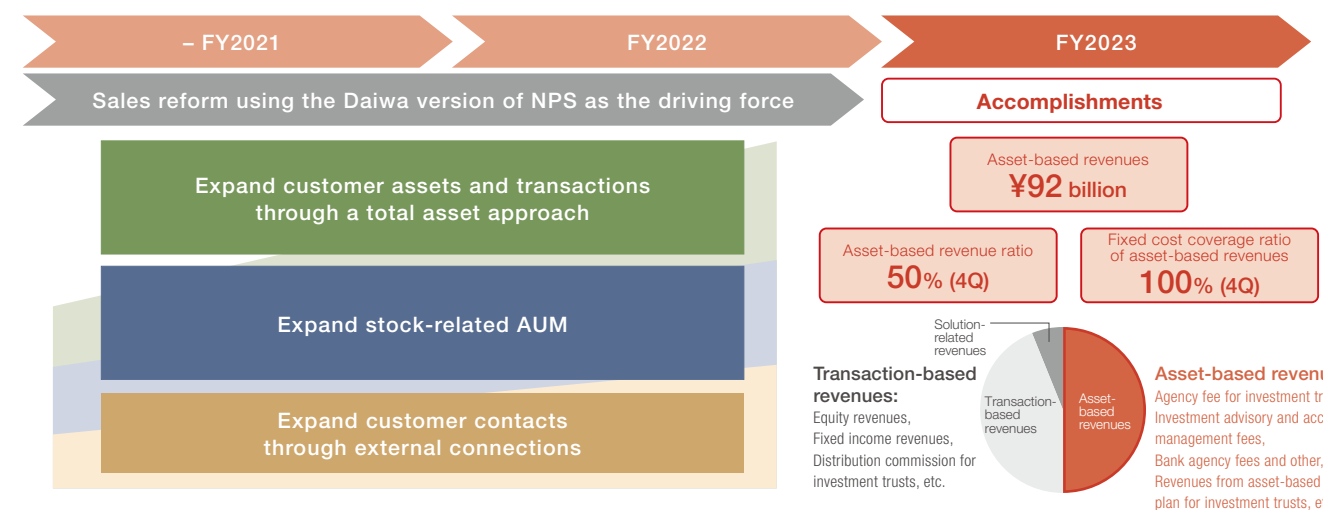


* Calculated based on actual revenues per person for personnel shifted to the front office

Image of cost reductions by division



Retail Division Strategy



The Retail Division reported ordinary income of ¥41.8 billion in FY2021 and as such achieved the final fiscal year target of ¥40 billion in the first fiscal year of the Medium-Term Management Plan. This Division's competitive advantage stems from three broad attributes: the ability to expand customer assets and transactions through a total assets approach, expand stock-related AUM including fund wraps and

asset-based fee plans for investment trusts, and expand customer contacts through external connections.

By accelerating efforts to address these themes, we aim to achieve asset-based revenues of ¥92 billion in FY2023 and an asset-based revenue ratio of 50% and the fixed cost coverage ratio for asset-based revenue to become 100% in the fourth quarter of FY2023.

Daiwa Securities Group Vision and Strategy

Wholesale Division Strategy

Ordinary income in the Wholesale Division was ¥50.9 billion in FY2021. This was a downturn compared with FY2020, when the bond business enjoyed a favorable business environment.

Global Markets

Foreign equities and the FICC business are expected to drive future revenue growth in Global Markets.

Steps are being taken to bolster support systems aimed at expanding the balance of foreign equities especially in the Retail Division. Although the percentage of individual financial assets denominated in foreign currencies in Japan has been steadily rising, it was still only 3.1% as of the end of March 2022. This leaves ample room for significant globally diversified investment expansion.

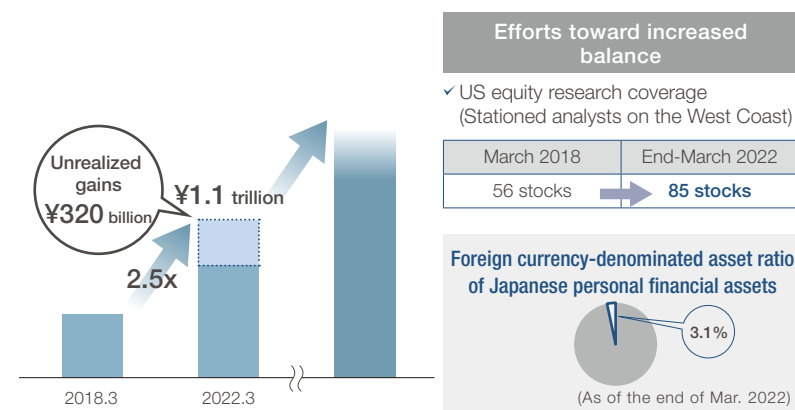
While the US stock market in particular is expected to be unstable in FY2022, the nation remains a global leader when it comes to the pace of economic recovery and the ability to respond to changes in international conditions. Against this backdrop, we anticipate an upward trend once again mainly in growth stocks led by high-tech companies.

As far as the FICC business is concerned, the Group maintains a high share of the medium- and

short-term US Treasury market as a primary dealer. In this regard, growing interest rate volatility will serve as a tailwind. Under these circumstances, we are projecting an increase in revenues by expanding customer flows for US Treasury securities and repo transactions as well as widening trading spreads. Moreover, customer flows for mortgage-backed securities (MBS), where spreads are expanding vis a vis government bonds, are also widening, impacted by increases in interest rates and reductions in the purchase of assets by the Federal Reserve Banks.

In the Japanese market, derivatives for firms, a key area of focus, promises strong growth potential. Here, the number of customers has grown roughly fourfold over the past five years. We will continue to cultivate new corporate customers and expand transactions by pushing forward advanced solution proposals based on customer needs.

Rising retail foreign stock holdings



Global Investment Banking

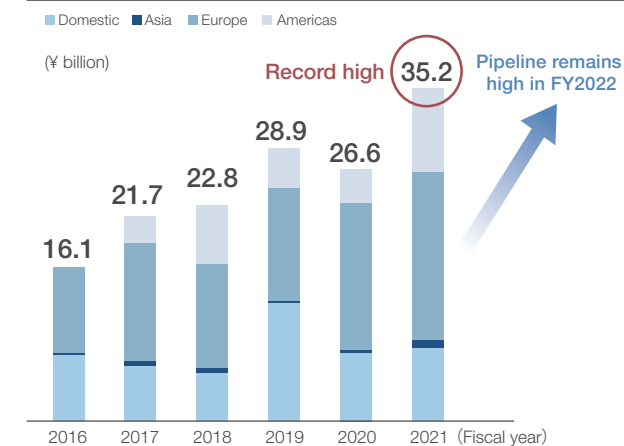
Daiwa Securities Group served as JAPAN POST's global coordinator in the largest PO of FY2021. As a result of this and numerous other deals, the Group secured the top rank in the PO League Table for the first time in four years. In addition, M&A-related commissions are steadily increasing. Overseas M&A earnings, in particular, served as a driver of growth in FY2021 reaching a record high of ¥35.2 billion.

Entering FY2022, the PO and IPO markets have experienced a harsh business environment. With little sign of an improvement in investor sentiment, large financing conditions are also difficult. On a positive note, the need to procure funds remains a key requirement for companies going forward. With this in mind, we believe that the Group's business will continue to expand over the medium to long term. Looking ahead, the market is

expected to regain some level of stability and investors' risk tolerance to improve. Under these circumstances, the PO and IPO markets are also projected to recover. Taking into consideration the status of the Group's pipeline, we will expand revenue by converting prospects into deals from the second half of FY2022.

In addition, corporate M&A needs are exhibiting an upward trend. Coupled with such factors as the review

M&A-related commissions



Asset Management Division Strategy

Ordinary income in the Asset Management Division hit a record high* of ¥45.2 billion.

Securities Asset Management

At Daiwa Asset Management, the balance of assets under management in both public and private offerings has been steadily expanding, reaching ¥23.6 trillion as of March 31, 2022. In addition to expanding the balance of funds specialized to fund wrap, we have been diversifying distribution channels while cultivating flagship funds since FY2020.

In May 2022, we launched the Daiwa WiL Ventures III, L.P. Venture Capital Fund as a publicly offered equity investment trust, which invests in cutting-edge, high-quality venture companies, mainly in the IT sector in Japan and the US. Recognizing that individual investors have few opportunities to invest in high-quality venture companies prior to their public listing, this is a ground-breaking product for customers of the Retail Division. The Group will continue to expand its product lineup to include investments in such alternative assets.

of business portfolios and the supply chain, management integration, business succession by owner-operated companies, and investment in or exit by private equity funds, the number of consultations from customers is on the rise. In similar fashion to FY2021, the pipeline in FY2022 is expanding to a high level both in Japan and overseas.

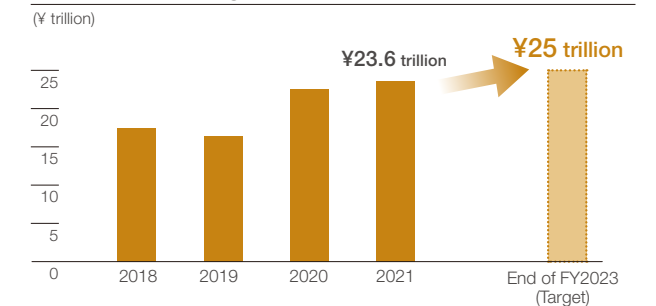
Strengthening the global M&A network



Looking ahead, we will continue to design products and expand distribution channels in accordance with customer segments while managing funds with investor interests uppermost in our minds.

* Since disclosures of segment information started in FY2010.

Assets under management



Note: End of each fiscal year. Including investment advisory.

Daiwa Securities Group Vision and Strategy

Real Estate Asset Management

The balance of assets under management in real estate asset management business totaled ¥1.2 trillion as of the end of FY2021. We aim to expand this to ¥1.5 trillion by the end of FY2023 to further stabilize the Group's revenue structure.

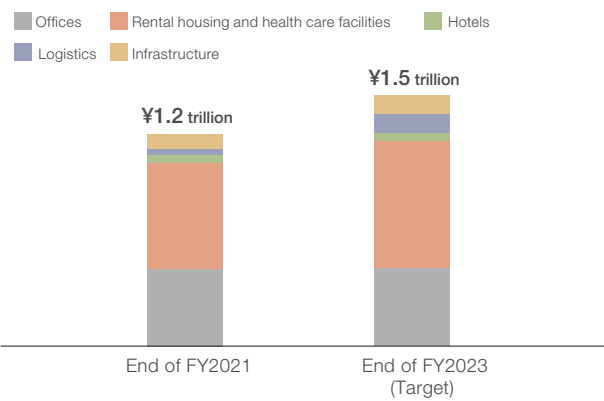
Major companies and investment corporations in the business

AM Company	Daiwa Real Estate Asset Management (100%)
Listed REIT	Daiwa Office Investment Corp. (40.7%)
Listed REIT	Daiwa Securities Living Investment Corp. (16.3%)
Private REIT	Daiwa Residential Private Investment Corp.
Private REIT	Daiwa Hotel Private Investment Corp.
Private REIT	Daiwa Securities Logistics Private Investment Corp.
Real estate industry	Samty (31.1%)
AM Company	Samty Asset Management (33.0%)
Listed REIT	Samty Residential Investment Corp. (40.2%)

Note: Figures in () indicate Group shareholding ratio as of the end of March 2022

In addition to the warehousing function that leverages the Group's high credit standing, the Group will acquire a greater volume of properties on the back of its wide-ranging strengths including the speed and flexibility of the Group's decision-making.

Integrated portfolio of 2 real estate AM companies*



* Daiwa Real Estate Asset Management plus Samty Residential Investment Corp.

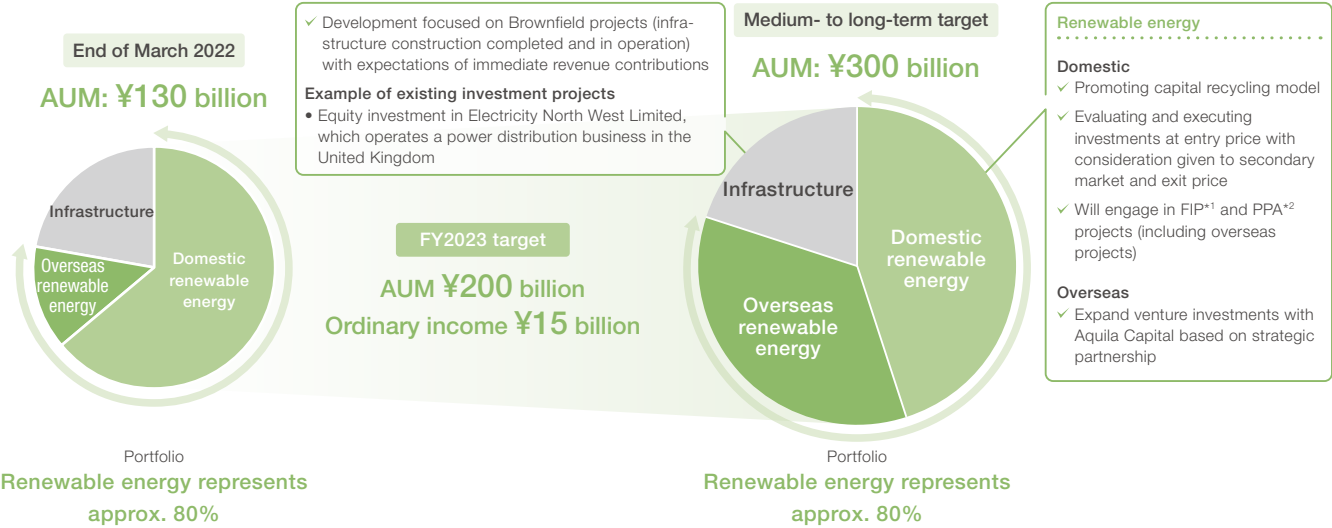
Investment Division Strategy

Ordinary income in the Investment Division came to ¥7.1 billion. The balance of assets under management for Daiwa Energy & Infrastructure stood at approximately ¥130 billion as of the end of FY2021. In line with the global trend toward achieving a carbon-neutral, carbon-free society, we aim to increase our balance of assets under management to ¥200 billion by the end of FY2023 and to ¥300 billion over the medium to long term by diversifying asset classes and through global expansion.

While continuing to promote our business with a focus on renewable energy going forward, we will also rollout the know-how and expertise we have gained from

domestic solar power generation business to major overseas markets and increase our overseas renewable energy-related assets.

As far as overseas operations are concerned, the policy is to first focus on Europe, the Americas, and Australia, where political conditions and legal systems are stable, the market is large, and abundant experience in development and operation is evident. In Europe, we will work with Aquila Capital, an equity-method affiliate, and collaborate with our respective partners to promote investment also in the Americas and Australia.



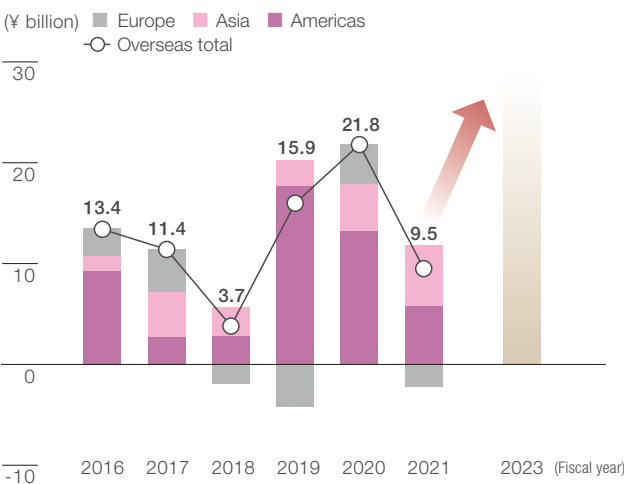
*1 Feed-in-Premium: A scheme for determining the purchase price of renewable energy introduced in April 2022. The price is set at the market price + a premium.
*2 Power Purchase Agreement

Overseas Operations Strategy

Daiwa Securities Group has adopted a selective approach toward its overseas operations focusing on areas where it holds a competitive advantage including Japan-related businesses, the US equities and bonds business, and M&A businesses in Europe and the US. As far as results are concerned, the Group reported a sixth consecutive full fiscal year of positive earnings in FY2021 with cumulative ordinary income coming in at ¥76 billion.

The Americas will continue to drive overseas earnings, with a focus on expanding the FICC and US equity businesses. In Europe, we will work to improve revenues and expenses in a bid to return to the black. As a drastic cost reduction measure, we have initiated steps to transfer the trading book for bonds and convertible bonds to Tokyo. The effects of cost reduction are expected to emerge from the second half of FY2022.

Overseas operations ordinary income



Digital Strategy

Daiwa Securities Group has identified the transformation to a Data-Driven Business Model as a basic policy of its Digital Strategy, which is one of the pillars of the Medium-Term Management Plan. As business processes and communications are digitized one after another and all information is stored as data, the Group will analyze,

research, and utilize the stored data to transform its business model into one that makes decisions based on data. Chaired by the CEO, we established the Data-Driven Business Council. From FY2022, we are robustly promoting the use and digitization of data as a group.

Initiatives in Sustainability

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. The Group will promote specific SDG-related actions based on Vision 2030.

Corporate Strategy

HR strategy

Based on the four concepts of staff development and career support, training professionals who will craft the future, improvement in engagement and productivity, and further evolution of healthy management, we will achieve KPIs and work to realize the sustainable improvement of corporate value.

Financial and capital strategy, risk management strategy

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 strategy

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.

Messages from Outside Directors

Daiwa Securities Group elects outside directors with specialized knowledge and experience acquired through their respective careers, and requests each to apply their expertise to the Group's management in order to realize a highly transparent and objective governance structure that conforms to international standards. The outside directors provided many suggestions and opinions during the discussions held by the Board of Directors when formulating the Medium-Term Management Plan ("the Plan"), where repeated dialogue with the internal directors and corporate executive officers led to the better Plan.

Having reached the end of the first fiscal year of the Plan, we asked the seven outside directors to comment on and provide their assessment of the first fiscal year of the Plan, their future expectations, and what is needed to achieve sustainable growth.



**Michiaki
Ogasawara**
Outside Director

As the first fiscal year of the new Medium-Term Management Plan, the Group's management successfully produced sound results in FY2021. I believe that the policies set out under the Plan have generally received positive assessments from investors as well.

On the other hand, dramatic changes in the market starting at the beginning of 2022—first and foremost the actions taken by Russia in Ukraine—have necessarily had a material impact on the global economy and the Group's management.

Despite this situation, the Group has steadily advanced the Customer First and Hybrid Strategy concepts of the Plan, and has responded to the expectations of society, for example by working toward a carbon-neutral society and growing the Japanese economy through the development of start-up companies. I am certain that these efforts will connect to greater medium- to long-term corporate value for the Group, which is why I support them as a member of the Board of Directors.



**Katsuyuki
Nishikawa**
Outside Director

During the first fiscal year of the Medium-Term Management Plan "Passion for the Best" 2023, Daiwa Securities Group made solid progress in both pillars of the Plan, namely shifting to a wealth management business model and expanding hybrid businesses. Amid continued anxiety over COVID-19, growing uncertainty about the current international circumstances, and the various impacts these will have on financial and capital markets, I believe that in order for the Group to continue its sustainable development, it must further promote these two pillars and build a resilient structure that can more broadly address the needs of customers, specifically by combining the use of digital technologies with the strong marketing capabilities of its employees. At the same time, I feel another key for the Group in achieving sustainable development is to maintain its position as a company that has earned the trust of its stakeholders and society as a whole by never wavering in terms of corporate governance and compliance.

Companies need to consider their vision for the kind of future they aim to create from the standpoint of society. In order to achieve their visions, they must continue to drive sustainable innovation. With a history that spans 120 years since its foundation, Daiwa Securities Group possesses multiple strengths, including its position one step ahead of the securities services in which its origins as a comprehensive securities group lie, its ability as an independent group to design strategies for sales and partnerships in every direction in a way that is not bound by affiliations, its flexibility that is not subject to business sector restrictions stemming from banking regulations, and its strong financial base. In looking to the future beyond efforts to achieve the Medium-Term Management Plan, as an outside director I will support the Group's new challenges for the coming 120 years. This includes how to leverage the Group's strengths as the means to continuously drive sustainable innovation.



**Hirotaka
Takeuchi**
Outside Director

As social structures undergo major changes due to the COVID-19 pandemic and growing geo-economic risks, I believe that Daiwa Securities Group has soundly executed the first year of the Medium-Term Management Plan. However, the Group will need to reform business execution mechanisms, including human resources development, of its own initiative by continuing to skillfully leverage the digital technologies that are relentlessly evolving at an exponential rate. At the same time, it must create mechanisms to drive new innovations in the securities industry, including the development of new products.

The Group will need to steadily promote solutions to social issues like carbon neutrality and the SDGs, which aim to allow people to live their lives as intended, through these efforts. Moreover, I expect to see the Group steadily achieve the Plan by strengthening cybersecurity and implementing other aggressive countermeasures against various risks that may hinder business execution.



**Toshio
Iwamoto**
Outside Director



**Ikuo
Nishikawa**
Outside Director

I would like Daiwa Securities Group to become the most stable management-oriented company in the Japanese securities industry, and to aim for greater growth.

In terms of investments as the key to the Hybrid Strategy, I believe the Group must include the impacts that the Russia-Ukraine crisis will have on the global economy into its considerations, and make fast-paced, accurate judgements regarding entry and exit strategies from now on.

As far as the most productive assortment of the digital and physical worlds when promoting DX is concerned, I believe the greatest challenge will be securing human resources. I therefore anticipate a great deal from the Group's policies that combine efforts to secure IT professionals and enhance the abilities of regular employees.

As medium- to long-term challenges, discussions regarding international frameworks for the SDGs and ESG are also underway, yet I believe the Group should take the lead among Japanese companies at the earliest possible stage and press forward with solutions to social issues. Having already prepared organizational systems, I hope to see the Group continue holding ongoing discussions regarding disclosures and its approach to management.



**Yumiko
Murakami**
Outside Director

Daiwa Securities Group has raised management policies required for it to become the best partner for co-creating the future within the Medium-Term Management Plan. As problems like the spread of COVID-19, geopolitical risks, global warming, and income disparity increase in severity, and as a result deepen uncertainty in the socio-economic environment, an important question will be whether the Group can maintain its position as the best partner for its customers. I believe a highly welcome outcome of the Plan has been progress in its shift to a customer-oriented wealth management business model that takes a long-term perspective and that is not significantly affected by short-term variations in market conditions. In addition, progress in the Hybrid Strategy has started to put together a structure for deploying innovative services. I intend to contribute in a way that allows the Group to continue delivering substantial added value to its customers.



**Eriko
Kawai**
Outside Director

I recognize that the Group has made progress in its shift to a wealth management business model as a pillar of the Medium-Term Management Plan. And I hope to see the Group maintain its stance of putting the customer first into the future. The fact that the Group has enabled itself to provide new products, including alternative assets management, by promoting the Hybrid Strategy also shows promise. And by further advancing the Hybrid Strategy, I hope to see the Group diversify its earnings structure and aim to establish an earnings model that is resilient to the impacts of market conditions. I would also like to see the Group further promote SDGs/ESG-related businesses, and steadily promote transition finance and other similar new businesses. In order to achieve sustainable growth, the Group must maintain a global field of view as it tirelessly works to discover business opportunities in Japan and abroad, and as it provides customers with the highest level of service in the world. Digitalization of the financial industry will continue, so I expect to see the Group achieve further growth by skillfully addressing this trend.

Message from the CFO



Openly facing all stakeholders,
I will promote sustainable growth and
corporate value enhancements.

Eiji Sato
Executive Managing Director and CFO
Daiwa Securities Group Inc.

FY2021 Summary

Worked toward building a stronger earnings model in the first fiscal year of the Medium-Term Management Plan.

In FY2021, the Nikkei Stock Average recorded a 31-year high in September, but it subsequently turned into a turbulent year. A succession of negative factors, such as a resurgence of COVID-19 infections, a rise in global interest rates, and a worsening of the Russia-Ukraine crisis, led to a significant market correction.

Amid this environment, Daiwa Securities Group posted net operating revenues of ¥502.0 billion, up 7.6% compared with the previous fiscal year. From a profit perspective, ordinary income grew 17.9% to ¥135.8 billion and profit attributable to owners of parent was ¥94.8 billion. Based on the aforementioned, the Group secured an ROE of 7%. The Retail, Wholesale, and Asset Management business divisions all improved their performance, an achievement that provided proof

positive of the well-balanced collective strength of the Group, which does not depend on any particular division. In particular, there was a marked recovery in the performance of the Retail Division, which I accept came as the result of the steady progress we have been making—our resolve unshaken by the changes in the environment—in transitioning to a wealth management business model over the past five years and reforming our cost structure. In addition, hybrid-related ordinary income expanded to ¥32.0 billion, accounting for 23% of consolidated ordinary income. In the first year of the Medium-Term Management Plan, “Passion for the Best” 2023 (the Plan), which started in FY2021, we were able to get off to a good start toward achieving the target KPIs for FY2023.

Progress on financial KPIs

Performance		Financial Base	Wealth Management Business		Hybrid Strategy
Ordinary income (FY2021)	ROE (FY2021)	Consolidated total capital ratio (As of March 31, 2022)	Retail Division asset-based revenues (FY2021.4Q)		Hybrid-related ordinary income and income ratio (FY2021)
			Revenues	Ratio	
			¥135.8 billion	7.0%	
			19.77%	¥18.9 billion	
Target (FY2023) ¥200 billion or more		Target (FY2023) Maintain at 18% or higher	Target (FY2023.4Q) ¥24 billion	Target (FY2023.4Q) 50% or higher	Target (FY2023) ¥50 billion or more Around 25%

Overview and Progress in Revenue Restructuring

Progress made in cost reductions exceeding expectations, advancing further cost reductions during the current Plan period.

With regard to revenue restructuring, which the Group as a whole is promoting as an individual project, we are making good progress to realize an improvement in profitability of ¥50 billion compared with FY2018 by FY2023, the final fiscal year of the Plan. In terms of cost reduction, we had achieved ¥24 billion by FY2021, combined with the period of the previous Plan, and aim to add an additional ¥6 billion by FY2023. In FY2021, we made reductions of approximately ¥5 billion for the entire Group, mainly through branch relocations* and the consolidation of middle- and back-office functions. In contrast, we are actively investing in IT to improve customer convenience and raise operational efficiency, and thus IT expenses are on a gradual upward trend.

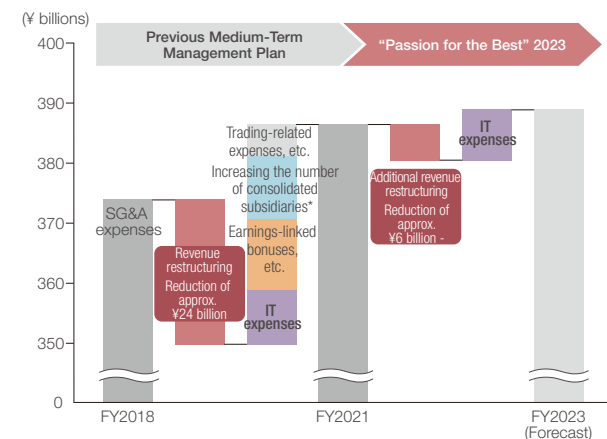
The strategic shift of middle- and back-office department personnel against the backdrop of digitalization is planned to involve a total of about 1,100 people, and about 1,000 people had been moved, and thus more than 90% of the strategy completed, as of April 2022. Shifting personnel not only contributes to the expansion of the top line, but also leads to cost reductions by curbing external hiring.

In view of the current severe environment, I recognize

the need to take one step further in reviewing our cost structure. I believe that a raft of measures can be considered in view of work style reforms, advances in technology, and the environment in which we coexist with COVID-19. In FY2022, I will continue to steadily implement the current cost-cutting measures and consider adding new ones to them.

* Opening (relocating) branch offices not on the ground floor but on upper floors.

Results of cost reduction and future outlook



* Daiwa Office Investment, Samty Residential Investment, CONNECT Daiwa Securities (China) Co., Ltd., etc.

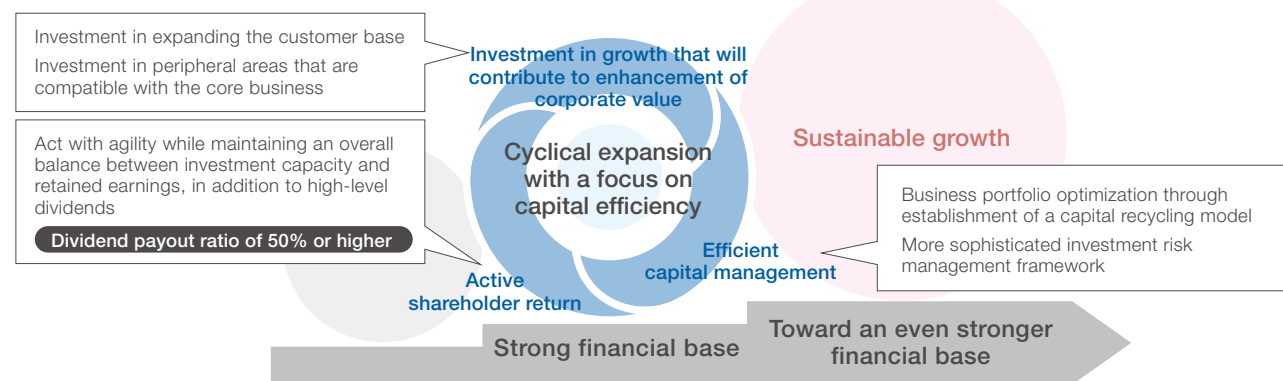
Financial and Capital Strategy

Built on a strong financial base, aiming for cyclical expansion with a focus 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



Message from the CFO

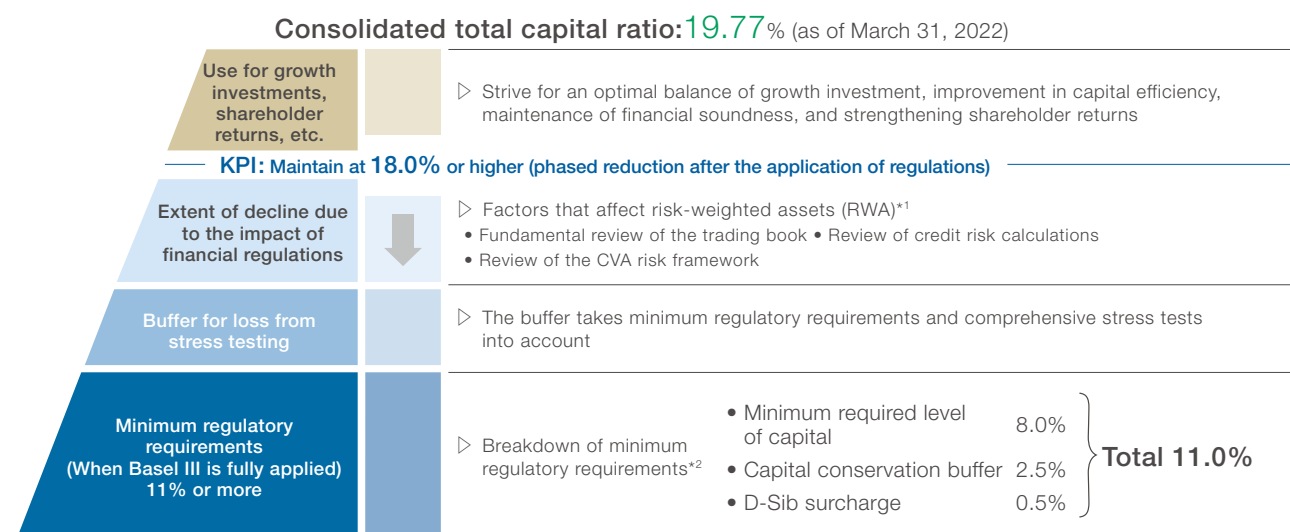
Ensuring a strong financial base

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 Plan adopts the consolidated total capital ratio as a financial KPI, which stood at 19.77% as of the end of March 2022, indicating that our financial health remains firmly in place. Given the potential that this ratio may decline three to four 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.

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 FY2021 (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. These are also well above the required standard.

View on financial KPI



*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.

Growth investments contributing to increased corporate value

Daiwa Securities Group Inc. defines surplus capital as the excess of its total capital ratio target of 18% under Basel III. The figure as of the end of March 2022 was 19.77%, and I believe that the difference is approximately ¥120 billion in terms of equity, or a surplus of approximately ¥680 billion in terms of risk weighted assets. To utilize this surplus capital, we are constantly monitoring our future growth investment pipeline. Even in the instance of

this kind of pipeline, in the event that a surplus is expected, we will consider additional shareholder returns from a comprehensive perspective.

During the three-year period of the previous Plan, we invested a total of approximately ¥300 billion, and during the period of the current Plan, we anticipate a total of approximately ¥150 billion, so roughly half. Although the amount of investment in FY2021 exceeded expectations,

the scale of investment from FY2022 onwards is expected to be roughly as expected. Over the next two years, we plan to build up our balance mainly through Daiwa Energy Infrastructure and real estate bridging finance for REITs and anticipate making annual investments of around ¥50 billion. In addition, we are

constantly considering M&As to strengthen our securities business and asset management business. Going forward, to further solidify our Hybrid Strategy, I will work to realize an improvement in profitability, strengthen our business portfolio, and promote the reinforcement of our management systems accordingly.

Enhance shareholder returns

The return of profits to shareholders is also an important factor for the Group.

The Group adopted a dividend policy of achieving a semiannual dividend payout ratio of 50%. In addition, on the premise of ensuring financial soundness, when we are able to secure sufficient internal reserves necessary for future business development and growth investment, we will actively consider returning profits to shareholders in various ways, including share buybacks in a timely manner. Such returns will be made after fully taking into consideration changes in the management environment as well as our financial situation, regulatory trends, and share price levels, all while monitoring our credit rating.

The Group paid a dividend of ¥33 per share in FY2021, which represented a dividend payout ratio for the fiscal year of 52.3%. In order to provide a greater return on profit, on the same date we announced our FY2021 full fiscal year earnings results, we also set up a share buyback program of 33 million shares (upper limit) to be repurchased at a total value of ¥25 billion (upper limit). The total return ratio for the full fiscal year, including dividends and share buybacks, may reach a maximum of 78.4%. Looking ahead, I will continue to strike the best balance between growth investments and shareholder returns, while considering efficient allocations of capital from a comprehensive perspective.



*1 Total return ratio is the percentage calculated by the sum of dividends for the current fiscal year (Dec. of this year + Jun. of next year) and the share repurchase decided by the date of the full year earnings announcement of the current fiscal year divided by the profit attributable to owners of parent for the current fiscal year.

*2 Figures based on the maximum amount to be paid for repurchase.

Credit Ratings for Daiwa Securities Group Inc. and Daiwa Securities Co. Ltd. (As of June 30, 2022)

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

Message from the CFO

Strategic shareholdings

- ◆ Reviewing the significance of ownership for all strategic shareholdings on a regular basis.
- ◆ Shareholding balance declined 16% from the end of March 2016 to the end of FY2021.

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 cost of capital standards we have set, as well as in terms of the purpose of the holding, including growth potential and the strengthening of business relationships. 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 2022, 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 FY2021, the cumulative reduction in the book value balance of shares held as strategic shareholdings (excluding shares held for the purpose of alliance) reached ¥9.8 billion, down 16%. 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

Dialogue with shareholders, investors, and analysts presents a very valuable opportunity for the Group to learn and gain awareness. In FY2021 as well, in consideration of the spread of COVID-19 infections, I believe that we have been able to provide more timely and appropriate information than ever before, in a format that is not bound by restrictions such as dates and regions, by utilizing online tools. For example, in FY2021, from among the Hybrid Strategy that is of great interest to investors and analysts we held a theme meeting focused on the real estate asset management business and the energy and infrastructure business.

Sincerely accepting the opinions and suggestions received from our shareholders and investors on such occasions, I provide feedback at meetings of the Board of Directors, Executive Management Committee, and other venues. I believe that providing these suggestions 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. I humbly ask for your continued understanding and support.

Diversity & Inclusion (Human Capital)

Taking on the
New Challenge
of Creating Workplaces That Foster Innovation through Diversity

The source of the Group's competitiveness lies in the capabilities of its employees. We aim to create workplaces in which all employees can maximize their performance and continue to work enthusiastically while striving to be top-level professionals who at all times continue to pursue high goals. We will take on the new challenge of a forward-looking human resources strategy that achieves sustainable corporate value enhancement.

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

	KPI	FY2021 Results
Number of CFPs and CMAs	3,000 personnel or more	2,830 personnel
Number of Digital IT Masters	200 personnel or more	34 personnel*1
Ratio of women on the Board of Directors (Daiwa Securities Group Inc.)	30% or higher*2	28.6%
Ratio of women in management positions (Daiwa Securities)	25% or higher*3	18.3%
Employee satisfaction	Maintain at 80% or higher	95%

*1 Certified in July 2022
*2 By 2030
*3 FY2025

Diversity & Inclusion (Human Capital)

Message from the Head of Human Resources



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

Recognizing the importance of human resources as the source of the company's survival and growth

Daiwa Securities Group recognizes the importance of investing in human resources to further increase their value, and to link this investment in human capital to corporate growth. As a comprehensive securities group with a hybrid business model, we vigorously engage in a variety of new activities centered on the securities business that facilitates the shift from savings to asset formation. While the nature of the human capital required to achieve this end has continued to expand, a common feature is an inherent mindset of working diligently on the task at hand while at the same time taking the initiative to move forward with an eye toward the next form we should take. The key then is how we should best increase the number of employees with this mindset. If we can create an environment in which these employees can maximize their capabilities and potential, and build an organization that is distinguished by its robust mutual cooperation, I am convinced that the performance of our human resources will double or even triple through synergy effects.

With the understanding that sharing the experiences that have influenced an individual's values and conduct will lead to improved selection, avoid mismatches after joining the Group, and raise awareness toward the development of human resources within the Group, we have incorporated personal histories in the recruitment process, which we regard as the gateway to human capital. Conscious of the difficulties in responding to the

changing times if all new employees were to follow the same general management career path, we have also introduced the Expert Course that incorporates the elements of specific jobs so that employees can make the most of their expertise after joining the Group. Not just supporting those eligible for the Expert Course, our goal is to help all employees take ownership of their careers, to consider what is expected, and to acquire the necessary skills in an appropriate manner. Of equal importance is to then promote the allocation of the right people to the right positions.

If we view promotion as the exit of human capital, we must reconsider the evaluation process in light of the current environment. Today, people's views toward leadership vary widely, and management evaluations have also evolved. The attributes of post appointments and promotions are changing, with significant progress in the emphasis placed on diversity. Keeping our eyes wide open, we continue to search for an equitable assessment process.

The degree of employee satisfaction has continued to increase thanks largely to improvements in our human resources system and efforts to implement work style reforms. The question going forward is how to connect this increased employee satisfaction to improved performance. With this in mind, we have introduced an engagement survey (awareness survey) with considerable determination. The system does not allow for the identification of individuals. It captures the voice of the team. We have already initiated a PDCA cycle to ascertain the ideal form we should take under the initiative of each site. The number of comments on the open-ended questions "What is important to improve your performance" and "What do you believe is necessary for the Group to continue to grow" both substantially exceeded 5,000, which reaffirms the significance of this survey.

Each employee is a member of Daiwa Securities Group's vision. We have continued to engage in health management for a considerable amount of time. Over this period, we have taken the following steps: (1) employees understand their own health, and (2) the Group understands the overall picture of employees' health and implements a variety of measures. Currently, we are moving to a higher level by (3) introducing measures from both the physical and mental perspectives. This reflects our conviction that employees' physical and mental health are a prerequisite for performance.

Looking ahead, we will continue to promote a human resource strategy as a growth strategy at a higher level.

Support employee growth and career development

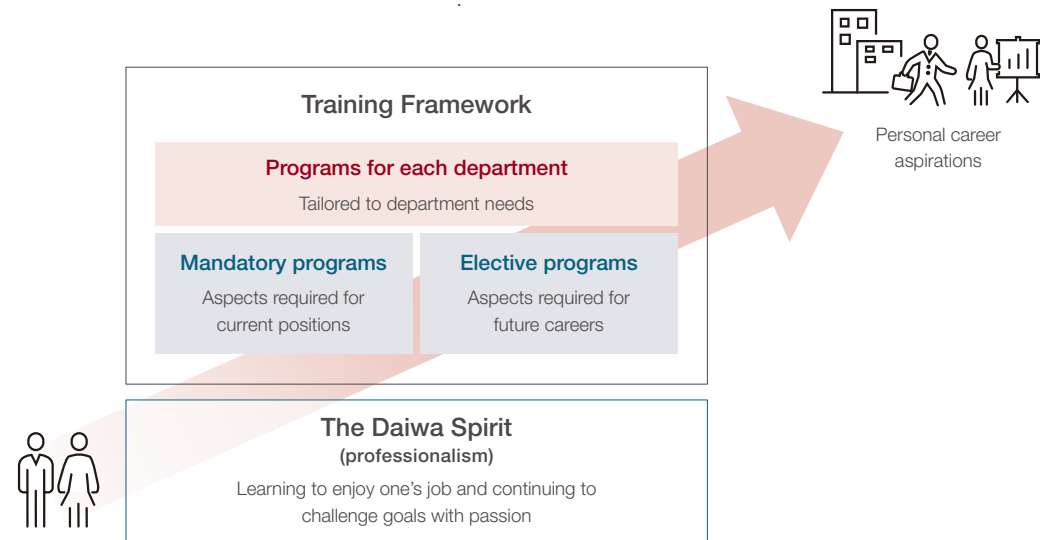
Daiwa Securities Group aims to emerge as a collection of genuine top-level professionals at all times in which individuals come to enjoy their jobs and continue to take on the challenge of difficult objectives. In order to become professionals, our employees are required to

ceaselessly strive toward the careers for which they aspire in addition to putting effort into the aspects required of their current positions. To support the growth of such employees, we offer customized training programs and systems that encourage career realization.

Training programs that support employee growth

Daiwa Securities Group training programs consist of mandatory programs that are clearly positioned as part of work duties and elective programs that provide the necessary elements for one's future career path, thereby encouraging the voluntary career development of every employee. In addition, operational and human resources

departments work together to provide training programs tailored to the needs of each department, enabling employees to acquire more practical skills. We also offer training programs with content tailored to different skill levels, allowing employees to select courses on necessary skills.



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.

In addition to younger employees, we conduct training mainly for management-level staff to enable them to learn the necessary skills for their current duties that are tailored to their work responsibilities.

Elective programs

The Group's Skill Training provides various opportunities 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 100 certification fees and language-learning programs. In this way, all employees can choose and attend programs related to aspects required for their future careers.

For example, Skill Training is held twice a year as a voluntary training course that provides opportunities to acquire various skills and expertise. We have created a system to meet employee desires for self-improvement by providing e-learning courses that can be taken at one's convenience and online lectures that enable interactive learning with instructors.

Diversity & Inclusion (Human Capital)

Staff development and career support

It is critical for employees to consider for themselves their career paths and take actions to realize them in order to perform in a manner that leverages their

individual characteristics. The Group has introduced a variety of programs to imbue employees with a sense of career ownership.

Self-reporting system

We have established a self-reporting system that provides an opportunity for employees to inform their superiors and human resources departments about their careers twice a year. Under this system, employees can share their career visions, strengths, and challenges through 1-on-1 meetings with their superiors, while conveying to the Human Resources Department such relevant information as the level of satisfaction they hold toward their work, details of living and working environments, and proposals to the company.

Open recruitment system

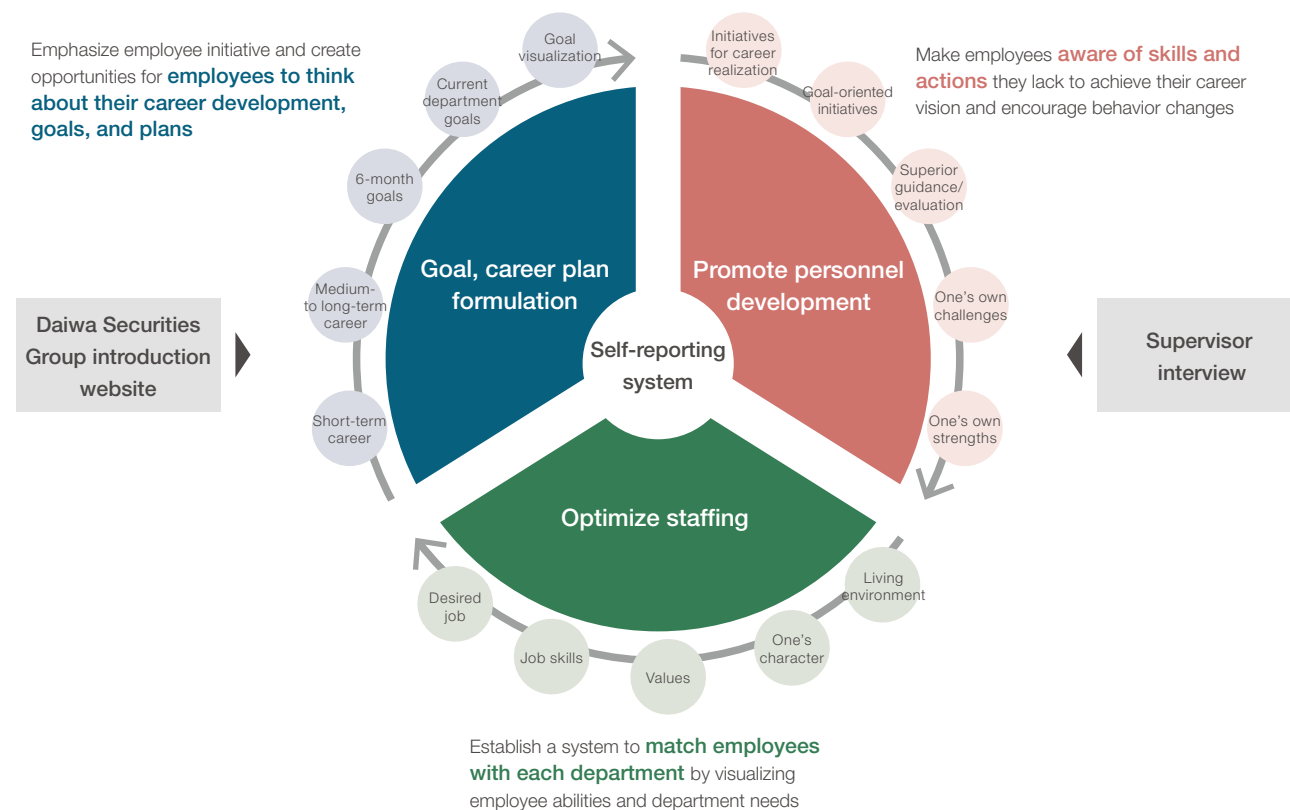
As an opportunity for voluntary career development, we implement an intra-Group open recruitment system. In recent years, we have pursued strategies to diversify and stabilize our revenue streams as a comprehensive securities group with a hybrid business model. To this end, we support employee challenges by placing them primarily with hybrid businesses and partner companies. The open recruitment system supports the realization of careers based on the wishes of the applicants themselves, and can open up new career paths for employees who have the desire and ability for self-actualization through their careers.

Evaluation interviews

We provide opportunities every six months for evaluation feedback through interviews with branch heads. In addition to sharing future goals and career development, branch heads provide each employee with appropriate guidance and advice so that employees can understand their own strengths/weaknesses and link them to the next action plan.

Company and department introduction website

We have established the Daiwa Securities Group Introduction Website for employees that clearly describes the operations of each company and department, required skills, and the required personnel.



Training professionals who will craft the future

To achieve the Medium-Term Management Plan, it is important to hire/train highly specialized personnel and to acquire/improve employees' specialized knowledge and digital skills. The Group has set as KPIs the number

of digital IT personnel and employees who have acquired CFP/CMA qualifications, and is working on various human resource measures.

Introduction of Expert Courses

Society and the economy are changing significantly as digital transformation progresses. Against that backdrop, personnel who can operate advanced digital technology and have a high level of expertise in finance and mathematics are indispensable for corporate growth. We have recently established the Expert Course for career-track employees in FY2021 as a human resources system to support the recruitment and performance of such specialized personnel.

The Expert Course is a Group human resources system that targets highly specialized personnel and combines the advantages of the existing membership-

based system with the job-based system of assigning personnel to specific jobs, duties, roles, and posts. For highly specialized personnel, the compensation system under the Course is not tied to grade or age but is able to reflect duties, roles, and performance.

The Course was introduced for digital IT and advanced financial personnel in FY2021 and newly expanded to include investment banking operations in FY2022. We also hire new graduates for the Course, with the first class of new graduates under the Expert Course career-track joining the Group in April 2022.

Focusing closely on working on highly specialized duties is attractive

I received a Ph.D. in physics (quantum mechanics) in graduate school and have been working in the Derivatives Department since joining Daiwa Securities in April 2022. I am currently being trained in financial engineering and plan to develop and operate derivative pricing valuation models in the future.

Expert courses are attractive because they appropriately evaluate my abilities and experience gained from acquiring a Ph.D. and specify work areas to enable me to closely focus on tasks that require a high level of expertise. While many Japanese companies do not place much importance on doctoral degrees, the Group having special expectations of me is motivating, and I am working hard every day to become an even more highly specialized employee.



Yohei Kojima
Specialist Grade
Derivatives Department
Daiwa Securities

Promoting the acquisition of specialized knowledge

In order to acquire a highly specialized expertise, we promote the acquisition of various qualifications highly relevant to the securities business, including CFP and CMA, as well as information processing, language, and professional business-related qualifications. For example, we have introduced a qualification point system that requires acquisition of certain qualifications for promotion. Employees can choose from approximately 100 qualifications to acquire advanced expertise.

To support employee qualification acquisition, we have an extensive acquisition support system that includes free practice tests, provision of videos that explain past examination questions, and subsidies for examination fees and exam preparation courses. In addition, we have established a community on an in-house SNS for acquiring certifications. Chat rooms and online meetings allow like-minded employees to interact and exchange information on study methods to obtain qualifications.

Developing digital IT personnel

We are working to develop digital IT personnel by introducing initiatives including the Digital IT Master certification system and the Daiwa Digital College in order to realize our basic policy under our Medium-Term Management Plan of pursuing the best mix of digital

and real and transformation to Data-Driven Business Model, which combines the respective strengths of people and digital technology based on data.

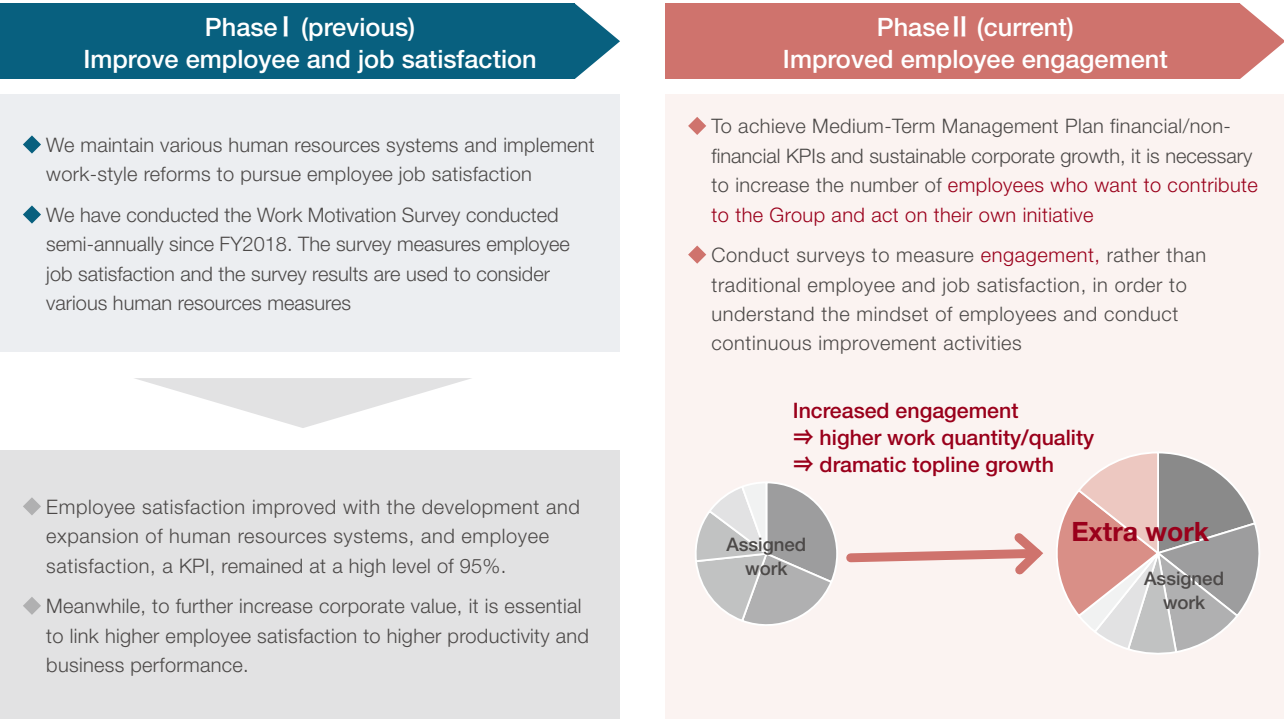
For more information, go to the Innovation section (▶▶P72)

Improvement in engagement and productivity

The Group conducts engagement surveys to measure employee engagement in order to realize improvement in engagement and productivity, one of the basic policies of the human resources strategies that supports the Medium-Term Management Plan.

Based on survey results, we will identify the strengths and challenges of the Group and each division/office, and continuously implement organizational improvement.

Engagement survey concept



Engagement survey implementation

The first engagement survey targeting Daiwa Securities was conducted in February 2022. A second round was conducted in July 2022, expanding the scope of companies implementing the survey to other Group companies.

Note: The engagement survey contracted to Willis Towers Watson.

Engagement survey results

In addition to the survey's high response rate, which was just under 90%, the response rate for the open-ended questions (two questions) was over 50%*1, indicating a high level of employee interest in the survey. The engagement score was also high among Japanese firms. Category scores for Well-being*2, Flexibility and Talent Management were particularly high, exceeding those for strong-performing overseas companies. Scores for Company Direction were also high, indicating that many employees have an affinity with the Group's goals and strategies. On the other hand, there was room for improvement in the Business Operating System category.

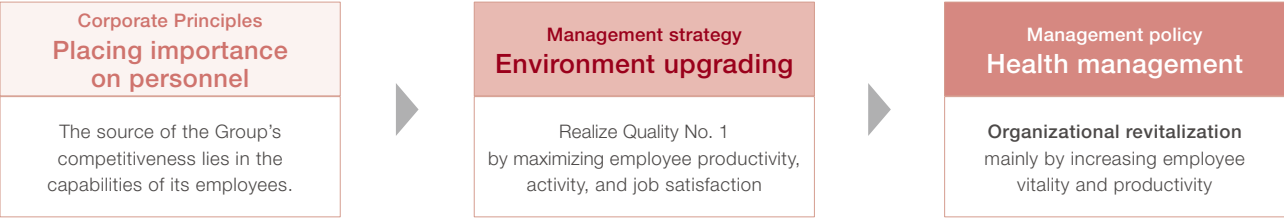
*1 Generally around 35%
*2 Good physical, mental, and social condition

Harnessing the strengths uncovered and the improvement issues and key drivers identified by the survey, we will study and implement company-wide measures and create a self-driven organization by having each department and branch consider and implement improvement measures on a bottom-up basis.

Sustainable Engagement score		
	1st time	2nd time
Daiwa Securities	81%	82%
Group-wide	—	79%

Further evolution of healthy management

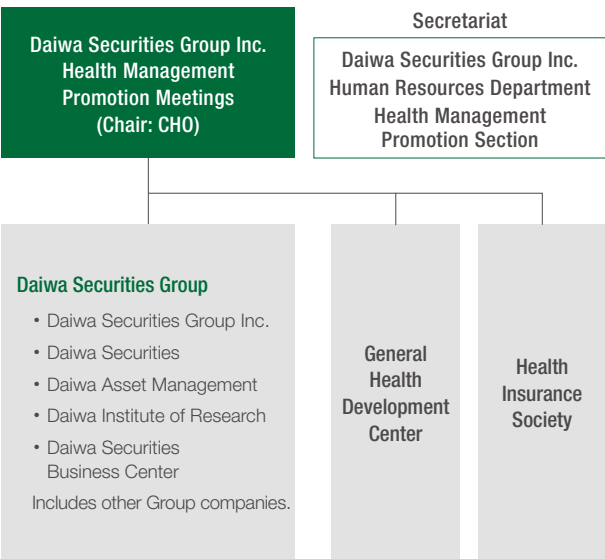
Based on the Corporate Principle that the source of the Group's competitiveness lies in the capabilities of its employees, the Group is strategically promoting health management with the aim of enhancing productivity through improved employee wellbeing and continuing to achieve high performance as an organization into the future.



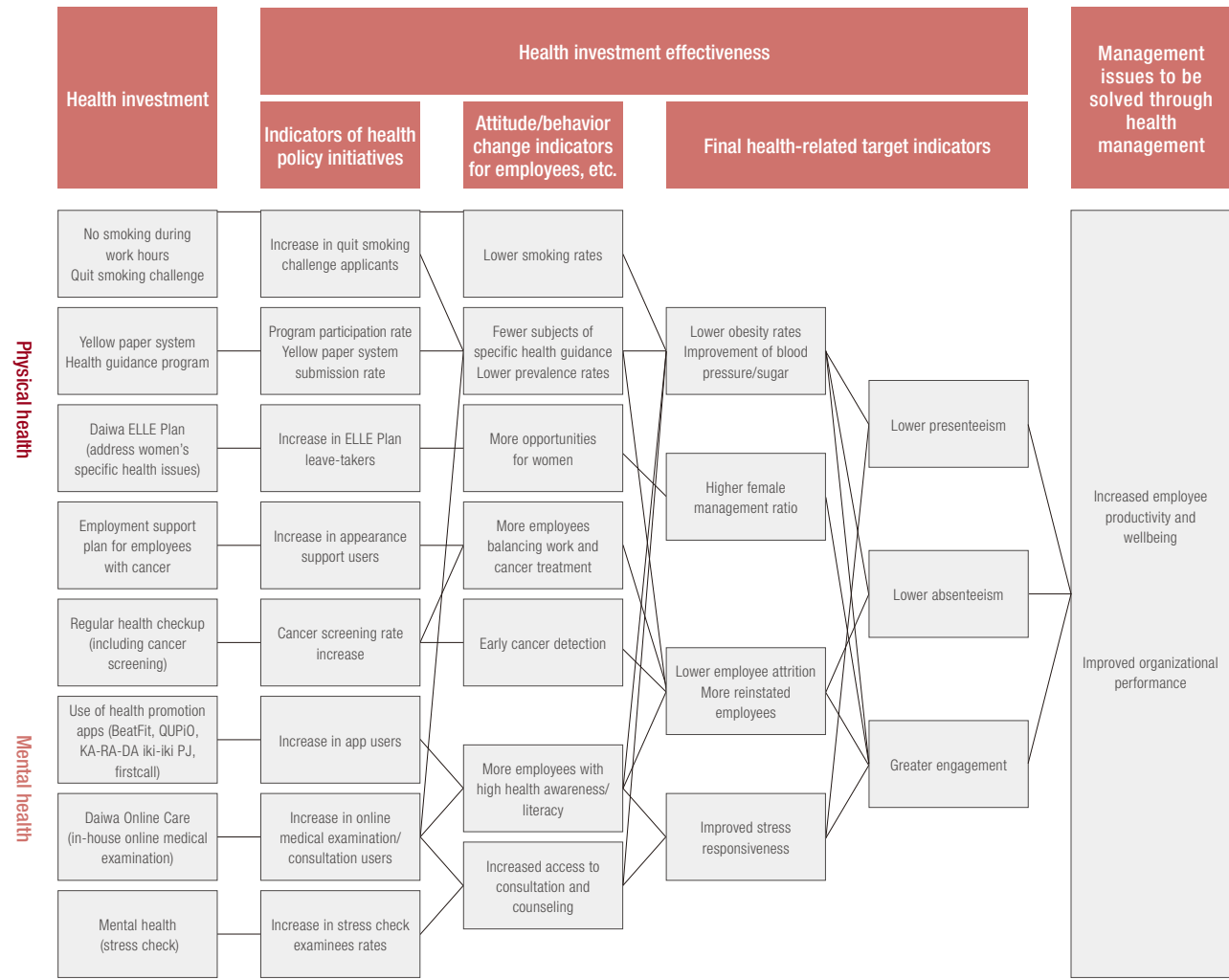
Health management promotion system

We have appointed the Head of Human Resources as Chief Health Officer (CHO), and Group company executives are also actively involved in promoting health management. Every year, we prepare a White Book on Health that analyzes the health status of all Group executives and employees and hold a quarterly Group-wide Health Management Promotion Meeting hosted by the CHO to raise awareness of issues and evaluate/improve initiatives, and implement the PDCA cycle for health management.

In addition, the Human Resources Department, the General Health Development Center (medical office), and the Health Insurance Society are working closely together as a three-part system to implement initiatives. These three organizations cooperate to plan and disseminate information on health policies, as well as exchange opinions on a daily basis to enhance effectiveness.



Health management strategy map



Targets

The following indicators are used to improve productivity through health management.

Indicators	Target	FY2021 data
Presenteeism loss percentage*1	Less than 10.0% by FY2030	15.2%
Absenteeism average*2	3.0 days or less by FY2030	3.4 days

*1 A condition in which a person goes to work with some illness or symptom that reduces his or her ability to perform work and productivity. Calculated by conducting a questionnaire that evaluates one's own work for the past four weeks, taking as 100% the work performance that can be demonstrated in the absence of illness or injury. The smaller the number, the higher the productivity.

*2 Employees taking sick leave. Calculated by conducting a questionnaire that asks how many days one has missed from work due to one's own illness in the past year. The fewer the number of days, the higher the productivity.

Initiatives

Addressing 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 (**Daiwa ELLE Plan**). Through these efforts, the Group hopes to help women remain healthy and to continue to work actively and energetically. As a result, these efforts have been shown in increased productivity, reduced turnover due to infertility treatment, and more women in management positions.

Supporting a balance between work and cancer treatment

The Group introduced an **employment support plan for employees with cancer** as a means of 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.

Provide online medical care

We introduced **Daiwa Online Care** in 2020 to enable employees nationwide to access medical offices online. In addition to medical examinations and drug prescriptions, this service provides mental health counselling, with 973 consultation appointments made in FY2021, an increase of 1.6 times compared to FY2020.

Initiatives to support mental health

The growing number of people with poor mental health has become a serious issue in Japanese society. In 2019, we expanded the system to support mental health, providing highly specialized counseling through close cooperation between occupational physicians, psychiatrists, and clinical psychologists. We also provide **mindfulness training** for new employees to prevent mental illness and help them recover quickly after an illness.

FY2021 Highlights

No smoking during work hours / quit smoking challenge

Starting in January 2022, smoking is prohibited during working hours and smoking rooms at all offices have been eliminated. In conjunction with this, we have introduced a system to assist with the costs of using online smoking cessation outpatient clinics or outside medical facilities and purchasing smoking cessation medications. In addition, we are strengthening our existing smoking cessation events by calling it the "quit smoking challenge" to support employees who wish to quit smoking.

Countering the spread of COVID-19

We have pursued measures to maintain the health of employees and their families by facilitating telecommuting, enhancing workplaces by installing temperature check equipment and alcohol disinfectants, and providing workplace vaccinations. In addition, the medical offices and counseling centers regularly provide employees with information on infection prevention and mental health, and we continue our efforts to improve the physical and mental resilience of our employees.

Mindfulness training

It is generally believed that employees in their first or second year are prone to mental disorders due to the stress load in a new environment. We therefore introduced mindfulness training for employees hired in FY2021. In cooperation with the Keio Center for Stress Research, we provide training using content customized for the Group, with 500 employees (including FY2022) participating so far.

Diversity & Inclusion (Human Capital)

Diversity enhances a company

In a rapidly changing world, companies need to be resilient, flexible and responsive to change in order to continue to grow sustainably. When employees with diverse backgrounds and values come together, chemical reactions occur that can create new value.

Diverse organizations are more resilient while simultaneously creating innovation. The Group believes that the strength of a company lies in its ability to recognize diverse personalities and to create an environment in which everyone can flourish.

Encouraging women to succeed

Women are key for achieving diversity, and the Group has long been working on measures to enable women to play an active role. In order to produce female leaders who will drive the Japanese financial industry, we will actively promote female employees

by providing support with various systems and measures that go beyond the statutory requirements to create an environment where they can continue to work actively even after life events such as marriage and childbirth.

Status of female executives

In order to transform an organization, it is not only necessary to have diversity, but also to have diverse people participating in decision-making and have them form a critical mass* (decisive majority) to become influential decision-makers. Daiwa Securities Group Inc. has appointed five female directors/corporate executive officers, and 13 female directors/corporate executive officers/executive officers/audit and supervisory board members Group-wide, bringing a more diverse perspective to Group management.

* The theory that more than 30% of an organization's composition becomes influential in decision making.

Status of female managers

Roughly 20% of branch managers and two overseas base managers are women, demonstrating the increasing advancement of women. By increasing the number of role models, we are making it easier for the Group's female staff to envision their career path. In this context, there has been a sharp increase in female employees aspiring to advance their careers by switching to career-track, broad regional career-track, and regional career-track positions in recent years. Against this backdrop, the number of women in management positions has increased every year, totaling 835 for the Group as of June 30, 2022. The ratio of women in management positions has risen from 2.2% (at the end of FY2004) to 16.6% for the Group, and from 2.3% to 19.7% for Daiwa Securities.

Creating an inclusive environment for everyone to succeed

At DCME, we aspire to build a society where people can lead longer, better lives. To achieve this, it is essential that we create a diverse and inclusive culture so that everyone can bring their true and authentic selves to work each day. We encourage diverse viewpoints to be included in our decision making and operations, so we can create long-term financial value for our clients whilst making a positive impact on society.

Our policies are carefully designed to provide a foundation that embraces colleagues for their individuality, including (but not limited to) gender, family, sexual orientation, ethnicity, race and religion.

Fairness and Integrity form part of our core values, and we strive to ensure that all of our employees feel safe and respected by creating an inclusive environment for everyone to succeed. In so doing, I truly believe that we will bring out the best in each and every one of us.



Megan McDonald
CEO
Daiwa Capital Markets Europe Limited

Initiatives

Work-Life Balance (WLB) Committee

We established the Work-Life Balance Promotion Committee (currently WLB Committee) in 2008. Over the following 14 years, top management has taken the lead in promoting women's activities and dramatically improving productivity under stronger leadership. Staff from various positions and departments, from managers to young employees, participate as advisors, helping to introduce various systems and create an environment in which individuals can better demonstrate their performance.

Career training programs for women

We conduct the Daiwa Woman's Forum, a career training program for women in pre-managerial positions. Approximately 1,090 people have participated in the program, of whom about 30% have subsequently been promoted to management positions. Since 2018, we have also conducted the Daiwa Woman's Management Forum, a training program for managers to develop employees with more ambitious career goals. Moreover, management presentations by participants have been introduced as a part of the training.

Systems for supporting balance

To help employees balance work and childcare/nursing care, we are working to reduce their burden by expanding various balance support systems, such as leave and vacation programs, babysitting and housekeeping services, and allowances for returning home to take care of family members. Beyond introducing this system, we also verify how it is actually being used and work to improve it by incorporating employee feedback.

Support for employees on childcare leave

Employees on childcare leave are also eligible for promotion based on their performance before going on leave. More than 100 employees have been promoted while on parental leave from 2013 to 2021, making the balance between career advancement and childcare pervasive. In addition, employees on childcare leave have been able to participate in online elective training programs since FY2021, enabling them to continue to improve their skills.

Work-Life Balance Committee



Baby Salon

Located in the training center, children can be left with us during training periods.



Career training for women



Comments from trainees

When I heard stories of people who have steadily built up their careers and have become line and branch managers after having children, I thought, "if I work hard, I might be able to further develop my career!"

I'm still getting used to changing jobs and being married, so there are usually few opportunities to ask for advice. However, meeting and talking with people in similar situations and sharing our concerns has helped me to feel more positive and motivated about work.

Diversity & Inclusion (Human Capital)

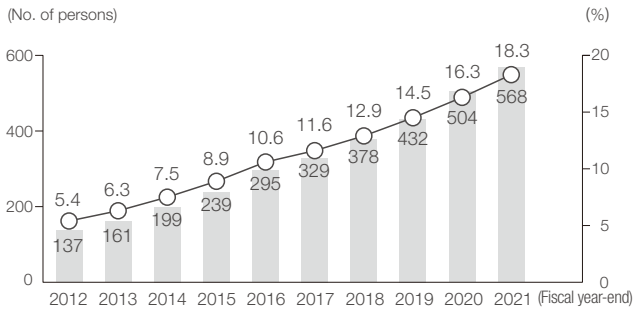
Group company numerical targets for female advancement

Company	Target (until FY2025)	Results
Daiwa Securities	1) Ratio of women in management positions of 25% or higher, with a goal of 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	See graphs below
Daiwa Asset Management	1) Ratio of women in management positions at 16% or higher , more than double the FY2020 level 2) Ratio of women hired among new graduates steady at 50% 3) Ratio of male employees taking childcare leave remains at 100%; the number of leave days at 14 days or higher	1) 12.5% (June 2022) 2) 53.8% (April 2022) 3) 100%; average leave days 25.9 days
Daiwa Institute of Research	1) Ratio of female employees remains at over 30% 2) Annual leave usage rate at over 70% for all employees, including managers 3) To encourage male employees to participate in childcare; continuously aim for a 100% childcare leave usage rate and at 14 days or more taken	1) 33.0% (April 2022) 2) 78.4% 3) 100%; average leave days 19.8 days
Daiwa Securities Business Center	1) Ratio of women in management positions at 25% or higher 2) 100% male childcare leave usage rate, 14 days or more taken	1) 20.4% (June 2022) 2) 100%; over 14 days taken for all employees
Daiwa Facilities	1) Annual leave usage rate at over 70% for all employees, including managers 2) 100% male childcare leave usage rate, 14 days or more taken	1) 79.1% 2) No men whose spouses gave birth in FY2021
Daiwa Real Estate Asset Management	Achieve at least the same rate of discrepancy in average years of service between men and women (average years of service for women divided by average years of service for men)	0.91
Retela Crea Securities	Ratio of women in management positions at 15% or higher	9.0% (June 2022)

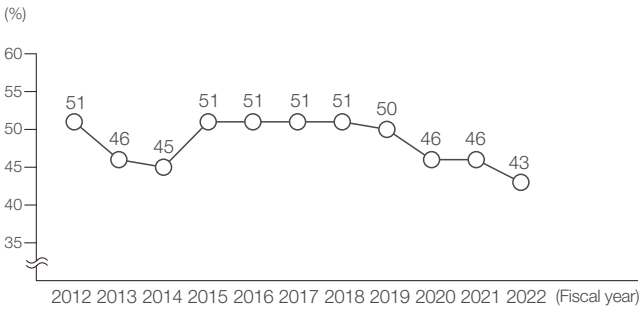
Notes: 1. Daiwa Facilities and Daiwa Real Estate Asset Management targets through end-FY2026.
2. Results are FY2021 data unless otherwise noted.

Daiwa Securities results

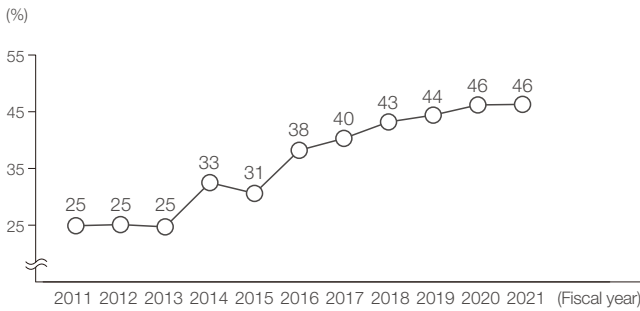
1 Ratio of women in management positions



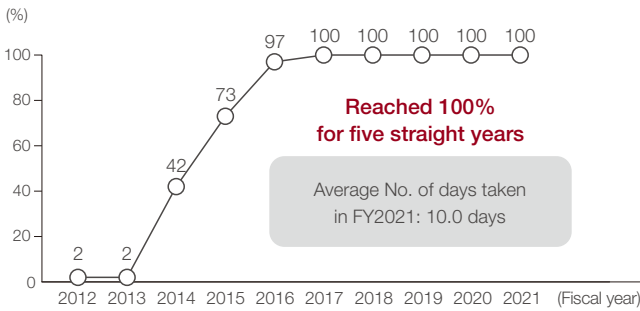
2 Ratio of new female graduates recruited



3 Ratio of women among participants in training



4 Ratio of male employees who took childcare leave



Aggressive mid-career hiring

The Group has been expanding new businesses that differ from the securities business and has employed outside specialists who can immediately contribute to the creation, expansion, and development of new businesses. In FY2022, we target 200 new mid-career hires based on our conviction that diversity will lead to growth. Not limiting ourselves to new business, we will actively acquire a wide range of external personnel Group-wide in Japan. We will also create an environment

in which recruits can settle in and play an active role as soon as possible by introducing onboarding and other measures.

We are actively promoting mid-career hires to management positions, and the percentage of mid-career employees in management positions at Daiwa Securities and subsidiaries engaged in hybrid business exceeded 10% as of March 31, 2022.

Human resources systems that encourage pursuing what you want to be

I joined Daiwa Securities mid-career as a Financial Advisor (FA) after working for other financial institutions. I admire the senior employees who guided me, and after following a regional career-track, I moved to a career-track position, where I remain to this day.

Looking back on my life at Daiwa Securities so far, as my vision for the future has changed through various experiences and life events, I have been greatly helped by a human resources system that allows me to pursue what I want to be and a corporate culture that fosters excellent teamwork by mutually recognizing the experience and abilities each person has cultivated.

Going forward, I would like to lead the way in creating an organization that understands and respects the diverse values of all employees and enables them to play an active role.



Akio Ogura

General Manager
Hachioji Branch
Daiwa Securities

Global recruitment

The Group has offices in 24 countries and regions worldwide and actively recruits locally overseas. The number of employees hired overseas* has been increasing every year, and as of March 31, 2022 accounted for 12.4% of all Group employees. In addition, the ratio of management positions in Japan

and overseas held by managers hired overseas has reached 13.0%.

In Japan, the same human resources systems and treatment are applied regardless of nationality or origin, and employees of diverse nationalities play an active role in various fields.

* Consolidated subsidiaries in Japan and overseas

Individuality, abilities, ideas shown by international employees

I majored in commerce/business administration at university and graduate school. After joining Daiwa Securities, I worked in retail sales for two years and am currently involved in IPO/PO deal execution in the Equity Capital Markets Department.

International employees play an active role in Daiwa Securities. I realize that the individuality, abilities, and ideas that each of us brings to our work helps expand the customer base, increases our presence, and generates new ideas. This too leads to job satisfaction and fills me with confidence and pride as an employee of the Daiwa Securities Group.

Taking the initiative as an employee with a global background, I strive to improve myself to provide high added value to the company and customers in an organization that respects diversity.



Lin Chen

Assistant Manager
Equity Capital Markets Department
Daiwa Securities

100 years of life

Taking on the
New Challenge
of Solving Customer Issues

In the age of 100-year lifespans, the need for more sophisticated wealth management, asset inheritance, and asset management to prepare for a fulfilling retirement is increasing. Through a comprehensive lineup of products and services along with sophisticated consulting services, Daiwa Securities Group will take on the new challenge of solving customer issues with the goal of improving customer satisfaction and creating a funding cycle that realizes greater economic and social prosperity.



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

	KPIs	FY2021 Results
Number of CFPs and CMAs	3,000 personnel or more	2,830 personnel
Retail Division asset-based revenue ratio	50% or higher*	(4Q) 46.1%
Daiwa Securities Assets under Custody (AUC)	¥90 trillion or more	¥75.1 trillion

* 4Q, FY2023

Retail business with great potential

Japan has an aging population, with 63% of the more than ¥2,000 trillion in household financial assets held by individuals aged 60 and over. The following graphic shows the trend in household financial assets for the present, as well as our forecasts for 10 and 20 years out, divided into five-year age brackets. The ratio of assets held by individuals aged 60 and over will increase to 65% in 10 years and 70% in 20 years. The transaction situation of Daiwa Securities’ customers also indicates that over the past 20 years the share held by those in their 60s and 70s has been overwhelmingly high, while there will be almost no change in this trend.

The needs of older age groups go beyond asset management to include asset preservation, inheritance, and business succession. Daiwa Securities has located Inheritance Consultants*1 possessing specialized knowledge in inheritance at every branch, and has also worked to place full-time Anshin Planners*2 responsible

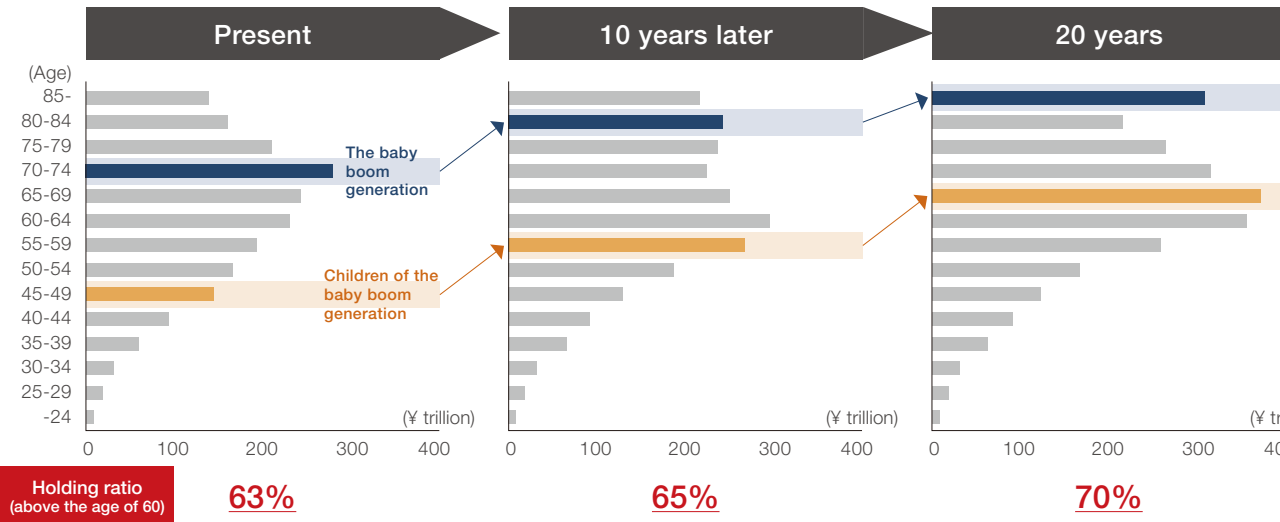
for elderly customers at branches.

Going forward, as Japan makes a full-fledged shift from savings to asset formation, there will be room for expansion in the securities business, whether face-to-face or online. Moreover, in Japan, where the bulk of financial assets are concentrated among wealthy older people, in addition to the consulting services focused on securities transactions that we have provided thus far, going forward we see vast potential in comprehensive wealth management consulting services and solution businesses such as inheritance, business succession, and real estate transactions.

Therefore, there is an expanding range of tremendous business opportunities for the Group’s retail business, which excels in face-to-face consulting.

*1 Professional staff with more advanced and specialized knowledge of inheritance and gifting, selected from CFP qualification holders, etc.
*2 Specialists in working with elderly clients, and the provision of comprehensive consulting that include services tailored to their needs.

Long-term forecast of household financial assets



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

Long-term projections of household financial assets reveal issues for financial institutions

In Japan’s super-aged society, household financial assets have been unevenly distributed among the elderly. Moreover, the proportion of household financial assets held by older members of the elderly population is expected to increase as baby boomers—who comprise a significant portion of the population—become late-stage elderly. Financial institutions have seen a greater necessity to respond to dementia and are increasingly being required to meet the diverse needs of the elderly through wealth management, asset succession support, and non-financial services tailored to each customer. In addition, financial assets unevenly distributed among the elderly will eventually be transferred to the next generation, thus making early contact with next-generation customers a key issue for financial institutions.



Tsubasa Fujiwara
Assistant Manager
Financial and Capital Market
Research Department
Daiwa Institute of Research

100 years of life

Progress in the wealth management business model

Many financial institutions are entering the wealth management business. Making a shift in business models in a short period of time is no easy task.

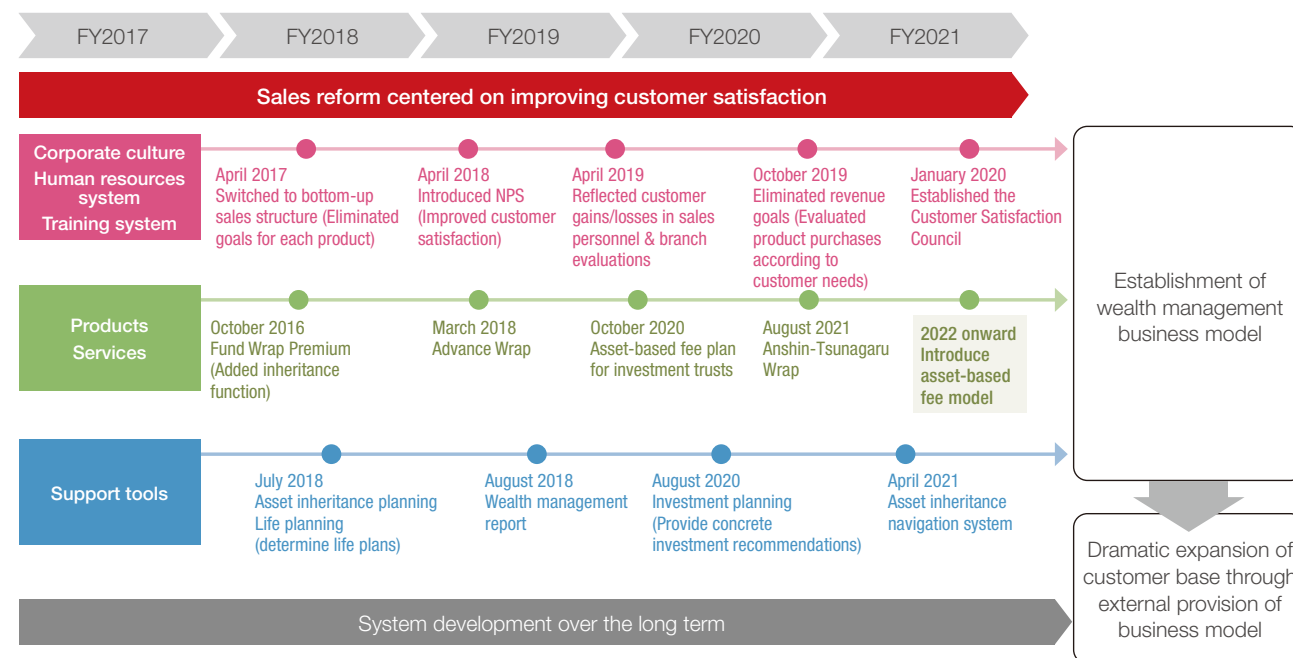
The wealth management business model involves a time-consuming and patient process that requires organically linking many elements such as corporate culture, human resources and training systems, products and services, and the development of support tools.

In 2017, the Group abolished product-specific sales targets and introduced a bottom-up sales structure whereby sales staff determine their own sales targets based on the needs of the customers they interact with.

We introduced NPS in 2018, prompting a shift in sales strategy to one that centers on customer satisfaction, and in 2019 we eliminated revenue goals, with human resources evaluations hinging solely on product proposals that reflect customer needs. Consistently implementing this long-term strategy regardless of the environment is steadily transforming the Group's sales structure, the results of which can be seen in sales figures.

The establishment of the wealth management business model will enable the Group to offer its expertise, products and services, and systems to external collaborators as a financial platformer. The Group will strive to expand its customer base inorganically.

Past initiatives aimed at establishing a wealth management business model



Improving the Daiwa version of NPS to increase transactions and expand the customer base

The Group has adopted NPS as a customer satisfaction index. NPS is an index that measures the degree to which people are willing to recommend a certain product or service to their family and acquaintances, and it is said to be correlated with performance. In fact, comparing Daiwa Securities performance from FY2019 to

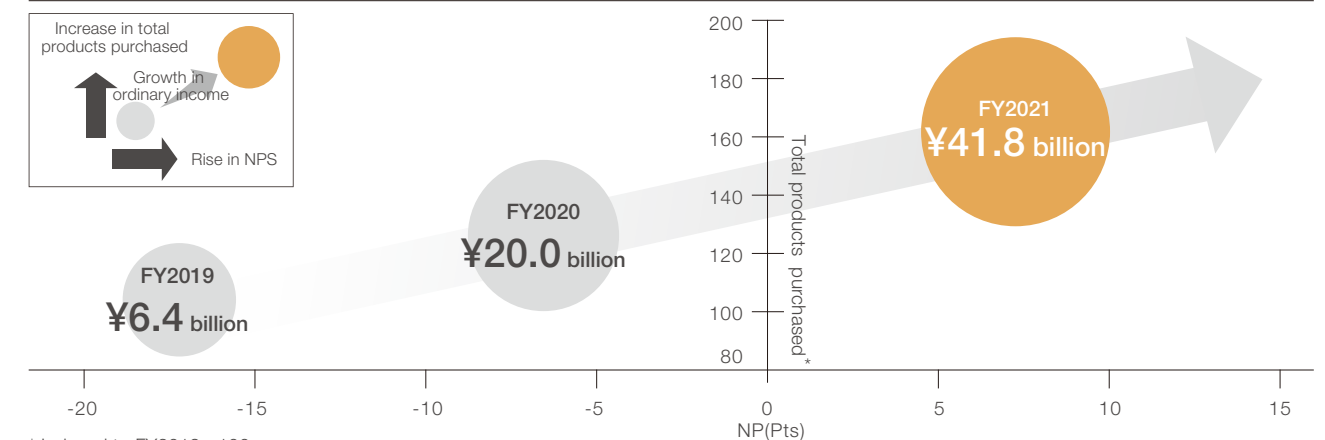
FY2021 shows that product purchases and ordinary income tended to rise as NPS improved.

In addition, the ratio of referrals from existing customers to the total number of new accounts opened has increased as NPS has improved. When customers refer family members and friends, the prerequisites are

customer satisfaction regarding Daiwa Securities' services and the building of strong relationships of trust. Moreover, it is assumed that both the person being referred and the person receiving the referral trust each other enough to discuss their valuable assets, and this is

why we are able to expand our high-quality customer base through referrals. We will continue working to improve NPS to maintain the virtuous cycle of transaction growth and customer base expansion.

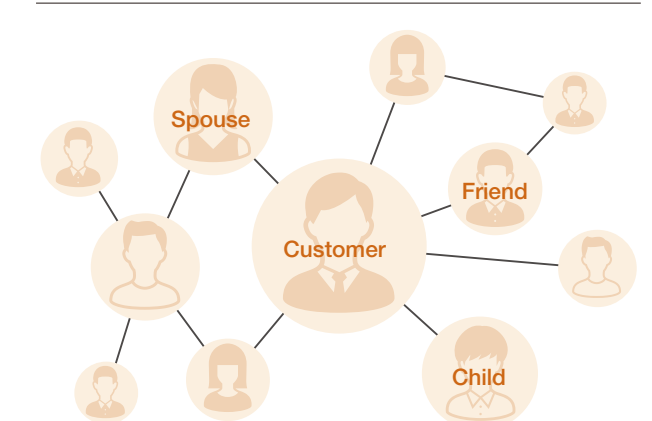
Relationship between NPS and products purchased/ordinary income



Percentage of newly introduced customers*



Customer base expansion through referrals



Contribute to higher customer satisfaction by providing solutions from an overall perspective

Daiwa Securities not only serves as a partner to its customers in the age of 100-year lifespans, but also helps them pass the baton to the next generation and beyond. In particular, Inheritance Consultants listen to and help resolve concerns about inheritances, business succession, real estate, and taxes, other than asset management.

On the other hand, some customers are unaware of their own issues. Consequently, we work to improve customer satisfaction by identifying issues together with them through the visualization of total assets and providing optimal solutions ranging from the partial to overall aspects of asset management.

In addition, we strive daily to brush up our listening skills and knowledge from the customer's point of view in order to gain their trust in our role as consultants.



Tomoko Kawauchi
Director
Ikebukuro Branch
Daiwa Securities
(Inheritance Consultant)

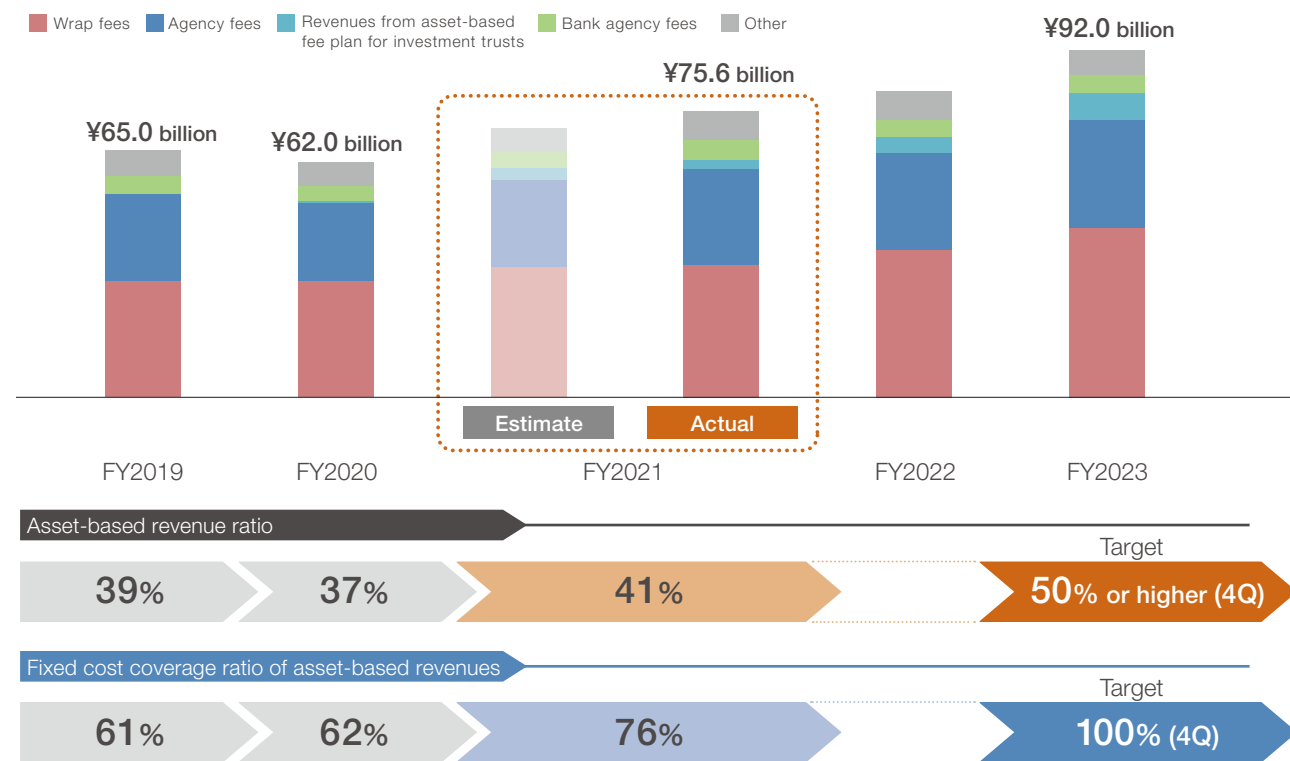
100 years of life

Expansion of asset-based revenue and stock-related AUM

By shifting to the wealth management business model, the Group is working to expand asset-based revenues, which are linked to assets that include investment trusts, wrap account services, and foreign currency deposits. We target a rise in the ratio of asset-based revenue from the current 41% to 50% or higher of the Retail Division's net operating revenues in the fourth quarter of FY2023, the final year of the Medium-Term Management Plan, building up wrap account services, investment trusts AUC, and foreign currency deposit AUM to ¥3.8 trillion, ¥1 trillion, and ¥620 billion, respectively, by the end of FY2023.

In light of current sales conditions and future market expectations, we revise asset assumptions as necessary. For example, in early FY2022 we raised our assumption for wrap account AUM from when the Medium-Term Management Plan was announced but lowered it for asset-based fee plan for investment trusts AUC and foreign currency deposit AUM. We estimate that asset-based revenue will cover 100% of the fixed costs of the Retail Division if we can achieve each of the asset assumptions in the fourth quarter of FY2023. We therefore aim to build a more stable earnings foundation.

Forecast expansion of asset-based revenues



Financial platformer

The Group is pursuing an open architecture strategy whereby it provides its expertise in the wealth management business model to outside companies and develops businesses by collaborating with them. In keeping with current trends, our strategy is to generate revenue by collaborating with outside companies that have strong customer bases and unique knowledge/expertise, and

then sharing this revenue with outside companies. We expect to dramatically expand our customer base by strengthening our approach to customer segments that have been difficult for the Group to reach on its own.

Through collaboration between Daiwa Securities Group and Japan Post Group, we started handling fund wrap services at Japan Post Bank on May 9, 2022 (▶P70).

As for supporting financial product brokerage services with Shinkin Central Bank, Daiwa Securities has helped several credit unions enter into face-to-face financial product brokerage services, launching on May 23 Shinkin Fund Wrap developed by Daiwa Securities in cooperation

with Shinkin Central Bank and offered by The Tama Shinkin Bank.

We will continue to actively pursue alliances with companies that have strong customer bases.

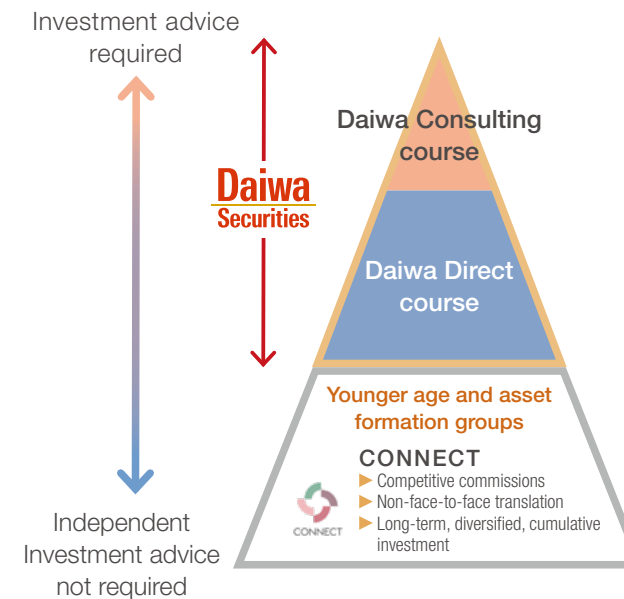
CONNECT initiatives

To further strengthen the Group's customer base, CONNECT was launched in July 2020 with the primary mission being to make connections with new customers and contribute to the expansion of the investor base.

We are currently expanding our services mainly targeting investment novices and young adults while working with various external companies to expand

our customer base in order to provide new financial services to digitally native customers. Looking ahead, if consulting needs arise among CONNECT customers in areas such as inheritance and retirement benefits, we will support long-term asset building with a view to providing such services developed in cooperation with Daiwa Securities.

Positioning of CONNECT



Expansion of customer base

Oct. 2020	Continue	Financial product brokerage services with Credit Saison , which has approx. 36 million members*, including group companies, who are mainly asset builders	CREDIT SAISON
* As of the end of March 2022			
Sep. 2021	Steady expansion	Collaboration with MUFG Bank on asset-building business	MUFG Bank, Ltd.
Apr. 2022	Steady expansion	Provided Point service with NTT DOCOMO	dPOINT
Apr. 2022	Steady expansion	Provided asset-building service with The Bank of Kyoto	Bank of Kyoto

Aim to provide services that are easy to start and continue

CONNECT aims to become the smartphone-only brokerage firm of choice for young and inexperienced investment customers. When designing services, I consider how the customer feels behind the screen from a life-size, customer-oriented perspective. We consider new services with the desire to make it easier for people who are just beginning to invest to start and continue investing. We have a real sense that we have the support of our customers, by knowing we are ranked No. 1 in overall satisfaction in a survey conducted by an external organization.

As the name CONNECT suggests, by flexibly connecting with various external companies and creating new value, we work hard every day to deliver value to our customers, with whom it had previously been difficult for the Group to do business with in the past.



Yukina Abe
Associate Director
Corporate Planning Department
CONNECT

Strengthen research capabilities

Daiwa Securities Group has been strengthening its research capabilities to provide products and services that meet customer needs. As a result, Daiwa Securities was ranked 1st place in the Nikkei Veritas analyst rankings (equity) in 2022 for a fourth consecutive year. In addition, the Institutional Investor All-Japan Research Team also ranked the Company No. 1 for a third consecutive year.

The Group's Research Division is one of the most traditional equity research institutions in Japan and has consistently maintained a fundamentals-oriented analytical stance. In addition, it was one of the first in the industry

to focus on ESG research and is working to provide research information on individual sectors and stocks from a more multifaceted perspective.

We will continue to refine our in-depth analysis from a long-term perspective and further enhance our quality from a customer-first perspective, while never forgetting the weight of tradition and our enterprising spirit.

Nikkei Veritas Analyst Ranking 2022 (stock category)	1st place for 4 consecutive years
2022 Institutional Investor All-Japan Research Team	1st place for 3 consecutive years

Analysts voted top in the sector of coverage

Electronics / Components			
	Takumi Sado	Nikkei Veritas Institutional Investor	1st (14 consecutive years) 1st (Two consecutive years)
Autos			
	Eiji Hakomori	Nikkei Veritas Institutional Investor	1st (Six consecutive years) 1st (Three consecutive years)
Auto Parts			
	Shiro Sakamaki	Nikkei Veritas Institutional Investor	1st (Four consecutive years) 1st (Four consecutive years)
Biotechnology & Pharmaceuticals			
	Kazuaki Hashiguchi	Nikkei Veritas Institutional Investor	1st (Four consecutive years) 3rd
Technical Materials			
	Noritsugu Hirakawa	Nikkei Veritas Institutional Investor	2nd 1st (First time)
Machinery			
	Hirosuke Tai	Nikkei Veritas Institutional Investor	1st (Two consecutive years) 1st (Three consecutive years)
Beverages, Food & Tobacco			
	Makoto Morita	Nikkei Veritas Institutional Investor	1st (Two consecutive years) 3rd
Construction, Housing & Real Estate			
	Hideaki Teraoka	Nikkei Veritas Institutional Investor	1st (Three consecutive years) 1st

Energy & Utilities			
	Syusaku Nishikawa	Nikkei Veritas Institutional Investor	1st (Two consecutive years) 1st (First time)
Telecommunications			
	Yoshio Ando	Nikkei Veritas Institutional Investor	2nd 1st (Three consecutive years)
Broadcasting & Media			
	Taro Ishihara	Nikkei Veritas Institutional Investor	1st (Two consecutive years) 1st (Two consecutive years)
IT & Software			
	Makoto Ueno	Nikkei Veritas Institutional Investor	1st (Two consecutive years) 2nd
OTC & Small Companies			
	Satoru Sekine	Nikkei Veritas Institutional Investor	1st (First time) 1st (First time)
ESG Research			
	Naoki Ieiri	Institutional Investor	1st (First time)
Thematic Research			
	Eiji Kinouchi	Nikkei Veritas Institutional Investor	1st (Three consecutive years) 1st (First time)

Message from the Head of Retail



Shinsuke Niizuma
Deputy President
Head of Retail
Daiwa Securities Group Inc.

We are establishing in earnest a customer-oriented wealth management business model in this time of drastic change. Devoid of any short cuts, we envisage a series of reforms beginning with NPS.

Undeterred by changes in the environment, the Group's Retail Division has taken decisive action to reform sales in an effort to improve customer satisfaction.

In FY2017, we shifted to a bottom-up sales structure centered on the sales branches closest to customers. We then introduced NPS as an index to measure the status of realizing customer-oriented operations in FY2018 and have worked diligently to put in place a system to continuously improve sales quality.

In FY2019, we established a system that considers customer profits first, such as by reflecting customer investment performance (customer gain and loss) within the sales personnel and branch evaluation system.

Putting forward optimal portfolio proposals to our customers, we introduced investment planning that employs a similar service used by advanced global institutional investors, and an asset-based fee plan for investment trusts that allows customers to pay an assets under management fee according to the daily balance in exchange for the upfront fee as a new purchase option for investment trusts in FY2020.

In FY2021, we introduced Anshin-Tsunagaru Wrap, a new wrap account service that specializes in asset preservation and asset succession support, including inter vivos gifts and inheritance measures, so that elderly customers can entrust their valuable assets with peace of mind.

Through these initiatives, asset-based revenues in FY2021 grew to ¥75.6 billion, up ¥13.6 billion, or 22%, compared with the previous fiscal year. We are working steadily toward establishing a wealth management business model in pursuit of our customers' best interests.

Amid the further aging of Japan's population, the vast bulk of domestic individual financial assets totaling ¥2,000 trillion are held by elderly people. Over 50% of individual financial assets still lie dormant in the form of cash and deposits, which suggests that the wealth management business has significant potential.

Rather than remain content with the status quo, each and every one of the Group's employees is committed to earnestly carrying out reforms with a strong customer mindset and high aspirations. Looking further ahead, we remain confident in our ability to establish a wealth management business model.

Daiwa Securities Group celebrated its 120th anniversary on May 1, 2022. In reaching this milestone, I would like to express my sincere appreciation to all stakeholders including customers, shareholders, local communities, and business partners for their support.

I believe that the Group's mission is to contribute to customers' asset formation and preservation, revitalization of the local economy, and sustainable development in concert with all stakeholders.

At Daiwa Securities, we will continue to evolve in an effort to realize a better future for everyone.

Japan Post Bank

Starts Handling Fund Wraps

JAPAN POST BANK

Daiwa
Securities

In May 2019, Daiwa Securities Group reached an agreement with Japan Post Group to consider collaborating in the field of asset formation. The Japan Post Group—which has the largest customer base in Japan—and Daiwa Securities Group—which has a 15-year history and track record in the discretionary investment business—will work together to accelerate the shift from savings to asset formation.

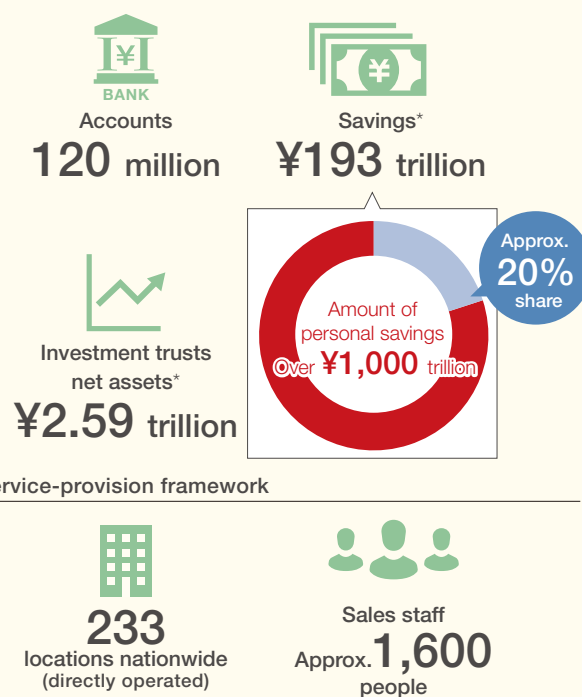
Synergy between Daiwa Securities Group and Japan Post Bank

Japan Post Bank is the largest financial institution in Japan with a personal deposit balance equal to the combined balance of the three major city banks. It also has an extensive branch network and a large number of sales representatives, thus providing an overwhelming advantage in access to individual customers on a nationwide scale.

Daiwa Securities Group offers a number of product lines in its discretionary investment services and is continually expanding various features to meet the needs of its clients, both in-person and remotely. In addition, the Group has accumulated expertise and specialized human resources related to discretionary investment services and the wealth management business.

Through this tie-up, Japan Post Bank will be able to provide more personalized life planning consulting services to each of its customers through its face-to-face channels, while Daiwa Securities Group expects a dramatic expansion of its customer base.

Japan Post Bank's strong customer base (as of the end of March 2022)



* Including a number of companies

The Yucho Fund Wrap service launched

Since agreeing to work together, Japan Post Bank and the Group have been working to develop new consulting services that meet the lifestyle needs of individual customers. In May 2022, Japan Post Bank started offering the Yucho Fund Wrap, a service that aims to provide the most suitable portfolio based on the customer's own ideas about asset management and reflecting life plans and household financial changes.

Customers of Japan Post Bank range from the

young to the elderly, and prior surveys have suggested a strong need for asset formation and consulting services. On the other hand, it is also understood that many of them are new to investment. Designed with this in mind, we believe that the service is highly competitive based on its easy-to-understand product features and portfolio offerings tailored to each life stage, as well as in terms of commissions.

Customer feedback after launch



It's good to make decisions on the amount to invest and the target amount to achieve my goals.

I'm happy with the maintenance services and pleased since I prefer friendly consultation.



I'm happy to be able to entrust them with managing my portfolio and that it is easy to understand by visualizing risk/returns and seeing achievement probability.

I feel this is a good service because I want to consolidate my assets and leave the decision making to them.



Daiwa Securities Group support system

Yucho Fund Wrap is handled at 233 directly operated Japan Post Bank locations by Japan Post Bank sales staff. The Yucho Fund Wrap looks poised to make considerable inroads since Japan Post Bank has positioned discretionary investment services as one of the main products in its face-to-face channels for its strong customer base. In addition, Japan Post Bank strategically emphasizes a goal-based approach, considering fund wraps to be a service that best fits its strategy.

Daiwa Securities Group also established a department dedicated to this service in October 2021, and personnel with extensive experience in sales and sales support (seminars for customers, training for sales staff, etc.) will provide support to Japan Post Bank sales staff

nationwide. Moreover, we have a fully developed contact center to handle customer inquiries.

Daiwa Securities' sales support system

Dedicated support divisions

Launched with 40 people at 7 locations nationwide

- Customer seminars
- Sales staff training
- Sales staff support

Contact centers



- Customer support

Message from an employee who supports the Yucho Fund Wrap

Wrap services are a legitimate path to asset management

I have been involved in wrap account services since 2006, before fund wraps were offered. In conducting countless customer interviews, I feel that wrap services, which are able to meet various needs of customers, are a classic approach to asset management and a service that will expand further in Japan as it has in the United States, a frontrunner in asset management. This Spring, we began full-scale support centered on knowledge-enhancement training for sales staff and seminars for customers. As a wrap service specialist with 16 years of experience, I will take this as an opportunity to introduce these services to numerous customers nationwide.

- ◆ No. of customer seminars presented and participants: Over 130/over 5,000 participants (cumulative total)
- ◆ No. of customer interviews: Over 5,000
- ◆ No. of training sessions for sales staff: Over 200



Yoshihito Yoshida

Executive Director
Wealth Accumulation & Investment
Support Department
Daiwa Securities

Innovation

Taking on the New Challenge of Creating New Value

Daiwa Securities Group intends to realize the SDGs by creating a sustainable capital cycle under Vision 2030. We will take on the new challenge of transforming ourselves by promoting innovation that enriches the future of the earth through our financial functions, providing new added value to our customers while accelerating and upgrading our Hybrid Strategy.



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

	KPIs	FY2021 Results
Hybrid-related ordinary income	¥50 billion or more	¥32 billion
Hybrid-related ordinary income ratio	Around 25%	23%
Number of Digital IT Masters	200 personnel or more	34 personnel*

* Certified in July 2022

Dialogue on Innovation I



Yumiko Murakami
Outside Director
Daiwa Securities Group Inc.

Keiko Tashiro
Deputy President
Executive Head of Overseas
Head of SDGs and Think Tank
Daiwa Securities Group Inc.

Using innovation to carry out the mission of Daiwa Securities Group

Since its founding, Daiwa Securities Group has carried out many initiatives that were the first of their kind in Japan. How can we maintain this unique culture? What kind of role will the Group be expected to play going forward? Deputy President Tashiro and Outside Director Murakami, who has a strong global perspective and knowledge, discussed these topics.

▶▶ P114 Directors (Members of the Board)

Nurturing innovation

Murakami: In my work as a venture capitalist, I founded MPower Partners together with other partners. We invest in startups that have the potential to deliver strong growth amid the coming social changes and technological innovations. MPower is not a fund that focuses on specialized areas like deep tech. It is instead a fund that helps entrepreneurs who are committed to using technology to deliver solutions to social challenges.

At MPower, we also make ESG part of our investment process.

I believe that when it comes to driving social impact based on ESG and securing returns on a commercial basis, it does not need to be a case of choosing one or the other. I want to prove that through the success of the fund. It is a daunting challenge. But I do sense a big shift in the mood of companies, investors and consumers with regard to social and environmental issues. I hope that we can use these societal changes as a tailwind as we support innovative companies.

Tashiro: I see innovation as coming not from technology itself,

but rather from thinking about things without being bound by fixed notions. For example, Uber and Airbnb have mobile apps as their point of entry. But those businesses are more about using empty cars and vacant property more efficiently. That conceptual shift was where the innovation was.

Free thinking like that does not arise among groups that have similar experiences and mindsets. You need to bring together people from different backgrounds and sets of experiences and get them talking with each other. The outside directors of Daiwa Securities Group have a wide range of

Innovation

backgrounds and experience. That makes for lively discussions where new ideas emerge.

Murakami: Nurturing innovation is about more than bringing together a variety of members with differences in gender, age, and work experience. What is most important is that we also accept and respect each other's opinions, which are born out of that diversity. I call it "diversity of ideas." Then, after a thorough debate of the pros and cons, something new emerges. If the aim is just to have agreement or consensus-building on the face of things, you don't get the right chemistry. Then there is no point in diversity. In the workplace and in meetings, it is vital to instill this kind of culture and mindset.

At the same time, innovation is also about noticing little things. What people notice varies depending on their experience and background. It is important for companies not to suppress the small seeds of innovation. They should avoid

creating an environment where it is hard for people to put forward ideas. I think that companies that can tap into what their young employees notice, for example, will be able to generate innovative ideas. How do you think Daiwa Securities Group does on this point?

Tashiro: Our Group has for many years had an entrepreneurial culture in which our bosses welcome interesting ideas and projects that young employees have come up with. That is how we have been able to create so many new products and services ahead of other securities firms. For example, in 1986, we were the first in Japan to provide a service for using a personal computer to trade stocks. That service gave us the expertise to develop other online securities services in later years. We also had many other pioneering initiatives, such as our cumulative investment operations.

A system that enables embracing challenges and taking risks

Murakami: Japanese people are said to be risk averse and negative toward new ideas and opinions. But the problem as I see it is that Japan has not developed a social infrastructure for dealing with failure. It is hard to take on innovative challenges in this environment because the stakes are so high if you fail. If you go bankrupt, you might never be able to get a loan

again. Society might label you as a failure. We need institutional reform to enable risk-takers and entrepreneurs to make a comeback if they fail. If society could become more tolerant of failure, the mindset of employees in companies would also change. Like Silicon Valley, we must also create a society and culture where lessons learned from failure are valued.

Tashiro: Failure is the shortest path to success. So if you think about it, what we need is a corporate culture that sees failure in a positive light. The first step for a company to take is to foster an environment where it is alright to fail. Doing nothing should instead be seen as more of a problem. In fact, at our Group, the 360-degree evaluation for managers includes a question about whether the manager encouraged employees to take on new challenges.

Murakami: Daiwa Securities Group is working to build a system for circulating funds under the slogan "From savings to SDGs." I would like to see employees act independently with a client-first mindset. As part of that, each employee should think about a path that links solving a social problem to delivering investor returns.

Promoting the SDGs accelerates social innovation

Tashiro: In terms of the relationship between promoting the SDGs and driving innovation, the big

question is that of what we can do as a financial institution—what can we do, for example, to achieve net zero in greenhouse gases by 2050. Take transition finance. So many aspects of it involve transforming the financial system. You need methods for measuring CO₂ reductions and mechanisms for auditing those. You need to be able to cater to the different natures of stocks and bonds. You have to assess things that have no track record.

Murakami: Although we have a goal of net zero in 2050, no one yet has a full answer as to our path for getting there. Net zero is not achievable with our current systems and technology. There are things that we don't yet have that we will have to create through innovation.

The role of Daiwa Securities Group is to use the abundant, low-return funds available in Japan to drive investment in innovative companies and socially impactful businesses. When it comes to individual investors, our task is to build strong safeguards. We need to make it easier for individual investors to enter fields of investment where they can take risks and expect returns. That means helping them improve their own financial knowledge as well as developing diversified investment products that are risk-hedged. Daiwa Securities Group should use its expertise to take the lead in building a system for that.

We also need innovation in how companies communicate with investors. Organizations such as

the ISSB under IFRS are actively developing unified standards for ESG disclosure. Consistency in information disclosure will make it easier for companies and investors to communicate. It will also give non-experts clear criteria for assessing companies. I hope that Daiwa Securities Group can serve as a facilitator, enabling smooth communication between companies and individual investors. In doing so, I hope that the Group can help Japan to keep up with this global movement.

Tashiro: As we engage with customers, it is important that the Group does not prioritize its own interests. There are already countless green funds and social funds available as investment products. If we simply recommended those products to boost profitability, that could fairly be called greenwashing. The real question is whether financial institutions, large companies, venture companies, institutional investors and individual investors can all foster a shared commitment to protect this planet of ours. That will require investors to take risks. So what we need is radical innovation in terms of the awareness of society as a whole. It is said that Japanese people hate to take risks. But there used to be a time when everyone took risks on real estate. It all comes down to awareness.

Our Group is first and foremost committed to ensuring that all employees understand the importance of the SDGs and view them

as a given. Instead of just recommending trendy investment products, when we face our customers we talk with them as fellow inhabitants of this planet. The biggest advantage of the SDGs is the idea that anyone can take part. I would like for us to encourage more customers to see the SDGs as their own, so that we can be a company that contributes to social innovation.



Innovation

Message from the CIO



Fusing the human resources and cutting-edge digital technologies that comprise the strengths of the Group to create new value

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

The Digital Strategy is the basic policy of the Medium-Term Management Plan

As part of the Medium-Term Management Plan that kicked-off in FY2021, we included “Pursuing the best mix of digital and real” as one of the basic policies. Called the Digital Strategy within the Group, we have broadly divided this policy into two themes as a means of promoting it.

The first is Business Process Digitalization. Starting from the vantage point of our customers, this initiative seeks to apply digital technologies in order to evolve every business process, including expanding points of contact with customers in the front office departments, 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. We are entering an age where business processes and communication are becoming digital, and all manner of information is stored as data. This initiative seeks to discover innovations and raise the speed and quality of decision-making by analyzing, researching, and utilizing this data.

Reforming the environment, human resources, and culture

In working to realize the Digital Strategy, we are advancing specific initiatives in the three areas of environment, human resources, and culture.

The first area is creating an environment. Until now, we have worked to automate and increase the efficiency

of operations by making ongoing IT investments, but the combination of technological innovation and the COVID-19 pandemic has accelerated the digitalization of society and the economy. We will therefore advance several projects intended to raise the level of our IT infrastructure in step with the coming era, namely CRM systems that more effectively support the consulting activities of sales personnel and platforms for storing and analyzing all manner of data (data lake).

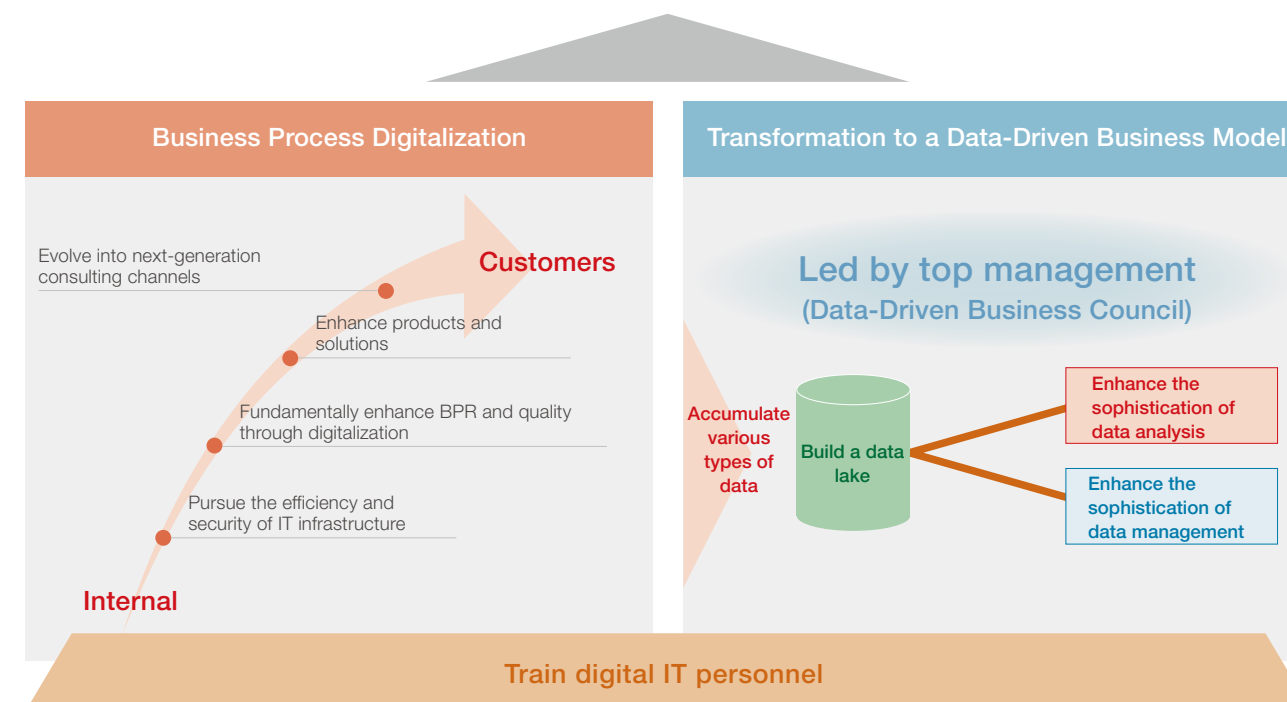
The next area is human resources. This more sophisticated environment will only generate significant value when employees can fully take advantage of it. We are therefore working to develop digital IT personnel, for example by launching the Digital IT Master certification system for developing advanced digital IT personnel and the Daiwa Digital College for enhancing the IT skill level of all employees.

The final area is culture. The leadership of the management class and collaboration that exceeds barriers between departments are essential when aiming to drive innovation by utilizing these enhanced environments and human resources. We are therefore working to foster a corporate culture that promotes DX throughout the entire Group, for example by establishing the new Data-Driven Business Council, chaired by the CEO and attended by executive officers from each business division, and by expanding digital mindset training for the management class. While receiving the support of an internal specialist group (CoE*), frontline employees will employ data and cutting-edge digital technologies to solve issues, thereby creating new value.

* Center of Excellence: An organization that functions to support business departments by accumulating knowledge and know-how associated with data and digital technologies.

Digital Strategy: Pursuing the best mix of digital and real

Enhance the top line and increase the sophistication and efficiency of business



Training of digital IT personnel

As society becomes increasingly digitalized, the Group is working to develop digital IT personnel in order to transform into an enterprise that can provide sophisticated customer services and continuously develop innovative services.

In FY2019, we have established a new Digital IT Master certification system to foster personnel who will be responsible for promoting business transformation utilizing advanced digital technology. This system is intended to foster DX Planning staff who can respond promptly and smoothly to initiatives from project planning to implementation and AI and Data Science staff who can promote data analysis quickly and reliably. We aim to train 200 or more people by the end of FY2023.

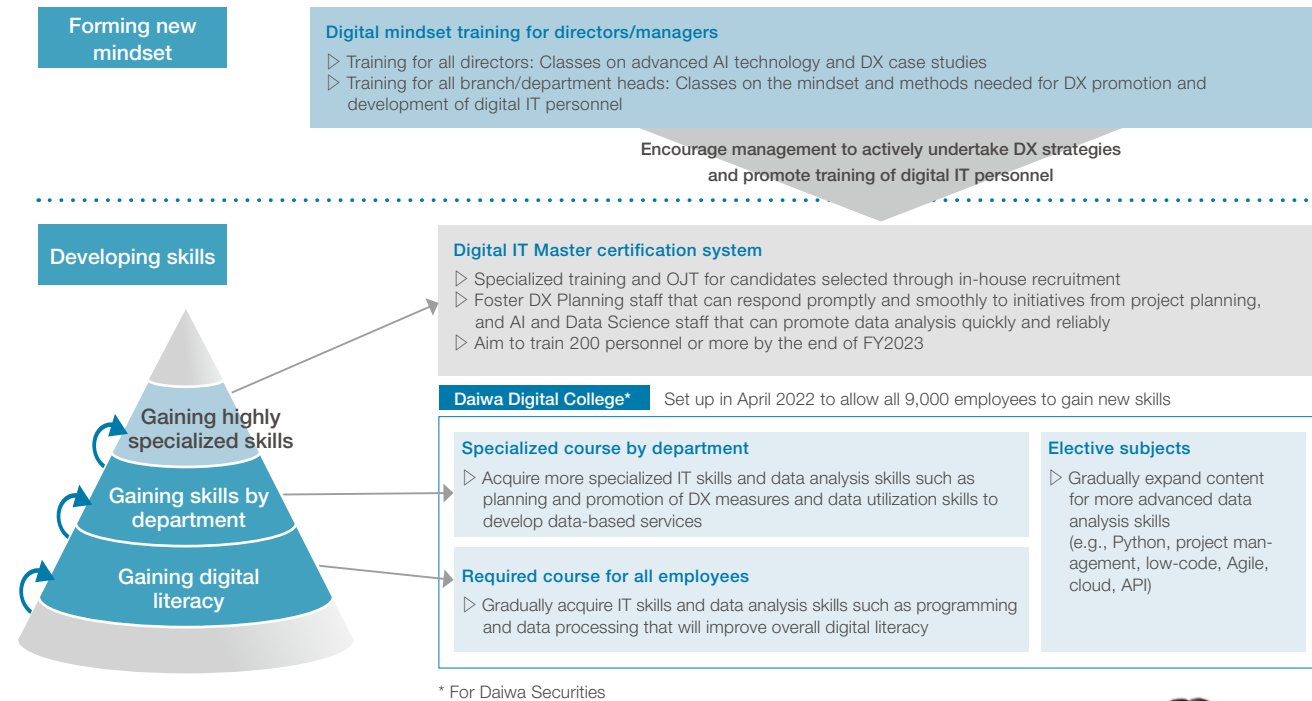
In addition, Daiwa Digital College was founded in April 2022 as a framework for all approximately 9,000 employees in Daiwa Securities to acquire skills based

on the belief that active and smooth use of data and digital technologies is important at each work site. All executives and employees consider DX to be part of their own duties and are working to acquire skills such as programming and data processing, as well as more specialized IT and data analysis skills that will help them improve their digital literacy.

We aim to be the best partner for our clients by encouraging each employee to take on challenging jobs and maximize their own skills and value.

Innovation

Development of personnel experienced in digital IT



Pace of realizing my desired future has increased

I have always been the type who did my job while staying abreast of current business issues and keeping my desired future in mind. Through the Digital IT Skill Training Program, however, I feel that my ability to understand issues from a broader and better-informed perspective, provide solutions, and perform my duties faster has improved.

I am currently leading a project to convert contract verification processes for institutional investors to STP*, and we are planning to release a system that will automate all post-trade processes. We also aim to speed up market price flow to our customers by developing a new workflow system shared among sales branches and headquarters, and to enhance customer services by creating a portal for corporate clients. Looking ahead, I hope to take part in a variety of projects, such as introducing blockchain into the project I mentioned, conducting data analysis for development that I introduced to my colleagues, and creating virtual branches to improve customer convenience.

* Straight Through Processing: It refers to the process of electronically processing transactions from execution to settlement without human involvement.



Mayuko Yamashita

Director
Global Markets Operations Department
Daiwa Securities
Digital IT Master (DX Planning Course)



Ryohei Uchiyama

Director
Investment Management Department
Daiwa Securities
Digital IT Master (AI and Data Science Course)

Business skills are most important when using digital technology

The Digital IT Skill Training Program has provided me with the three abilities necessary to be a data scientist: statistics, programming, and business skills. I have learned that to transform a business using digital technology, the most important thing is to have business skills that allow me to understand, organize, and solve business problems, and I am able to apply these skills in my work.

I am currently working on creating an AI-based predictive model to assist in making investment decisions in managing Advance Wrap core portfolio. Going forward, I would like to create a complete AI-based operational model, expand our circle of digital staff as Digital IT Masters, and create an environment to transform our business by utilizing data analysis and AI.

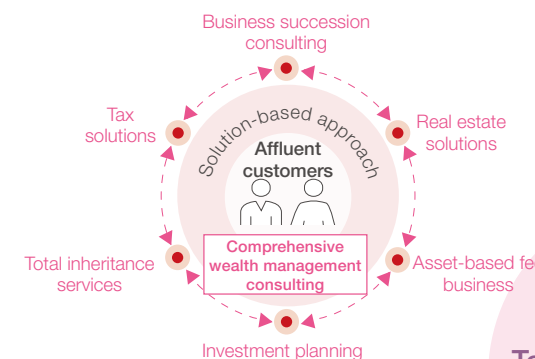
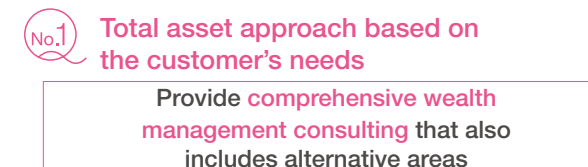
Fusion of the wealth management business and Hybrid Strategy

The Group believes that the wealth management business and Hybrid Strategy are closely linked. Our strength lies in leveraging the Hybrid Strategy to create new business fields, specifically providing clients Groupwide, including those of the Retail Division, with services by turning assets such as real estate, solar power, and venture investment-related into financial products.

As we pursue our total asset approach for clients, we will inevitably offer not only traditional financial products, but also alternative products. Staying ahead of peers in this area should help differentiate the Group. In other

words, the Hybrid Strategy and wealth management business involve the creation and provision of products, and form the two pillars of the Group's business.

The optimal provision of products to meet diversified needs is connected to high-quality consulting. The Hybrid Strategy will not only stabilize the Group's profit structure, but also contribute to the deepening of solutions in the core retail business. We will build a business model unique to Daiwa Securities Group that combines diverse creation functions with high-quality consulting functions that generate greater synergies Groupwide.



Establish a new funding cycle through a Hybrid Strategy

To achieve even greater customer satisfaction

Achieving Customer First and Quality No. 1

Supply products targeted at hybrid business assets

Investment products developed in business domains that were expanded with the Hybrid Strategy

Real estate products for retail customers



Business domains that contribute to achieving the SDGs

Private placement DSREF
Amaterasu Core Fund

Daiwa ACA Business Succession LLP

Daiwa
Energy & Infrastructure

ACA Inc.
ASIAN CAPITAL ALLIANCE

Innovation

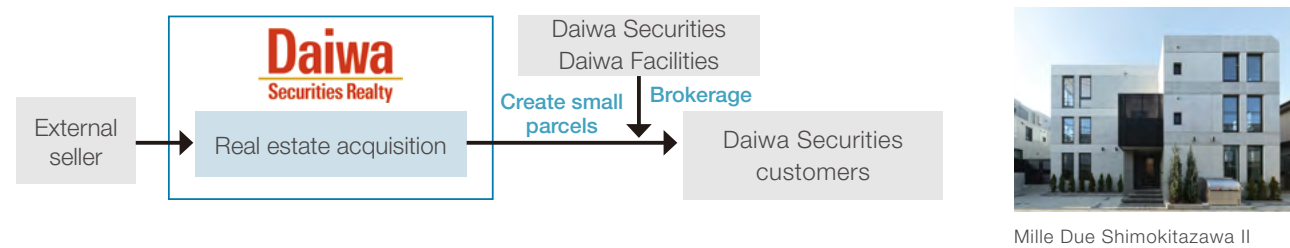
Real estate-related investment products — Daiwa Securities Realty

To meet the diversifying real estate investment needs of investors, the Group established Daiwa Securities Realty in FY2021 and began providing small-lot real estate investment products using a trust scheme as a lineup of non-REIT (real estate investment trust) products. Property acquisition and management for small-lot products are handled by the Group—which

has experience and expertise in REIT management—thus enabling investors to invest in high-quality real estate for small outlays without the hassle of management.

We will continue to expand our real estate-related investment product offerings to meet brisk investor demand.

Real estate-related investment products for retail customers



Fintertech

Fintertech aims to create next-generation financial services in an agile and flexible manner by utilizing cutting-edge technology and collaborating with external companies, while building on the financial business know-how that Daiwa Securities Group and Credit Saison have cultivated since their establishment. Fintertech offers four products: (1) Digital asset-backed loans, which target crypto assets that have not been treated as collateral in Japan; (2) KASSAI, a cloud-based monetary assistance service that enables users to easily create and make available their own donation

websites, without the need for programming or other specialized knowledge, simply by following the template and entering the project objectives and support plan; (3) Funvest, a loan-type crowdfunding service that offers carefully selected investment opportunities based on the combined capabilities of Daiwa Securities Group and Credit Saison Group; and (4) Real Estate Investment Prime Loan, which involves lending funds for the acquisition of real estate properties purchased for investment purposes.

Provide new financial instruments for new values

Our slogan “We-vestment” expresses compassionate and connected investment by changing the “in” in investment to “we”, interpreting the “in” in investment to mean that individuals benefit from investment. We will take the lead in next-generation financial fields by providing new financial instruments that quickly respond to new values that emerge as society diversifies and lifestyles and modes of communication change.

I am in charge of digital asset-backed loans, which offer new loans secured by crypto assets and serve as a bridge between the existing and crypto economies to foster innovation in next-generation assets.



Hiroshi Kamiwaki
Chief Crypto Officer
Digital Asset Group
Fintertech

Capital recycling model

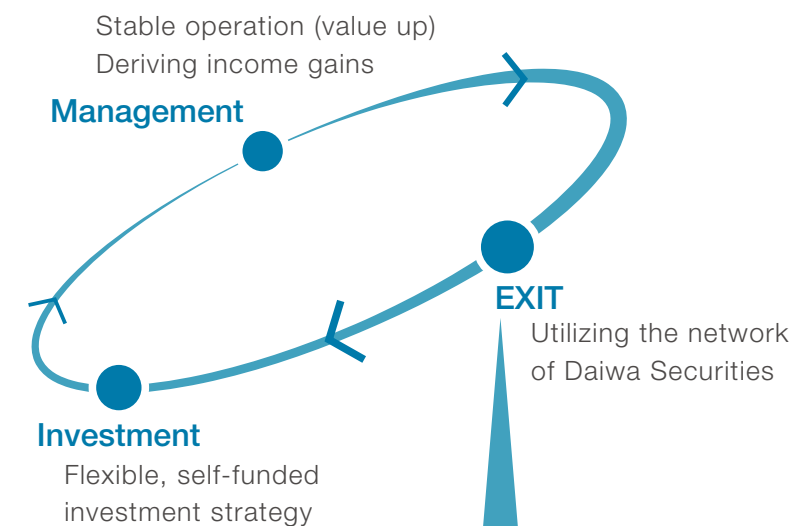
In the Investment Division, Daiwa Energy & Infrastructure (DEI) seeks to increase profits while emphasizing capital efficiency through a capital recycling model in which high-quality investments are accumulated to post-investment income, increase the value of investment targets, and earn capital gains upon exit.

In FY2021, the Group formed the private core solar fund, which invests in operational solar power plant projects with funds raised from major institutional investors by leveraging Daiwa Securities' financial product structuring and sales capabilities. Following the formation of this fund, called DSREF Amaterasu Core Fund (total funds: approximately ¥16 billion), by Daiwa Real Estate Asset Management (Daiwa Real Estate AM), DEI has successively contributed to solar power plants in stable operation as the target for

investment. This has advanced the capital recycling model in the renewable energy sector by leveraging DEI's investment/loan functions and Daiwa Real Estate AM's infrastructure asset management functions, while at the same time promoting the provision of alternative assets to meet diversifying investor needs.

DEI's investment area had been primarily brownfield projects in the stable operation phase when it was established in 2018 but has now expanded to include greenfield projects in the late development and construction phases. The Group will continue to pursue a capital recycling model, in which DEI will thoroughly manage project risks, accumulate greenfield and other investment projects, and sell the assets mainly to funds after they have achieved stable operations.

Cyclical expansion focused on capital efficiency (capital recycling model)



Formation of the Private Core Solar Fund (September 2021)

Aiming for cyclical expansion by effectively utilizing limited capital by introducing external capital through portfolio fund conversion

Investment targets	Brownfield (already operating) solar power generation business
Asset total	Around ¥70 billion (Total fund: Approx. ¥16 billion)
Investors	Institutional investors in Japan (including multiple pension funds and life insurance companies)

Innovation

Security token initiatives

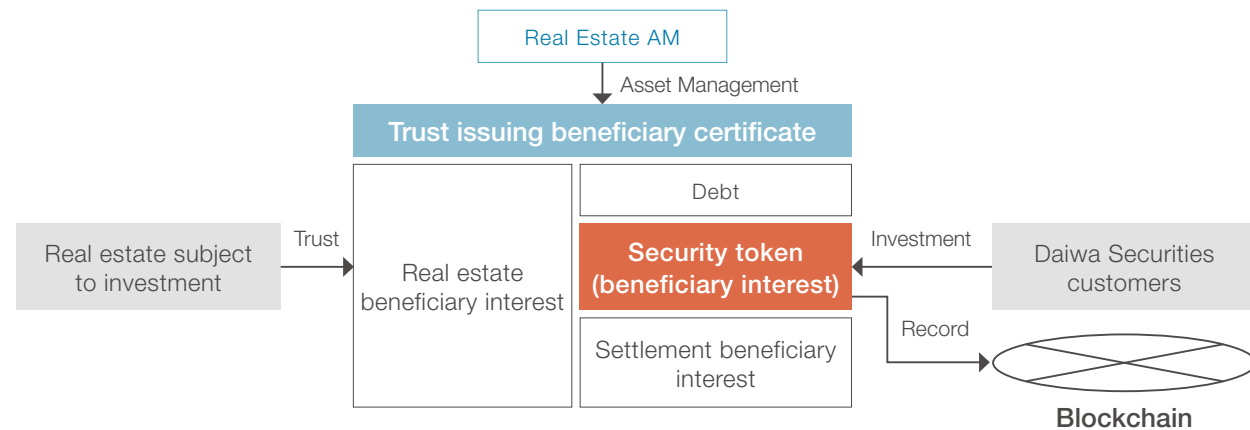
Security tokens are a type of digital security that is issued using blockchain technology. Blockchain technology is expected to realize greater transparency, efficiency, and safety for securities transactions and settlements at low cost. In Japan, revisions to the Financial Instruments and Exchange Law and related government ordinances implemented in May 2020 have enabled us to handle security tokens in compliance with the law.

Daiwa Securities Group believes security tokens offer significant future growth potential as a business from the three perspectives of providing new asset management tools for investors, providing new financing methods for issuers, and recycling capital for assets held within the Group based on the Hybrid Strategy. Therefore, we are now engaged in this business as part of a Group-wide effort.

Specifically, in November 2021 Daiwa Securities Group Inc. provided funding to Osaka Digital Exchange Co., Ltd., which aims to launch a security token PTS business. Similarly, in February 2022 Daiwa Securities began handling real estate security tokens and in July served as the sole lead manager for Japan's largest real estate security token offering in history.

Although our efforts are currently focused on real estate, for the future we are investigating the use of security tokens for infrastructure assets associated with renewable energy and loan receivables. And we are looking into providing securitized products for those assets that could only conventionally be provided to institutional investors to a wider range of customers, including individuals.

Real estate security token framework



Working with our sights on the future of capital markets ten and twenty years out

As a project that I am responsible for managing, since April 2021 Daiwa Securities Group has been advancing the commercialization of security tokens through Groupwide and cross-departmental project teams.

And I am proud to say that this project has also provided many departments with the ability to acquire knowledge on security tokens, and that it has given rise to an organic network within the Group for thinking about the future of securities companies.

Blockchain technology holds the potential to significantly transform the conventional securities business. We therefore intend to engage in this business with our sights on the future of Daiwa Securities and capital markets ten and twenty years out.



Takahiro Saito

Executive Director
Corporate Planning Department
Daiwa Securities Group Inc.

Dialogue on Innovation II

Akihiro Azuma
Chairman
ACA Investments Pte Ltd

Akihiko Ogino
Deputy President
Executive Head of Corporate
Planning and Human Resources
Daiwa Securities Group Inc.

Exploring investment opportunities on a flexible basis, innovatively resolving market issues

Having formed a capital and business alliance with ACA Investments Pte Ltd (ACA) in October 2018, Daiwa Securities Group is developing joint businesses in three fields: healthcare, business succession, and investment in Asia. The Group Deputy President Akihiko Ogino and ACA Chairman Akihiro Azuma talked about the synergies created by the alliance between the two companies, the current business environment, and the outlook in each field.

Aims of capital and business alliance with ACA

Ogino: In 2017, when CEO Nakata took office, Daiwa Securities Group clearly set out to promote a Hybrid Strategy. At that time, ACA was a highly unique entity among those considering expanding investments in private equity and alternative assets. I thought ACA would be a perfect match for our Hybrid Strategy not only because of its business direction, but also because of its track record in healthcare, business succession, and investment in Asia.

Azuma: At that time, ACA was also considering a spin-off from its

former sponsor and looking for a new partner, so the timing was perfect for both of us.

In the general Japanese private equity market, investors with similar styles coalesce into similar groups of companies and lapse into fierce bidding competitions. As a result, investment performance can be profoundly affected by market conditions. I wanted to keep such businesses at arm's length and to invest funds where interesting opportunities are by theme. The area where I had felt lay the most potential in Japan was in the healthcare field, centered on hospital-owned assets, and it was a healthcare real estate owning company that ACA started out as. As you can see from this point,

ACA is characterized by discovering investment opportunities and interesting investment themes of which other funds are not aware. Based on a hands-on type of involvement with our investees, we quickly implement value enhancement and exit strategies. We believe that we are a unique investment company, different from ordinary acquisition funds and venture capital firms, because we operate our investment business in a relatively fast cycle.

In the case where ACA's major shareholders were operating companies, there could be times when their core business and our business would conflict. As the same financial institution, Daiwa Securities Group is capable of developing business in the same



direction as us, and the support system, due to its huge financial muscle and large-scale network, represents the very ideal existence.

High potential healthcare field

Ogino: Daiwa Securities Group considers the healthcare field to be a high-growth market. As such, our first engagement with ACA was in the healthcare sector, establishing a joint venture called Daiwa ACA Healthcare.

However, hospital management has long had many customs and regulations that are unique to Japan, and it is difficult to seize opportunities to create collaboration under the current situation. The COVID-19 pandemic has highlighted the room for improvement in hospital management, so we expect that the need to transform the medical industry will increase from now on, and so will our opportunities.

Azuma: In Japan, where the economy has matured in recent years, healthcare is the only field growing by several trillion yen every year, so we created an investment company specializing in this sector and received 66% investment from Daiwa Securities Group. Particularly interested in the value of hospitals as real estate assets, we expect expansion in the healthcare-related

REIT market, which is already popular in the United States. However, in reality, in the case of hospitals, assets are owned by medical institutions and not corporations, so there remains the problem that securitization does not progress easily. If the situation changes due to deregulation or other factors, we believe that the market will expand instantly.

Ogino: In this field, I would like to wait for the timing of the market expansion by sowing the seeds from now on while making the best preparations, so that we will be able to run from the front having been the fastest out of the blocks. The Group possesses a healthcare real estate portfolio of more than ¥100 billion, the largest among J-REITs, while Good Time Living, which operates nursing care service facilities, is securitizing most of its real estate. Toward our ultimate goal of investing in hospitals, we will capture the predominant position by securing peripheral areas.

Business succession is itself regional revitalization

Ogino: Conversely, what has quickly got on track is the domestic business succession field. In 2018, the Group expanded its M&A personnel and established a specialized department to support business succession. In the latter half of that same year, we entered into the capital and business alliance with ACA and formed a ¥10 billion business succession fund. The fund made its first investment in 2019, and within the next two years there were about three projects from which we were able to exit at three to four times the investment amount. I was amazed at ACA's

discerning eye, hands-on abilities, high level of support for SMEs, and sense of urgency.

By 2025, there will be approximately 2.45 million SME owners in Japan who will be over the age of 70, and about half of them, 1.27 million, will face succession problems. Since the fund invests in many local companies, business succession is nothing other than regional revitalization. By continuing to reinvent companies that were anxious about their ability to survive and making them into stronger organizations, we can expect to be able to make significant contributions to employment and local economies.

Azuma: Instead of growing by consolidating within the same industry, postwar Japanese SMEs tended to coexist in the same industry amid moderate competition. As a result, their business became extremely low in productivity and had therefore been considered out of the running for investment.

However, in fact, their balance sheet is strong due to their long-term business survival, and they have become a sufficient target when looking from a value investment perspective. After an acquisition, we will review its outdated cost structure and, by restructuring the industry without the constraints of the past, can draw out the intrinsic value of such a company in a short period of time and realize an increase in its stock value. I feel that this initiative is of great social significance, because acting as a lubricant in the form of our funds and hands-on expertise into seized-up local industry will lead to regional revitalization.

Ogino: I am keenly aware of the strong needs in the business

succession field. Also, this field is where synergies with ACA are very much apparent. As a result of providing business succession solutions to managing owners, Daiwa Securities branches can receive referral commissions, and we can expect a capital cycle where owners may entrust Daiwa Securities to manage their stock disposal money.

Azuma: The problem for business succession is that it requires manpower as the turnover of investments and exits is fast. Not only discovering companies in which to invest but also post-acquisition collaboration and business matching, ACA was in real need of a business partner like Daiwa Securities Group, which possesses a nationwide network.

Investing in Asia, where possibilities are wide-ranging

Ogino: The focus of the Group has been on Southeast Asia, for its growth potential. Japan, Europe, the United States, and China all have a surplus of funds and decline in private investment returns. I feel that Southeast Asia offers great opportunities as a growth market. However, there are many conditions that make investment difficult, such as the differences in legal systems and cultures in each country, and unstable national politics.

ACA has its head office in Singapore, and all its employees are based there. Having already invested in more than 30 companies, ACA is extremely unique as a pioneer of Japanese private equity investment companies in Southeast Asia.

Azuma: I think that the characteristics of Southeast Asian companies are their sense of urgency and mobility. Good services spread rapidly, and losers are quickly weeded out, which is a completely different society from that in Japan. In terms of technology in general, many companies are more advanced than those in Japan, because there is no need to balance conflicting interests with legacy, and there are few regulations.

Conversely, as a balance sheet with a small net worth, it is a market where the investment risk is much higher than that in Japan. I therefore believe that, in this market, a method called Significant Minority, by which management support with a 20% to 30% equity investment is undertaken, is more effective than acquisition.

The companies we invest in are mainly in the service industries, such as ICT and healthcare. Initially, I was thinking of transplanting Japanese intellectual property and governance to Asia. In recent years, however, especially in mobile-related venture businesses, there have been many technologies and services that are not found in Japan, and thus I believe that it is possible that advanced services originating in this region will make inroads into the Japanese market in the years to come.

Ogino: Under ACA, the Group has formed funds called Daiwa ACA APAC Growth LP (¥5 billion) and its second fund (¥5 billion), and thus the Group's commitment to ACA's Southeast Asian business has reached an even higher level.

Azuma: In Southeast Asia, capital demand is in any case strong. As a future concept, I am wondering whether, while bringing about



Akihiro Azuma
1986 Joins Recruit
2000 Joins Wit Capital Securities, a joint venture established by US company Wit Capital, Nikko Securities, Mitsubishi Corporation and others, as marketing director (MD). Engages in public offering support and M&A advisory business as MD of investment banking division. Thereafter, transfers to Nikko Antfactory (currently Ant Capital Partners), following its acquisition by Nikko Group's investment company. As managing partner, engages in private equity investments.
2008 Independent from Nikko Antfactory following MBO, establishes ACA. Appointed as a representative director. Establishes ACA Investments Pte Ltd, an Asian investment fund management company in Singapore.

mergers between mature Japanese SMEs and Southeast Asian companies, we can do business matching that will bring growth to Japan while satisfying local capital needs.

Ogino: Using excellent Japanese SMEs as intermediaries will enable us to be of benefit to an aging society in Japan and Asian high growth and match them in an unexpected way. By deepening the collaboration between Daiwa Securities Group and ACA, we can expect a major contribution to the promotion of the Group's Vision 2030, under which we are advocating "From savings to SDGs."

Green & Social

Taking on the
New Challenge
of Solving Social Issues

Interest in finding solutions to environmental and social issues has grown steadily ever since the SDGs were adopted by the UN in 2015. Similarly, the amount and number of SDG bonds issued on capital markets have also grown with each passing year. Daiwa Securities Group recognizes that although environmental and social issues must be addressed with urgency, at the same time they also offer business opportunities. The Group will therefore take on the new challenge of finding solutions for social issues by creating capital cycles on the financial and capital markets.



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

	KPIs	FY2021 Results
SDG bond league table	In top 3	4th
Balance of investment in SDGs-related businesses	¥150 billion or more	¥116.2 billion
Ouen (Supporting) term deposits balance	¥200 billion or more	¥152.5 billion

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 formulated 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.

With the amount of issued SDG bonds experiencing an upward trend, the Group is utilizing its knowledge as a pioneer of impact investment bonds in aims of realizing the SDGs through the creation of a sustainable capital cycle under the core concept of from savings to SDGs as raised in Vision 2030. Specifically, the Group focuses on advancing green financing and transition financing

that support the realization of decarbonization and social financing that supports the solution of social issues, where Daiwa Securities served as the bookrunner and SA* for the world’s first transition bond in the airline industry, issued by Japan Airlines in FY2021. Similarly, in FY2022 Daiwa Securities also served as the bookrunner and SA for a social bond issued by FUJIFILM Holdings, the largest social bond amount ever made on the Japanese public bond market, and as the bookrunner and SA for a three-tranche sustainability-linked bond issued by NEC, the first of its kind to be publicly offered in Japan. Daiwa Securities also served as the bookrunner for foreign bonds including green bonds issued by Hungary during FY2021. As described above, the Group has already built up a track-record as the lead manager for several extremely symbolic offerings, and will continue to contribute to the further vitalization of the SDG bond market.

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

Main SDG bonds underwriting from FY2021 onward

FY	Issuer	Type of Issue	Issue Amount
2021	SCSK	Green bonds (SA)	¥5.0 billion
	Tokyo Metropolitan Government	Social bonds (first for a local government)	¥30.0 billion
	Yokohama Reito	Sustainability Bonds (publicly offered hybrid bonds, SA)	¥10.0 billion
	Hankyu Hanshin Holdings	Sustainability Bonds (SA)	¥10.0 billion
	University of Tokyo	Social bonds (Bookrunner)	¥10.0 billion
	Nagoya Railroad	Sustainability Bonds (SA)	¥10.0 billion
	Japan Airlines	Transition bonds (world’s first issuance of transition bonds in the airline industry, SA)	¥10.0 billion
	Hungary	Green bonds	Total: ¥59.3 billion
	NEC Capital Solutions	Sustainability Bonds (SA)	¥10.0 billion
	FUJIFILM Holdings	Social bonds (Japan’s largest business bond issues, SA)	Total: ¥120.0 billion
2022	SUMITOMO CORPORATION	Green bonds (sole lead manager, SA)	¥20.0 billion
	NEC	Sustainability-linked bonds (Japan’s largest business bond issues, SA)	Total: ¥110.0 billion

Green & Social

Supporting and promoting SDGs-IPOs

Daiwa Securities also supports equity financing to raise capital for businesses that contribute to solving social issues. As a financing method, Daiwa Securities has successfully established an equity financing framework that helps promote SDGs/ESG initiatives undertaken by

issuers. Based on its many years of expertise, it strives to contribute to the solutions for environmental and social issues together with its customers, both investors and companies.

SDGs-IPO Examples

**TESS Holdings Co., Ltd.** April 2021

TESS Holdings has identified Total Energy Saving & Solution, the origin of the company's name, as its management philosophy in working to realize a sustainable society. This company primarily operates in the areas of transforming renewable energy into primary power sources, ensuring thorough energy conservation, and enhancing the intelligence of energy. Daiwa Securities served as the lead manager for their SDGs-IPO. The capital raised by this SDGs-IPO was allocated to projects that contribute to solutions for environmental and social issues, including greenhouse gas emissions reduction, waste reduction, and job creation projects by the development of new renewable energy power plants that rely on solar energy and biomass and by effective use of biomass fuels. A second-party opinion has been obtained for the potential impacts and contributions to the SDGs generated by the target projects. This IPO was the first SDGs-IPO in Japan within the energy and environmental sectors in Japan.

**FULUHASHI EPO CORPORATION** April 2022

Under the management philosophy: Creating a sustainable society for the world, for humans, for the Earth, and for employees, the FULUHASHI EPO group as a whole delivers comprehensive environmental solutions for issues regarding appropriate waste treatment, recycling promotion, energy, and climate change, among others, including recycling with a focus on woody biomass. Daiwa Securities served as the lead manager for their SDGs-IPO. The capital raised through this SDGs-IPO is intended to be allocated to bio-materials projects that can contribute to the sustainable use of forest resources, construction of new plants in the resource recycling business, expansion of production equipment, and transfer and expansion of plant equipment. In this way, FULUHASHI EPO contributes to solutions for environmental issues by promoting renewable energy use and by preventing and reducing pollution. A second-party opinion has been obtained for the potential impacts and contributions to the SDGs generated by the target projects.

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 applied this policy in principle to all investment strategies.

After declaring its acceptance of Japan's Stewardship Code in May 2014, Daiwa AM renewed its declaration of acceptance in September 2020 following a revision to the Code. Along with actively fulfilling its stewardship duties in an ongoing manner, Daiwa AM is also striving to deepen the content of its initiatives. The basic approach to stewardship activities is outlined in the Stewardship Policy section of its website. In addition, Daiwa AM announced the Policy for Constructive Dialogues for the purpose of holding conversations that contribute to higher corporate value and sustainable growth. Based on this Policy, it has actively engaged with companies and other interested parties from both financial and such non-financial perspectives as ESG issues. Details on stewardship activities, including the status of engagement (policies, stance, and number of engagements by theme) are disclosed each year in the Stewardship Report.

Exercising voting rights is believed to play an extremely important role for realizing the Group's Corporate Principle of contributing to social and economic development through financial and capital markets. For this reason, Daiwa AM has disclosed the details of the Daiwa AM's Proxy Voting Policy for the purpose of facilitating an understanding of this Policy among as many individuals as possible. In June 2022, Daiwa AM partially revised the Daiwa AM's Proxy Voting Policy (domestic stocks), thereby expanding the scope

of companies subject to the criterion regarding female officers and changing the criterion regarding outside directors. The criterion regarding female officers was originally established to cover companies that make up the TOPIX 100 Index as part of the partial revision to this Policy in March 2021. However, this criterion has been expanded to cover the companies that make up the TOPIX 500 Index because Daiwa AM confirmed through engagement that aggressive initiatives were being implemented by those companies.

Moreover, Daiwa AM incorporates a qualitative evaluation of approaches to ESG by companies, etc., as acquired through dialogue and initiative status within its unique long-term corporate value model used to assess corporate value. Sharing qualitative evaluations regarding corporate research analysts, and quantitative analysis and evaluations by quants analysts, has enabled corporate evaluations from a comprehensive perspective that integrate financial information with nonfinancial information.

Daiwa AM calculates unique ESG scores based on this information and approaches to ESG, and takes them into account when selecting companies and grasping risks to the portfolio. Daiwa AM offers investment opportunities by creating and managing ESG- and SDGs-themed investment trusts, and possesses an extensive lineup of ESG index-related ETFs and sustainability-themed investment funds.

Working to balance the realization of a carbon-free society with long-term asset formation

ESG and SDGs viewpoints have become important items when assessing investees from a medium- to long-term perspective. Determining how to engage with the environmental and social issues among which they are situated is also a challenge for companies that is linked with management strategies. Among the issues faced by companies, climate change countermeasures have become a particularly urgent issue for which global action is required. Corporate groups that offer decarbonization-related solutions contribute to the achievement of a sustainable society, and are therefore expected to realize medium- to long-term growth given the space for business expansion, leading to increasing interest in these groups as new investment opportunities. Through investment trusts, Daiwa AM is working to balance the realization of a carbon-free society with long-term asset formation.

**Maki Noguchi**

Chief Fund Manager
Advisory Fund Management Department
Daiwa Asset Management

Vitalization of real estate financial markets

Daiwa Real Estate Asset Management (Daiwa Real Estate AM) contributes to realizing the SDGs by providing alternative assets, including real estate that considers ESG. SDGs initiatives are also essential when considering the sustainable growth of Daiwa Real Estate AM and long-term returns for investors.

As part of this initiative, the investment corporations to which Daiwa Real Estate AM has entrusted asset management increase added value through improvements to real estate energy performance and operational management, and are actively working to acquire real estate-related environmental certifications and SDGs financing.

Daiwa Office Investment Corporation and Daiwa Securities Living Investment Corporation have formulated a green finance framework and social finance framework, respectively. In FY2021, Daiwa Securities Living Investment Corporation issued social loans and social bonds for the first time as part of financing, which it allocated to capital for acquiring four healthcare facilities

and to capital for repaying debt required for acquisitions. The company will contribute to further expanding the supply of superior, high-quality healthcare facilities by continuing to manage and invest capital raised through social financing.

Daiwa Real Estate AM will continue to expand SDGs financing, with outstanding green financing totaling ¥3.9 billion and outstanding social financing amounting to ¥2.77 billion as of the end of March 2022.

Daiwa Real Estate AM has also been entrusted with the management of solar power plants and biomass power plants, and has been charged with managing DSREF Amaterasu Core Fund, Investment Limited Partnership, a private placement fund established in September 2021 with the intent of investing in solar power projects by soliciting funding from institutional investors in Japan. Along with providing investors with investment opportunities for alternative assets, Daiwa Real Estate AM will work to expand renewable energy use as a social issue.

Green finance and social finance framework-based investment corporation financing track-record

Issuer	Balance
Daiwa Office Investment Corporation	Financing track-record based on the Green Finance Framework*1 - Green Bonds: ¥1.5 billion (5-year bonds), ¥2.4 billion (10-year bonds)
Daiwa Securities Living Investment Corporation	Financing track-record based on the Social Finance Framework*2 - Social Bonds: ¥2.0 billion (10-year bonds) - Social Loans: ¥770 million

*1 Obtained highest Green 1 (F) rating from Japan Credit Rating Agency, Ltd.
*2 Obtained highest Social 1 (F) rating from Japan Credit Rating Agency, Ltd.



Charm Premier Kamakurayama

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, 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.

Message from a Daiwa Energy & Infrastructure partner (Aquila Capital)

I am proud to contribute to the energy transition by investing and generating essential assets.



Roman Rosslenbroich
CEO and Co-founder
Aquila Capital Holding GmbH

Celebrating our 20th birthday in 2021, we as Aquila Capital, committed ourselves already long time ago to being part of the solution to decarbonize large parts of the world economy, to facilitate the energy transition and to generate assets in line with the needs and mission of our society for a more sustainable future.

Since 2020 Aquila Capital has been in a strategic partnership with Daiwa Energy & Infrastructure. This partnership strengthens our position in the European market and has opened up many opportunities in the Asia-Pacific region, which has now become one of our most important growth regions for the future.

We set us the goal to become one of the world's leading investment management companies for – what we call – essential assets by 2030. We are proud of the importance of our mission and to deliver on this together with Daiwa.



Wind power plants managed by Aquila Capital

Renewable energy power plant asset management track-record

Number of deals	22 (Hokkaido, Tohoku, Hokuriku, Kanto, Chubu, Kansai, Chugoku, and Shikoku regions)
Output	Solar power plants: approx. 213 MW (excluding output from assets on land with leasehold interest) Biomass power plants: approx. 13 MW
Balance of assets under management	Approx. ¥85.3 billion



Biomass power plant in Kinan

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 2022, the balance of Ouen deposits was approximately ¥152.5 billion, with the cumulative amount of donations at approximately ¥62 million.

In commemorating the 10th anniversary of Daiwa Next Bank's inauguration, the Bank organized various charity events throughout FY2021. In particular, many people participated in an online participatory charity event held from May 15 to June 13, 2021, through which the Bank donated ten times the cumulative distance in kilometers run and walked by participants in yen. As a result, the Bank presented a total of ¥3.5 million in donations to Ouen (Supporting) Term Deposits as the supported organization.

Through the **SmileSmilePROJECT**, the donations were used to fund private travel for families with children battling pediatric cancers.

Given our desire to provide families with children battling pediatric cancers the gift of radiant memories that will remain deeply in their hearts for the rest of their lives, and to connect this time spent together with the motivation for the next round of treatment and to overcoming the fear of recurrence, Japan Heart supports valuable family time spent together under the accompaniment of health professionals (SmileSmilePROJECT).

Donations from participants are used to cover travel expenses for families with children battling pediatric cancers. As these families face difficulties in going out and traveling, accompanying health professionals provide peace of mind, allowing these families to spend time together at amusement parks popular among children, hot spring towns where families can



relax in private, and memorable places. Following these trips, families have offered us many words of appreciation.

Japan Heart hopes to continue providing the warm support of all participants to as many children as possible, and therefore asks for your continued assistance.

Haruna Yoshioka
President and Pediatrician
INGO Japan Heart



Carbon Neutrality Initiatives

The Daiwa Securities Group Net Zero Carbon Declaration

Daiwa Securities Group recognizes the importance and urgency of addressing climate change, one of the most serious issues facing the world, in order to realize a carbon neutral society as soon as possible. To that end, we have formulated and implemented the Daiwa Securities Group Net Zero Carbon Declaration to make a medium- to long-term contribution to the fight against climate change.

Based on this declaration, we aim to achieve Scope

1 and 2 net zero GHG emissions by 2030 and Scope 3 net zero GHG emissions by 2050 for our investment and loan portfolios. In addition, we will continue to support our customers' efforts to decarbonize their businesses and new technologies that contribute to the realization of a decarbonized society in order to support a smooth transition to a decarbonized society through our financial business.

The 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.

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 environmental footprint of the Group

- ▶ 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

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

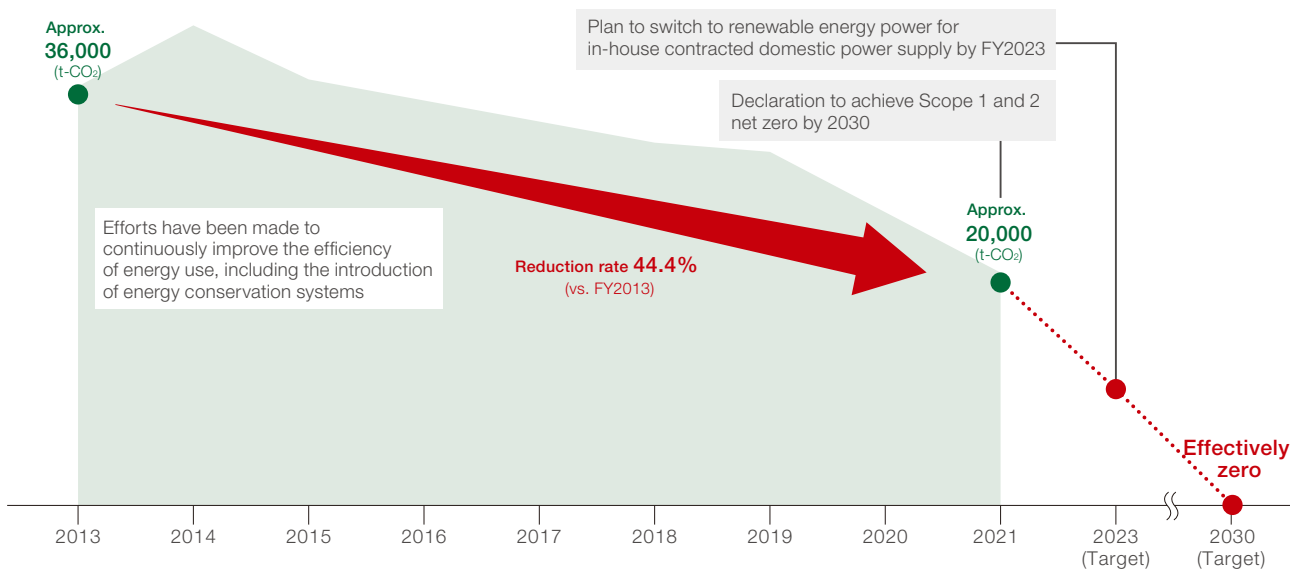
Carbon Neutrality Initiatives

Net zero GHG emissions within our own operations

To achieve net zero GHG emissions within our own operations (Scope 1 and Scope 2), we will advance initiatives that are in line with the priority area: Reduce the Group's environmental footprint. More specifically, we are aiming to switch to renewable energy power for our own properties in Japan by FY2023 and for net zero GHG emissions properties as a whole, including rental properties, by 2030 while continuing to engage in energy saving activities. With regard to energy saving activities, we are currently introducing energy saving systems and

increasing the efficiency of energy use, and we will continue to work on these initiatives. As for renewable energy power, we introduced such power into all of the Group companies residing at the head office building (GranTokyo North Tower) in April 2021 by utilizing non-fossil fuel energy certificates with tracking information. In July 2021, we changed the power plants tracked by each certificate to renewable energy plants owned by Daiwa Energy & Infrastructure Co. Ltd., a Group company.

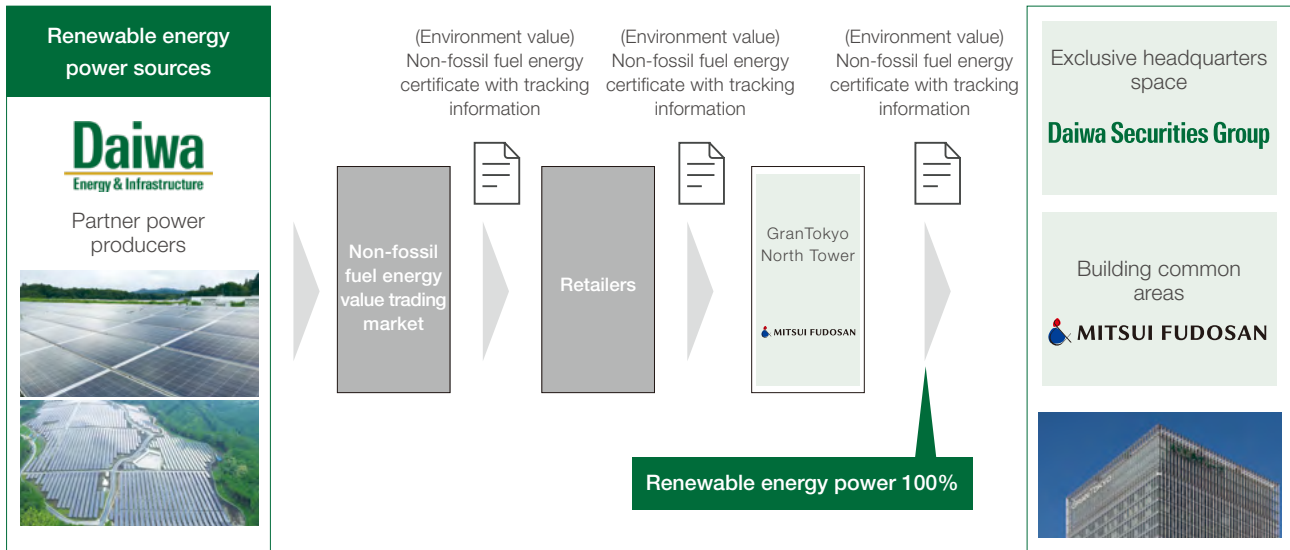
Scope 1 and 2 GHG emissions



Note: Scope 1 + 2 emissions (domestic + overseas) are calculated for approximately 95% of the sites on an employee basis. The scope of the calculation was expanded from FY2017 (5 overseas sites).

For more information on the scope of GHG emissions data and calculation methods, please visit the following website.
https://www.daiwa-grp.jp/english/sdgs/data/ghg_emissions.html

Utilization of renewable energy power from Daiwa Energy Infrastructure-owned power generation facilities



Net zero GHG emissions within our investment and loan portfolios, etc.

Toward the realization of a carbon-neutral society, companies are required to manage and reduce GHG emissions emitted not only from their own companies but also their supply chains as a whole. For financial institutions, GHG emissions from their investment and loan portfolios (Scope 3 Category 15) account for a significant part. With this in mind, the Group will establish targets and disclose information based on the priority area: Set targets to align with the Paris Agreement goals and expand transparent information disclosure. Specifically, we will identify sectors with significant GHG emissions in our investment and loan portfolios, and then we will begin by considering GHG emissions management methods and establish intermediate

target for these sectors.

As far as management methods are concerned, in December 2021, we joined the Partnership for Carbon Accounting Financials (PCAF), an initiative for the measurement and disclosure of greenhouse gas emissions, and the PCAF Japan coalition. Utilizing the PCAF's knowledge and database, we are currently advancing steps to consider the method. As for the establishment of an intermediate target, a cross-Group monitoring team consisting of related divisions has been formed, and the Group plans to establish a target to align with the Paris Agreement goals by utilizing science-based targets (SBT), etc., within FY2023, which is covered by the Medium-Term Management Plan.

PCAF basic calculation formula

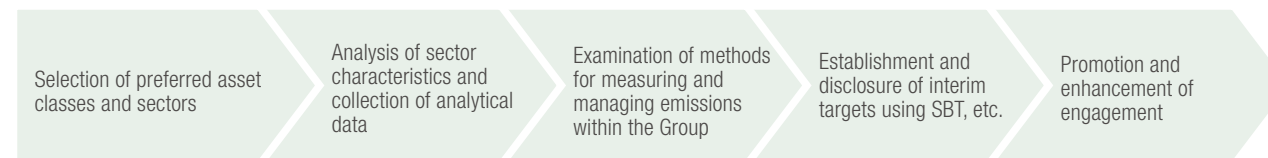
Basic formula for calculating investment and loan portfolio emissions under the PCAF standard

$$\text{Investment and loan portfolio emissions} = \sum_c \text{① Attribution factor}_c \times \text{② Company emissions}_c$$

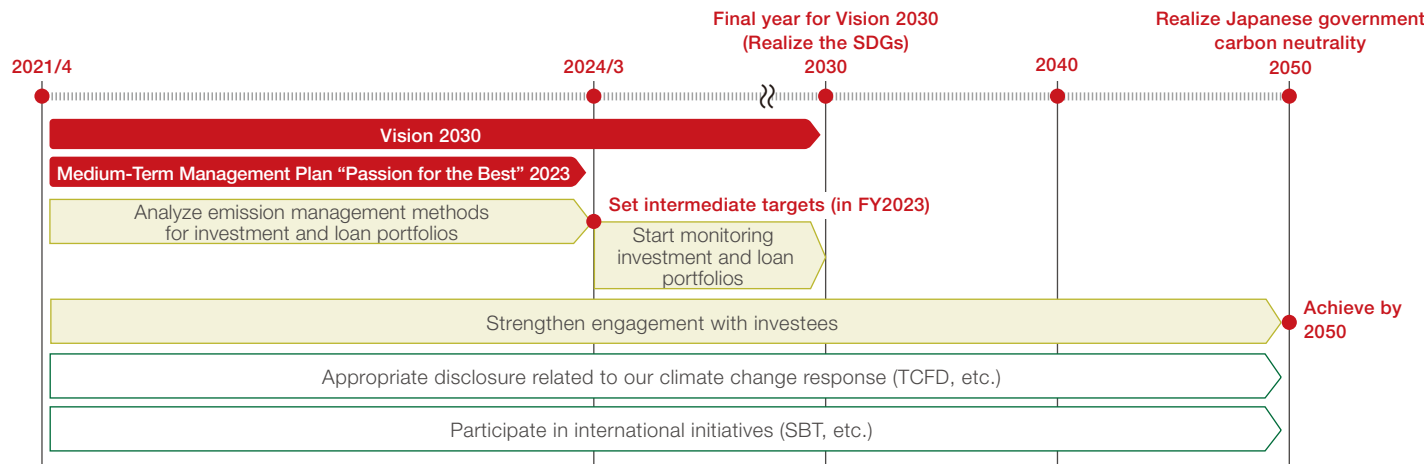
① Attribution factor = $\frac{\text{Outstanding amount of the Group's loans and investments}}{\text{Value (Total equity + debt) of borrowers or investees}}$

② Company emissions = Use of Scope 1, 2, and 3 values disclosed by borrowers or investees or use of estimates if these are unavailable

Scope 3 reduction process



Roadmap for realizing Scope 3 Category 15 net zero



Carbon Neutrality Initiatives

Measures to reduce Asset Management Division GHG emissions

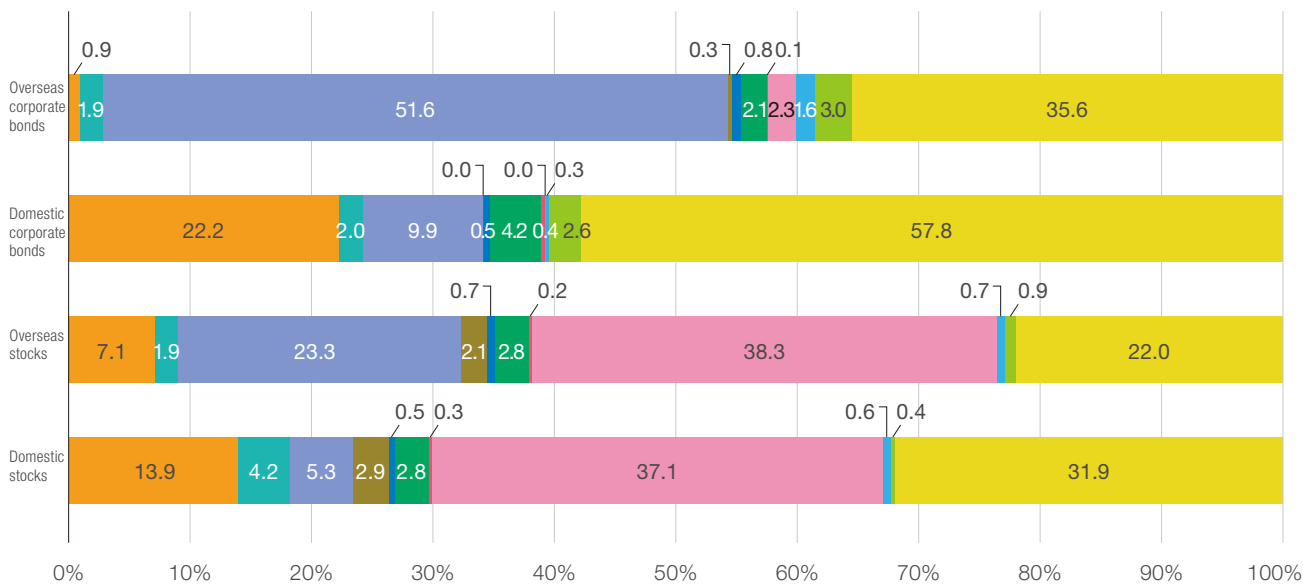
1 Implement portfolio analysis at Daiwa AM

Daiwa AM uses its portfolios' total greenhouse gas emissions, carbon footprint and carbon intensity as greenhouse gas emissions-related indicators for individual funds and asset classes, and performs monitoring and analysis of them. Based on this data and its own original research, Daiwa AM undertakes engagement activities with companies to encourage them to decarbonize.

For example, Daiwa AM compared the total carbon dioxide emissions for each of the asset classes that we invest in against benchmarks. It was confirmed that, for all asset classes, the total emissions of Daiwa AM's portfolio were lower than the total emissions of the benchmark (calculated as being equivalent in amount to the corresponding Daiwa AM portfolio). Reflecting the

trend for higher total emissions to be associated with larger portfolio size, the emissions associated with domestic stocks, in which Daiwa AM invests a particularly large amount, were high compared to other asset classes. The fact that total emissions for Daiwa AM's domestic stock portfolio were substantially lower than total emissions for the benchmark was due to the fact that investment in the utilities sector, which includes electric power companies that have high greenhouse gas emissions, holds a lower weighting in Daiwa AM's domestic stock portfolio than it did in the benchmark, and the fact that, in relation to investment in companies in the materials sector, Daiwa AM tends to have substantial positions in companies with relatively low greenhouse gas emissions.

Portfolios' total carbon dioxide emissions, by sector



Industrials Consumer Discretionary Energy Information Technology Healthcare Consumer Staples
Real Estate Materials Communication Services Financials Utilities

	(ten thousand tons of CO ₂ equivalent)	
	Daiwa AM	Benchmark*
Domestic stocks	1,553.64	2,024.79
Overseas stocks	53.91	54.96
Domestic corporate bonds	46.42	109.55
Overseas corporate bonds	12.14	28.14

* Benchmark
Domestic stocks: TOPIX (with dividends included)
Overseas stocks: MSCI ACWI ex Japan Index
Domestic corporate bonds: Bloomberg Asian-Pacific Japan Corporate TR Index Value Unhedged JPY
Overseas corporate bonds: Bloomberg Global Aggregate ex-JPY-Corporate TR Index Unhedged USD
Source: Some information is derived from ©2022 MSCI ESG Research LLC. Reproduced by permission.
(Limited to portfolio component issues for which Scope 1 + 2 data are available)

For more information on Daiwa AM disclosures, please refer to the following Stewardship Report 2021.
https://www.daiwa-am.co.jp/english/stewardship/stewardship_report_2021.pdf

2 Climate change initiatives at Daiwa Real Estate Asset Management

Daiwa Real Estate Asset Management expressed its support for the TCFD recommendations in December 2021, and Daiwa Office Investment—which is entrusted with asset management—disclosed the results of a qualitative climate change scenario analysis based on these recommendations for the first time in July 2022 and newly formulated financial impacts on operations, countermeasures, and medium- to long-term CO₂ emission reduction targets.

In addition, our two real estate investment corporations (REITs)* have disclosed environmental performance data since 2021, including reduction targets and performance trends related to energy consumption, CO₂ emissions, and water usage, and each published a Sustainability Report 2022, which includes details of the above data and summarizes their approach to sustainability and specific ESG initiatives to reduce environmental impact in their business activities.

* Daiwa Office Investment Corp., Daiwa Securities Living Investment Corp.

For details of each REIT's disclosures, please visit the following websites.
Daiwa Office Investment Corp. <https://www.daiwa-office.co.jp/en/esg/index.html>
Daiwa Securities Living Investment Corp. <https://www.daiwa-securities-living.co.jp/en/esg/>

Initiatives to support a smooth transition to a carbon-free society through financial businesses

As a comprehensive securities group, we are strengthening our efforts to help our customers decarbonize. In finance, we focus on supporting issuers in Japan and overseas in their fundraising efforts. This includes green finance—which is specialized financing for decarbonization efforts in the environmental field, such as renewable energy power—and transition finance, which is attracting attention as a means of funding the transition toward a carbon-free society. In February 2022, we served as a structuring agent and lead manager for the world's first issuance of transition bonds by Japan Airlines in the

airline industry, assisting in drawing up the framework and acquiring a second party opinion (▶▶P87).
Globally, we are also helping our customers decarbonize by strengthening our tie-ups in Europe, which is a leader in the renewable energy sector. Specifically, we are accelerating business development through a 50% stake in Green Giraffe, a financial advisory business specializing in this field, and a capital/business alliance with Aquila Group, an investment management company in the same field (▶▶P91).

Participation in national and international initiatives

Decarbonization is a difficult challenge that can only be achieved by all sectors making a concerted effort together. The Group participates in, signs on to, and

endorses the following environmental initiatives (excerpts listed) in order to contribute to the development of a sustainable society through partnerships.



Response to Climate Change—disclosure based on the TCFD recommendations 2022

Daiwa Securities Group recognizes that responding to climate change is an important management issue for the early realization of a carbon-neutral society. In April 2018, the Group expressed its support for the Task Force on Climate-related Financial Disclosures (TCFD). Based on the TCFD recommendations, the Group disclosed information on Governance, Strategy, Risk Management, and Metrics and Targets regarding climate-related risks and opportunities.

Governance

In the area of Governance, the TCFD recommends disclosure on the Board’s oversight of climate-related risks and opportunities and management’s role.

Board oversight

The Group’s Board of Directors determines core management matters, such as basic management policy and the development of a risk management system. At the same time, the Board also delegates decision-making powers to the corporate executive officers as much as possible to expedite decision making and enhance the efficiency of Group management. In addition, by supervising the execution of duties of the directors and the corporate executive officers, the Board ensures the fairness and transparency of the Group’s management.

In terms of the Board’s oversight of climate-related issues, the Board receives reports, as appropriate, on the climate-related issues and responses discussed by the executive team. It makes decisions on the core management matters specified by the Regulations of the Board of Directors as well as matters the Board determines to be important.

For example, in FY2021, the Board also investigated the Group’s progress in sustainability KPIs before making decisions on review of the Medium-Term Management Plan.

In June 2021, Yumiko Murakami was appointed as an outside director and has been providing advice based on her expertise and knowledge of ESG.

In order to increase incentives for executives to address climate-related issues, the Compensation Committee decided in FY2021 to incorporate new sustainability KPIs, including climate-related KPIs, into the evaluation system for performance-linked compensation, and this will be continued in FY2022 (▶▶P111).

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, at the Executive Management Committee and the Group Risk Management Committee, a subcommittee. Climate-related

risks, in particular, are reported by the Chief Risk Officer (CRO), who is responsible for risk management, at the Group Risk Management Committee, which is chaired by the CEO.

The Group established the SDGs Promotion Committee chaired by the President and CEO in 2018. The Committee discusses issues and the direction of activities relating to SDGs/ ESG regularly and reports to the Executive Management Committee and the Board of Directors as appropriate. They, along with two outside members of the Committee (▶▶P21), participate in all of the Committee meetings, conducting deliberations based on their specialized knowledge and experience in environmental, social, and other fields.

For example, in FY2021, the SDGs Promotion Committee held discussions on such matters as GHG emissions reduction targets (the later mentioned formulation of the Daiwa Securities Group Net Zero Carbon Declaration), which were then reported to and deliberated on and decided by the Executive Management Committee. The Board of Directors also passed resolutions on each matter.

Since FY2020, the Group has appointed the Head of SDGs (Deputy President) to clarify management responsibility for sustainability, such as climate change, and is working to enhance governance even further.

Strategy

In the area of Strategy, the TCFD recommends disclosure on the actual and potential impacts of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning.

Approach to climate change

In May 2021, the Group formulated and announced Vision 2030. (▶▶P16). As Materiality related to the environment and climate change, the Group considers “Green & Social: Promoting the transition to a carbon-neutral society and realizing a resilient society” to be a priority area and has been advancing initiatives.

Climate-related risks and opportunities

Climate-related risks are the risks stemming from matters including tighter regulations and market change associated with the transition to a carbon-neutral society (transition risk) and risks stemming from physical damage caused by natural disasters, etc. (physical risk). In light of our Materiality,

we conducted qualitative analyses based on climate change scenarios (see Enhanced climate-related scenario analysis) and mainly identified the risks that may have negative impacts on the Group’s business, financial position, and operating results, as well as the business opportunities that may have favorable impacts, as described below (see table below).

Major impacts of climate-related risks on the Group

Type	Climate-related risks		Major assumed impacts	Assumed term
Transition risks	Policy and legal	Introduction and change of monetary policy that takes into account the impact of climate change	<ul style="list-style-type: none">• Weaker appetite for investment and lower funding needs among companies due to uncertainty associated with interest rate fluctuations• Higher borrowing rates would increase the Group's fund raising costs	Medium to long
		Higher carbon tax rates, taxation related to climate change measures	<ul style="list-style-type: none">• Decrease in profit opportunities caused by companies' deteriorated performance and reduced activities• Decline in investment performance through increased operational costs of investees• Dampened investment appetite among customers	Medium to long
	Technology	Delay in responding to changes in the industrial structure resulting from rapid technological innovation	<ul style="list-style-type: none">• Decline in the value of assets held by the Group• Decline in investment performance through deteriorated performance of investees	Medium to long
	Market	Increase in credit risks in sectors significantly affected in the course of transition	<ul style="list-style-type: none">• Decrease in underwriting business due to increase in companies' fund raising costs• Decline in the value of assets held by the Group and decrease in sales opportunities• Decrease in the balance of assets under management resulting from the decline in value of assets held by funds	Medium to long
	Reputation	Increase in reputational risk due to investment and underwriting related to businesses with a heavy environmental load and inadequate initiatives to address climate change	<ul style="list-style-type: none">• Decrease in business due to a bad reputation• Increase in fund raising costs due to a bad reputation	Short to long
Physical risks	Acute/chronic	Increase in disasters, such as torrential rain and powerful typhoons, and higher average temperatures	<ul style="list-style-type: none">• Decrease in the Group's business opportunities as a result of customers being significantly affected• Adverse impacts of damage to the Group's assets and impairment of asset values on business performance• Increased restrictions on business activities due to the Group's sales offices and employees being struck by disasters• Increase in various costs, such as disaster preparation and restoration/repair work	Short to long

Note: The lengths of impacts is assumed to be three to five years for the short term, five to 10 years for the medium term, and 10 to 30 years for the long term.

Climate-related opportunities

Climate-related opportunities
<ul style="list-style-type: none">• Increase in underwriting to raise funds needed for green projects and the transition to a carbon-neutral society• Increase in M&As in the carbon-neutral field, such as renewable energy• Expansion in opportunities for investing in new industries and companies that contribute to the transition to a carbon-neutral society• Expansion in investment opportunities through investment in photovoltaic power plants and other renewable energies, as well as introduction of external capital• Inflow of capital to investment trusts that incorporate companies actively working to address climate change• Expansion in business opportunities for providing solutions to assist in the transition to a carbon-neutral society• Expansion in business opportunities resulting from improvement in reputation through net-zero initiatives

Response to Climate Change

Initiatives promoted in relation to climate change

In light of the identified climate-related risks and opportunities, the Group will promote initiatives to address priority issues in Green & Social, one of the priority areas under Vision 2030. Such issues include promotion of green finance to support the realization of carbon-neutral society and development and provision of new financial products and services that contribute to the realization of a sustainable society.

Specifically, strengthen green finance/transition finance (▶▶P87), promote M&A in decarbonized fields such as renewable energy power, promote investment in new industries and companies

that contribute to the transition to a carbon-free society (domestic and overseas renewable energy investment), promote investment in renewable energy and investment through the introduction of external capital (capital recycling model) (▶▶P81), develop and provide new financial products and services that incorporate companies active in climate change, and strengthen solution businesses to support the transition (▶▶P97).

Particularly regarding the strengthening of green finance/transition finance, in October 2020, Daiwa Securities established a dedicated SDGs finance team to bolster the provision of sustainability-related solutions.

Enhanced climate-related scenario analysis

We conducted an analysis based on multiple climate change scenarios (see table below) in order to understand the impact of climate-related risks on our business activities (qualitative analysis) and on the carbon-related assets we own (quantitative analysis). As far as the qualitative analysis is concerned, the results showed relative concerns about economic and industrial stagnation/contraction, changes in financial markets (3 Disorderly Transition scenario), and the risk of direct damage from heavy rains and floods (1 Inaction (Hot House World) scenario). From a quantitative analysis perspective, the total estimated loss through 2050 for carbon-related assets in the TCFD recommendations (see footnote under Metrics and Targets) are approximately ¥40 billion (3 Disorderly Transition scenario). Based on these results, we will examine the Group's strategy and response policy.

This scenario analysis is based on the limited information and data available at this time, and estimates are based on narrowing down the analysis target and setting the necessary assumptions. We conservatively interpret the results of the calculations obtained in this scenario analysis and will obtain more information and relevant data to improve our analytical methods in the future.

Scenario analysis overview

Type	Qualitative analysis	Quantitative analysis
Assumed scenarios	Three independently developed climate change scenarios 1 Inaction (Hot House World)*1, 2 Orderly Transition*2, 3 Disorderly Transition*3	
Analysis targets	Overall Group businesses	Owned carbon-related assets
Analysis methods	① Interviews with each division, etc., based on scenarios ② Identify items with significant financial impact based on the above	① Extract positions in the carbon-related assets sector ② Calculate the expected loss by applying scenarios to the above
Analysis time period	2050	
Analysis results	Concerns about economic/industrial stagnation and contraction, changes in financial markets, and the risk of direct damage from heavy rains and flooding, etc.	Approx. ¥40 billion (estimated loss, 30-year total)

*1 The lack of additional measures will increase CO₂ emissions and cause a significant increase in temperature (over 2°C). Physical risks become apparent.
*2 Immediate measures are taken to ensure an orderly transition toward net zero emissions in 2050 (1.5°C). Mainly transition risks become apparent.
*3 Late implementation of measures leads to a disorderly transition (1.5°C) toward net zero emissions in 2050. Mainly transition risks become apparent.

Transition plan

In August 2021, the Group announced the Daiwa Securities Group Net Zero Carbon Declaration and the roadmap for achieving net zero carbon (▶▶P93). Under the Declaration, we aim to 1) achieve net zero GHG emissions within our own operations by 2030 (Scope 1 and Scope 2), 2) achieve net zero GHG emissions within our investment and loan portfolios, etc.,

① Initiatives to promote net zero Scope 1 and Scope 2

Item	Example
Energy saving activities	<ul style="list-style-type: none">Continue to increase the efficiency of energy use (introduction of energy-saving technologies and systems at facilities, enhancement of business efficiency, etc.)Change company cars to eco and hybrid vehicles
Introduction of renewable energy power	<ul style="list-style-type: none">Our own power contracts in Japan: Switch to renewable energy by utilizing energy plants owned by Daiwa Energy & Infrastructure Co. Ltd.Other companies' power contracts for rental properties, etc.: Urge owners to switch to renewable energy power
Other	<ul style="list-style-type: none">Utilize carbon offsetting, such as emission rights trading

by 2050 (Scope 3), and 3) support the smooth transition to a carbon-neutral society through our business activities. Specifically, introduction of renewable electricity, etc., for 1) and set intermediate targets in FY2023 to achieve net zero GHG emissions within our investment and loan portfolios (see chart below) for 2).

② Initiatives to promote net zero Scope 3

Item	Example
Consideration of management methods	<ul style="list-style-type: none">Measure and disclose by utilizing PCAF's knowledge and databaseStrengthen monitoring management structure
Establishment of intermediate target	<ul style="list-style-type: none">Establish an intermediate target to align with the Paris Agreement goals by utilizing science-based targets (SBT), etc. (within FY2023)Implement and strengthen engagement with investees

Risk Management

In the area of Risk Management, the TCFD recommends disclosure on how the organization identifies, assesses, and manages climate-related risks.

Managing climate-related risks

We have introduced the risk appetite framework (RAF) to establish a risk-taking policy that aligns with our business strategy and to strengthen risk governance as a global financial institution (▶▶P124). We have documented this framework in our Risk Appetite Statement, which is deliberated and decided by the Board of Directors and reviewed twice a year. Since FY2021, we have added climate change risks to the Risk Appetite Statement in an effort to appropriately identify, assess, and effectively manage climate-related risks according to their risk profiles. (▶▶P119)

The risk events that require special attention in light of the Group's business characteristics are selected and managed as Top Risks. In FY2022, we positioned climate change risks as Top Risks, taking into consideration the importance of managing climate-related risks (▶▶P126).

Daiwa Securities Group faces various risks in business. Therefore, the Group implements integrated risk management—the practice of measuring the impact on capital and liquidity

within the Group from a forward-looking perspective. Climate-related risks are factors that cause or increase various risks, such as market risk, credit risk, and liquidity risk. Accordingly, the Group is continuously developing a system that enables the impacts of climate-related risks to be considered within its existing risk management framework.

Management of environmental and social risks in finance

In June 2021, the Group formulated and released its Environmental and Social Policy Framework (revised in December 2021). This Framework covers new investments, loans, and underwriting for the issuance of bonds and stocks (hereinafter, financing) and defines prohibited and restricted businesses (see table on the next page).

When providing financing, we conduct ESG due diligence on the eligible projects to determine whether or not to go forward with financing.

Strengthening of engagement with stakeholders

The Group is strengthening engagement (constructive dialogue) with stakeholders, including issuers and investors, to provide financial support for customers' shift to decarbonization. Through this initiative, we are reinforcing our risk management (▶▶P134).

Response to Climate Change

Prohibited business and restricted business

Prohibited business		Restricted business
<ul style="list-style-type: none">• Businesses that negatively impact UNESCO-designated World Heritage Sites• Businesses that negatively impact wetlands designated under the Ramsar Convention• Businesses violating the Washington Convention• Businesses involving human rights violations such as child labor and forced labor	Cross-sectional	<ul style="list-style-type: none">• Businesses affecting indigenous communities• Businesses involving land expropriation that leads to involuntary relocation of residents
	Specified	<ul style="list-style-type: none">• New construction of coal-fired power generation• Weapons of mass destruction / inhumane weapons manufacturing• Palm oil plantation development• Business involving deforestation• Coal mining• Large-scale hydroelectric power generation construction• Oil and gas development

Metrics and Targets

In the area of Metrics and Targets, the TCFD recommends disclosure of the metrics and targets used to assess and manage relevant climate-related risks and opportunities.

Based on the above Strategy and Risk Management process, the Group sets and monitors the following indicators and targets.

Metrics and targets, results

Metrics	Target	Result (FY2021)
GHG emissions*1	Scope 1, 2 Net zero by 2030 Scope 3 Net Zero by 2050	Scope 1: 954 (t-CO ₂) Scope 2: 18,790 (t-CO ₂) Scope 3: 3,321 (t-CO ₂)
Balance of investment in SDGs-related business	¥150 billion or more (FY2023)	¥116.2 billion (as of 4Q)
Carbon-related assets*2 (Newly set)	*3	Approx. ¥340 billion

*1 Calculated for CO₂ for the Group; Scope 3 covers leased vehicles (Category 8), commuting (Category 7), and business trips (Category 6).
*2 Total of CLOs (collateralized loan obligation), investments, financing, and LMS (liability management operations). The 22 industries covered are the energy, transportation, materials/construction, and agriculture/food/forestry sectors of the TSE's 33 industry categories. In the case of investments and buying shares, companies in the real estate industry, which are consolidated by the Group, are excluded from the calculation. In FY2022, we plan to consider including these in the calculation. The breakdown of industries is 3% energy, 3% transportation, 13% materials/construction, and 1% agriculture/food/forestry, with a subtotal of 20% carbon-related assets.
*3 Efforts are being made to set targets.

Looking ahead

The Group will continue to contribute to the realization of a carbon-free society by further enhancing information

disclosure based on the TCFD recommendations and strengthening communication with stakeholders.

Future responses

Item	Future responses
Governance	<ul style="list-style-type: none">• Strengthen the Board's oversight of climate-related issues
Strategy	<ul style="list-style-type: none">• Review and refine climate change scenarios• Continuously consider the financial impacts of climate-related risks
Risk management	<ul style="list-style-type: none">• Continuously review the Environmental and Social Policy Framework• Continue to consider integrating climate-related risks into existing risk management system
Metrics and targets	<ul style="list-style-type: none">• Consider GHG emissions management methods for investment and loan portfolios• Establish intermediate targets to align with the Paris Agreement by utilizing science-based targets (SBT), etc.• Build Group-wide monitoring structure for Scope 3 Category 15

Foundation of sustainable management

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Message from the Chairperson of the Board



Further enhancing the effectiveness
of governance amid a drastically
changing environment

Takashi Hibino
Chairperson of the Board
Daiwa Securities Group Inc.

Corporate governance and the Tokyo Stock Exchange's market restructuring

Following revisions to Japan's Corporate Governance Code in June 2021, some have pointed out that each revision has moved the Code further away from a principle-based approach, and toward a more formalism-based or rules-based approach. From the perspective of corporations, the principle of comply or explain has grown weaker, and we cannot deny the impression that the compelling force of comply alone has, in practice, grown stronger. One of the reasons for this is the fact that the passive asset management ratio among institutional investors has increased to 65% as of the end of June 2021. It is not realistic for passive investors to analyze every constituent issue of a stock index. For this reason, investors find it difficult to consider the situation of each company when exercising voting rights, and it seems that in some respects formulaic or by-the-numbers judgements are the only option. Following from this situation, meeting formulaic criteria is prioritized, and it appears that in some cases individual companies have forgone honestly discussing forms of beneficial governance.

The Code was revised again in conjunction with the market restructuring implemented by the Tokyo Stock Exchange in April 2022. This recent market restructuring, I believe, holds a certain amount of significance in that it likely triggered the boards of directors at many listed companies to hold discussions anew regarding the meaning of being listed and the costs and benefits of this status. Yet, more than 80% of companies listed with the former First Section of the Tokyo Stock Exchange, or just over 1,800 companies, selected the Prime Market, which is considered a market for companies that prioritize constructive dialogue with global investors. As a result, we can surmise that companies with a relatively small market capitalization and size had little choice but to spend a fair amount of energy on

complying with the Code. And I have also heard that these companies have struggled quite a bit to secure the required number of outside directors. Going forward, I believe that individual companies will be increasingly required to converse with the market through proactive explanations that correspond with their specific situations, not across-the-board compliance.

The Corporate Governance Code, which has been revised repeatedly every three years, must in the future be verified based on facts as to how the Code functions to increase corporate value. The council of experts concerning the follow-up of Japan's Corporate Governance Code, which kicked-off in May 2022, received an assessment from investors, board advisory bodies, and academics that these revisions have led to formulaic improvements in corporate governance, whereas companies and other investors, as well, were critical, stating that, conversely, the revisions have not produced results and that they raised the risk of falling into a rules-based approach. Although there are many challenges, as one of the responsible parties for capital markets, Daiwa Securities Group must work together with the financial authorities and the Tokyo Stock Exchange toward further improvement of the capital market, including the market restructuring implemented by the Tokyo Stock Exchange, which has taken its first steps.

The major current of sustainability remains unchanged

In recent years, the business conditions encompassing companies have changed significantly. Meanwhile, the pandemic and the Russian invasion of Ukraine have disrupted global supply chains, driven up resource prices, and accelerated inflation. As a result, national governments and companies are now faced with the prospect of fundamentally revising their supply chains and securing energy using different means than in the past.

In light of these trends, in some cases investors have

begun to temporarily set aside decisions centered upon sustainability, including transitioning to a net zero society, when they engage with companies. On the other hand, however, we have also seen facets indicating the achievements of stakeholder capitalism, including the withdrawal of multinational corporations from Russia. Despite the existence of emergency arrangements relying on conventional energy sources, the medium- to long-term shift toward renewable energy from the perspective of energy security will likely accelerate. In other words, the major current of prioritizing sustainability remains unchanged, so companies must take action.

Moreover, New Form of Capitalism as proposed by the Kishida Cabinet presents central policy issues that include investments in GX (Green Transformation), shifting from savings to investments (Doubling Asset-based Incomes Plan), and startup company assistance. Meanwhile, companies will need to engage in M&As and large-scale financing in order to address today's volatile business environment. So, one of our important missions here is using capital markets to fully support challenges that once again bring about dynamism in the Japanese economy. The number of opportunities where the Group must contribute will only increase into the future.

Contributions of outside directors to sustainable growth

The primary role of our Board of Directors as a company with Three Committees System is monitoring and supervising management. Amid the Group's efforts toward sustainable growth, however, the reason why we successfully welcomed the 120th anniversary of our founding is in some sense a result of the management team that has at times been able to demonstrate a healthy animal spirit in the face of the various changes that have occurred in the business environment thus far. Therefore, the Board of Directors requires a monitoring and supervisory function that can support the animal spirit of corporate management.

As Board members, the outside directors are privy to information about the Group as insiders, and based on the diversity of their respective backgrounds and knowledge, they provide various opinions and insights regarding the Group's management. And the very awareness that we are monitored by this group of individuals, I believe, creates a positive sense of tension among the management team.

As one of the more recent members elected to the Board, director Iwamoto is an experienced manager with the highest level of knowledge in the fields of DX and cybersecurity in Japan, based upon which he provides

practical, beneficial advice. Similarly, director Murakami, another recent member, possesses an international perspective and a deep understanding of capital markets, and is also engaged in supporting startup companies involved in ESG. As a member of the Government's Council of New Form of Capitalism Realization, she has provided beneficial insights from a new perspective. In this way, the composition of our current Board of Directors, I feel, closely approaches the vision for which we must aim. In order to support the Group's sustainable growth, the succession of the outside directors is one of the most important issues.

As the Chairperson of the Board, I strive to invigorate discussions among the Board members, including the outside directors. And I work to strengthen prior explanations before Board meetings, primarily to provide more time for discussion at actual Board meetings. In some cases, I even ask the Board members to view videos of deliberations of the Executive Management Committee ahead of time. In terms of my role as Chairperson, my time spent administering the agenda on the day of the meetings is important, as is my time spent outside the Board. In order to ensure that communication between the internal directors and outside directors, as well as between the outside directors themselves, proceeds smoothly in various directions, I hold offsite meetings and support the Outside Directors' Council, for example. Although I also consecutively serve as a corporate executive officer, I feel that the advantages of an internal chairperson are significant from the standpoint of management continuity and seamless cooperation between those in executive and supervisory positions.

In addition to accurate monitoring by the Board of Directors, I am certain a management team that engages in more dynamic management while receiving insights and advice from outside directors is a vision for effective corporate governance that contributes to sustainable growth.



Nominating Committee Report



Comment from Committee Chair

In FY2021, while verifying the Group's efforts so far in improving governance, we deepened our consideration with regard to further improvements to the composition of the Board of Directors, the desirable term of office for outside directors, and the qualities required of a CEO.

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
Chair of Nominating Committee

Consisting of five outside directors, including the Chair, 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 FY2021, 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, the CEO succession plan as well as the term of office of outside directors.

In light of the revised Corporate Governance Code and considering the situation of other companies, 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. With regard to the CEO succession plan, the Committee discussed the qualifications required of a CEO and the training of a successor. From the perspective of, for example, the independence of outside directors, the Committee also examined concepts for the term of office of outside directors.

Composition of Board of Directors

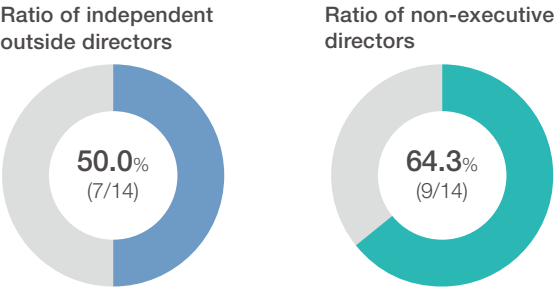
- ▶ In principle, two or more persons, and equal to or more than one third of the Board of Directors, are to be appointed as independent outside directors. Moreover, the majority of directors may not concurrently serve as corporate executive officers
- ▶ To ensure a balance of knowledge, experience, 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

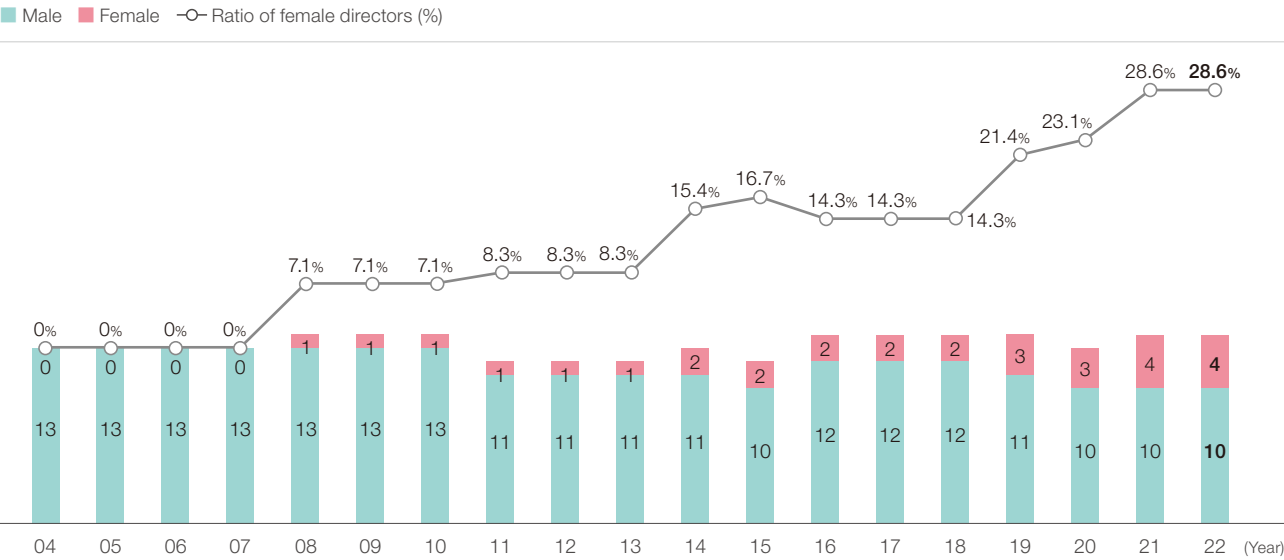
- Director candidates are nominated based on the following policies.
- ▶ Able to exert maximum effort to realize Daiwa Securities Group's Corporate Principles
 - ▶ Have a high sense of ethics and morals and take the initiative to set a good example
 - ▶ Have experience in the course of business or have 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



Changes in the 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 FY2021 Nominating Committee Activities

June 2021	• Consideration of director candidates
June 2021	• Selection of the Chair of the Committee, etc.
October 2021	• Consideration/confirmation with regard to composition of the Board of Directors • Consideration with regard to term of office of outside directors
December 2021	• Confirmation of policies for nomination of director candidates • Status report on key officers who can be considered as candidates for succession • Consideration with regard to term of office of outside directors • Confirmation of CEO succession plan
March 2022	• Appointment of director candidates
March 2022	• Confirmation of compliance with Corporate Governance Code • Deliberation about external disclosure items

FY2022 Committee Members (Committee attendance status in FY2021, held six times)

Outside Director	Michiaki Ogasawara (Chair)	(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	(6 / 6)

Audit Committee Report



Comment from Committee Chair

To confirm the implementation status of customer-oriented management, the Audit Committee regularly conducts interviews from all Three Defensive Lines. The wealth management business is easy to match with the customer's point of view, and I am expecting its further development. The Group faces a wide range of risks, such as DX, which is an urgent issue, and sustainability, which is a medium- to long-term social issue. However, the Audit Committee will continue monitoring so that management will be able to quickly detect a variety of risks and minimize their impact.

Ikuo Nishikawa
Outside Director
Chair of Audit Committee

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

In addition to the members of the Audit Committee attending meetings of the Board of Directors, Audit Committee members selected by the Audit Committee (hereinafter referred to as Selected Committee Members) attend important meetings, such as the Executive Management Committee, and listen to reports from officers and employees. By sharing information with other Audit Committee members, the Audit Committee is striving to improve the environment for effective audits. In 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 16 times in FY2021, the Audit Committee carried out audits with the following as priority issues:

- ① Efforts toward "pursuing customers' best interests"

② Progress and management of the Hybrid Strategy

③ Effectiveness of internal controls in each of the domestic and overseas Group companies

FY2022 Committee Members (Committee attendance status in FY2021, held 16 times)

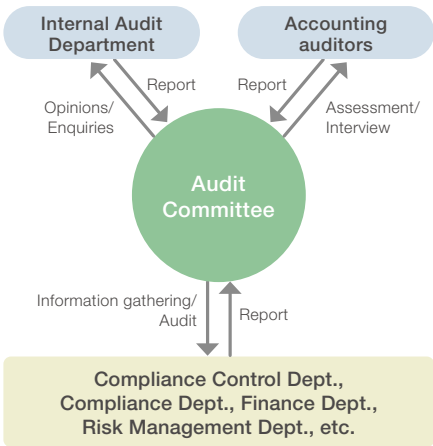
Outside Director	Ikuo Nishikawa (Chair)	16 / 16	Outside Director	Michiaki Ogasawara	16 / 16
	Sachiko Hanaoka	16 / 16		Eriko Kawai	16 / 16
	Hiromasa Kawashima	16 / 16		Katsuyuki Nishikawa	16 / 16
				Yumiko Murakami	12 / 12*

* Attendance status given is that for Audit Committee meetings held since appointment as a director of the Company in June 2021.

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. In the process of auditing the status of execution of duties, we also conduct checks from anti-corruption perspectives. The outside Audit Committee members share all important information with the Selected Committee Members and make recommendations as necessary.



FY2021 Priority Issues and Specific Audit Points

Efforts toward pursuing customers' best interests	Progress and management of the Hybrid Strategy	Effectiveness of internal controls in each of the domestic and overseas Group companies
<ul style="list-style-type: none">Establishment of a principle-based sales systemProviding products and services that respond to customer needsIncreasing sophistication of compliance monitoring functionSales reforms utilizing IT	<ul style="list-style-type: none">Sophisticated investment risk management	<ul style="list-style-type: none">Current status and issues of major domestic companies and overseas businessesStatus of risk management systems, including those relating to natural disasters and cybersecurity

Main Audit Activities

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

Compensation Committee Report



Comment from Committee Chair

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 further 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
Chair of Compensation Committee

The Compensation Committee of Daiwa Securities Group Inc. consists of four outside directors, including the Chair, and two internal directors, 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 FY2021, the Compensation Committee convened four 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 Chair, 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.

FY2021 activities of the Compensation Committee related to determining the amount of compensation for directors and corporate executive officers

April 2021	<ul style="list-style-type: none">Deciding of performance-linked remunerationConsideration of disclosure details following revisions to the Companies Act, etc.
June 2021	<ul style="list-style-type: none">Selection of the Chair of the CommitteeDeciding of stock-linked remuneration, etc.
October 2021	<ul style="list-style-type: none">Interim performance evaluation reviewVerification based on executive compensation survey data from external research organizations, etc.
March 2022	<ul style="list-style-type: none">Deciding of standard amount of performance-linked remunerationDeciding of the Policies for Determination of Remuneration of Directors and Corporate Executive OfficersDeciding of base remunerationDeciding of performance evaluation methods, etc.

FY2022 Committee Members (Committee attendance status in FY2021, held four times)

<div>Outside Director</div> Hirotaka Takeuchi (Chair)	(4 / 4)	<div>Outside Director</div> Ikuo Nishikawa	(4 / 4)
Takashi Hibino	(4 / 4)	<div>Outside Director</div> Toshio Iwamoto	(4 / 4)
Seiji Nakata	(4 / 4)	<div>Outside Director</div> Yumiko Murakami	(3 / 3)*

* Attendance status given is that for Compensation Committee meetings held since appointment as a director of the Company in June 2021.

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.

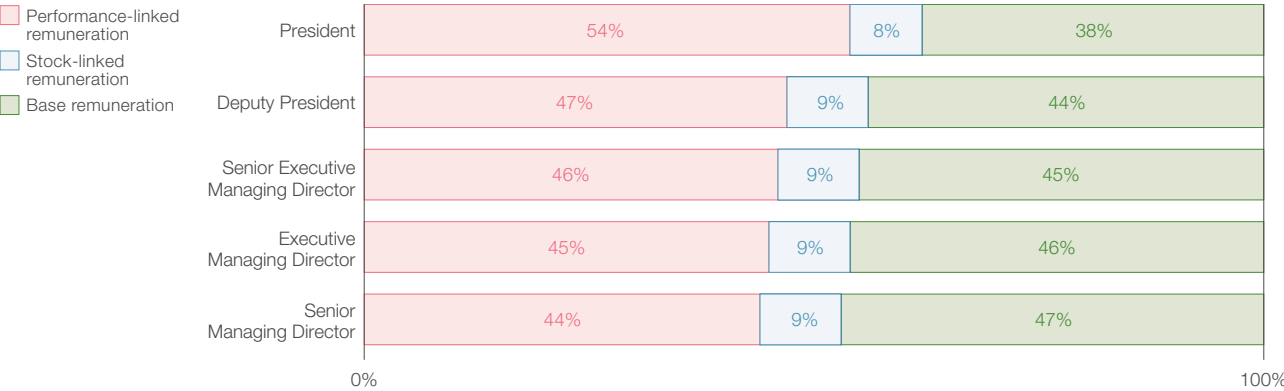
Compensation for directors and corporate executive officers is determined based on the following fundamental policies.	
▶ To create effective incentives, which contribute to the increase of shareholder value through sound business development and also lead to the improvement of business performance in 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:

Base remuneration	▶ A fixed amount calculated based on his/her position, duties and role, and paid monthly in cash.
Performance-linked remuneration	<ul style="list-style-type: none">▶ Determined depending on the level of individual contribution, based on consolidated ROE and consolidated ordinary income, which are settled as Performance KPIs of the Medium-Term Management Plan, while also comprehensively taking into account achievement status of the managerial goals set in the Medium-Term Management Plan and other relevant factors, and paid annually at a fixed time.▶ 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.▶ Does not apply to directors who do not serve as corporate executive officers.
Stock-linked remuneration	<ul style="list-style-type: none">▶ To increase the link between remuneration and 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.▶ Does not apply to outside directors.

Regarding individual remuneration, etc., for directors and corporate executive officers in FY2021, 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, how to determine performance-linked remuneration, and targets and results

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.

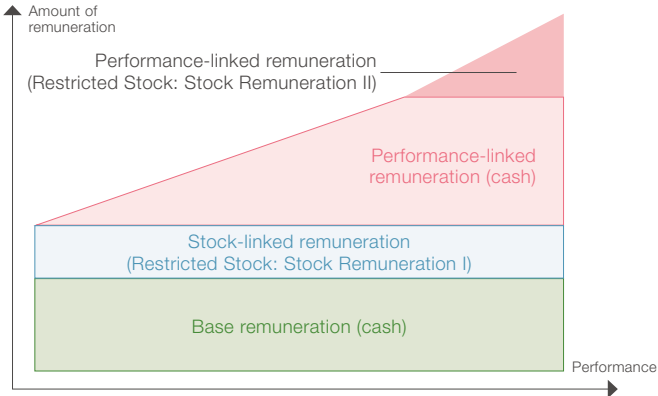
For the performance evaluation used to calculate performance-linked remuneration, the evaluation of financial performance based on Performance KPIs (calculated based on financial information) reflects a comprehensive quality evaluation of the KPIs other than Performance KPIs. Financial performance evaluation and quality evaluation are determined by the Compensation Committee.

Performance-linked remuneration is calculated by multiplying the reference value determined for each position and performance evaluation 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)		Actual values
			Points	Reference value*1				
Financial KPIs	Performance KPIs	Consolidated ROE	50	10%				7.0%
		Consolidated ordinary income	50	¥200 billion				¥135.8 billion
	Hybrid KPIs					Hybrid-related ordinary income	¥50 billion or more	¥32.0 billion
						Hybrid-related ordinary income ratio	Around 25%	23%
	Financial KPI					Consolidated total capital ratio	Maintain at 18% or higher	19.7%*2
Non-financial KPIs	Quality No. 1 (Customer-First) KPIs					Retail Division asset-based revenue ratio	50% or higher (4Q, FY2023)	46.1%
	Digital KPI					Daiwa Securities AUC	¥90 trillion or more	¥75.1 trillion
	Sustainability KPIs					Number of Digital IT Masters*3	200 personnel or more	—
						Number of CFPs and CMAs	3,000 personnel or more	2,830 personnel
						Balance of investment in SDGs-related businesses	¥150 billion or more	¥116.2 billion
						SDG bond league table	In top 3	Fourth
						Ouen (Supporting) term deposits balance	¥200 billion or more	¥152.5 billion
						Ratio of women on the Board of Directors	30% or higher (by 2030)	28.6%
						Ratio of women in management positions	25% or higher (FY2025)	18.3%
						Employee satisfaction	Maintain at 80% or higher	95%

*1 Reference value is determined by the Compensation Committee based on the Medium-Term Management Plan.
*2 Consolidated total capital ratio is as of December 31, 2021. The actual ratio as of March 31, 2022 was 19.8%.
*3 The number of Digital IT Masters was 34 as of July 31, 2022.

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.

Restricted Stock Compensation Plan

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

Stock Remuneration I (Stock-linked remuneration)	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.
Stock Remuneration II (Performance-linked remuneration)	A fixed limit is set for performance-linked remuneration, which is provided by cash based on performance, and if the amount exceeds the limit, part of the remuneration will be replaced by Restricted Stock. The restriction period is three years, and it will function as a substantial fee deferment when performance-linked remuneration exceeds a certain limit.

Compensation by Type of Officer, Remuneration, and Number of Eligible Officers (FY2021)

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	76	63	12	—	—	2
Corporate executive officers	1,284	549	202	532	—	16
Outside directors	141	141	—	—	—	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 (FY2021)

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	223	Corporate executive officer	The Company	69	23	83	—
			Daiwa Securities	46	—	—	—
Seiji Nakata	260	Corporate executive officer	The Company	69	23	121	—
			Daiwa Securities	46	—	—	—
Toshihiro Matsui	179	Corporate executive officer	The Company	61	17	75	—
			Daiwa Securities	25	—	—	—
Keiko Tashiro	132	Corporate executive officer	The Company	46	13	51	—
			Daiwa Securities	20	—	—	—
Kazuo Takahashi	129	Corporate executive officer	The Company	19	13	—	—
			Daiwa Securities	46	—	50	—
Mikita Komatsu	129	Corporate executive officer	The Company	19	13	—	—
			Daiwa Securities	46	—	50	—
Akihiko Ogino	108	Corporate executive officer	The Company	44	10	41	—
			Daiwa Securities	11	—	—	—
Shinsuke Niizuma	106	Corporate executive officer	The Company	10	10	—	—
			Daiwa Securities	43	—	40	—
Atsushi Mochizuki	106	Corporate executive officer	The Company	10	10	—	—
			Daiwa Securities	43	—	40	—

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.

Directors (Members of the Board)

(As of July 2022)

Internal Directors



1 Takashi Hibino 2 Seiji Nakata 3 Toshihiro Matsui 4 Keiko Tashiro 5 Akihiko Ogino 6 Sachiko Hanaoka 7 Hiromasa Kawashima

Chairperson of the Board

1 Takashi Hibino

Chairperson,
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
Head of Wholesale
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 has broad experience and knowledge in broad areas such as Retail, Wholesale, Investment Banking, Planning and Personnel.

4 Keiko Tashiro

Deputy President
Executive Head of Overseas
Operations
Head of SDGs and Think Tank
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 has broad knowledge and experience in Overseas and Corporate Planning.

5 Akihiko Ogino

Deputy President
Executive Head of Corporate Planning
and Human Resources
Deputy President,
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. 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.

Outside Directors



8 Michiaki Ogasawara 9 Hirotaka Takeuchi 10 Ikuo Nishikawa 11 Eriko Kawai 12 Katsuyuki Nishikawa 13 Toshio Iwamoto 14 Yumiko Murakami

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 seven years.

Significant concurrent positions

Advisor of Sumitomo Corporation; Advisor of Fujitsu Future Studies Center Ltd.; and Outside Director of Koei Tecmo Holdings Co., Ltd.; Chair of the Board Yu-cho Foundation

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 six years.

Significant concurrent positions

Professor of Harvard Business School (Senior Fellow); 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.; and Chair of the Board of Trustees of International Christian University

10 Ikuo Nishikawa

He has served as Representative Partner of Century Audit Corporation and Chairman of Accounting Standards Board of Japan. The Company has drawn on his expertise and experience nurtured throughout his career in providing management advice. He has been a director for six 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 Eriko Kawai

She has held positions such as the Pension Fund Administrator of BIS and OECD, and she has extensive experience at global companies and international organizations, as well as experience and record as a manager. 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; Outside Director of Mitsui Fudosan Co., Ltd.; and Senior Advisor of International Management Forum Co., Ltd.

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 three years.

Significant concurrent positions

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

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 two years.

Significant concurrent positions

Advisor of NTT DATA Corporation; and Outside Audit & Supervisory Board Member of IHI Corporation; Outside Director of East Japan Railway Company

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. The Company has drawn on her significant global experience and knowledge about corporate management and understanding of the securities business nurtured throughout her career in providing management advice. She has been a director for one year.

Significant concurrent positions

General Partner of MPower KK; Outside Director of Raksul Inc.

Corporate Executive Officers



Seiji Nakata*
President and CEO
President,
Daiwa Securities Co. Ltd.



Toshihiro Matsui*
Deputy President and COO
Head of Wholesale
Deputy President,
Daiwa Securities Co. Ltd.



Keiko Tashiro*
Deputy President
Executive Head of Overseas
Operations
Head of SDGs and Think Tank
Deputy President,
Daiwa Securities Co. Ltd.



Akihiko Ogino*
Deputy President
Executive Head of Corporate Planning
and Human Resources
Deputy President,
Daiwa Securities Co. Ltd.



Shinsuke Niizuma
Deputy President
Head of Retail
Deputy President,
Daiwa Securities Co. Ltd.



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



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



Tomoyuki Murase
Senior Executive Managing Director
and CIO
Senior 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.



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



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



Takashi Hibino*
Chairperson of the Board
Chairperson,
Daiwa Securities Co. Ltd.

* Holds the position of Director on a concurrent basis.

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 13 females as directors, corporate executive officers, executive officers and audit and supervisory board members.

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 chairs of all three committees
June 2020	The majority of directors shall be non-executive directors
April 2021	Established Corporate Governance Guidelines (April 1, 2021)
June 2021	Appointed half of the directors (seven out of 14) as outside directors
December 2021	The Company selected for inclusion in the new Prime Market segment on the Tokyo Stock Exchange (transferred on April 4, 2022)

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

Corporate Governance Guidelines

Corporate Governance Guidelines stipulate the basic framework and policy for Daiwa Securities Group corporate governance. They organize 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 equality, among others.
(Please refer to the Corporate Governance Guidelines Overview on the next page.)

Corporate Governance

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

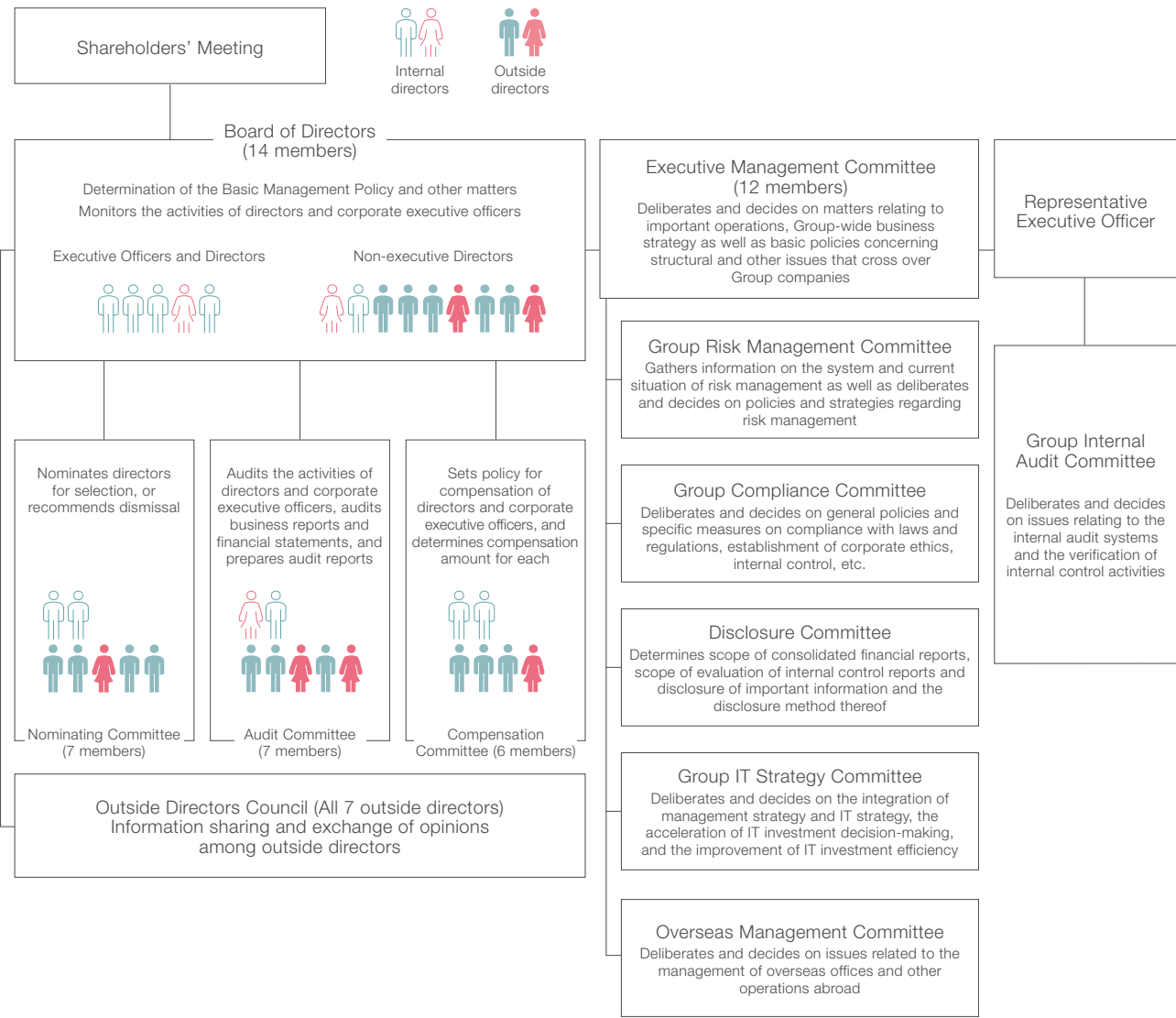
■ Outside Directors Council meetings

■ 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

Corporate Governance Guidelines
https://www.daiwa-grp.jp/english/about/governance/corporate_governance.html

Corporate Governance System at Daiwa Securities Group



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	7				●	●
Hiroataka Takeuchi	Nominating		6	●	●			
Ikuo Nishikawa		Audit★	6			●		
Eriko Kawai	Nominating	Audit	4		●			
Katsuyuki Nishikawa	Nominating	Audit	3				●	
Toshio Iwamoto	Nominating		2	●	●			●
Yumiko Murakami		Audit	1	●	●			

★ indicates committee Chair

Status of Attendance of Board of Directors' Meetings in FY2021

Takashi Hibino (Chair of the Board)	10 / 10	Akihiko Ogino	10 / 10	Outside Director	Ikuo Nishikawa	10 / 10
Seiji Nakata	10 / 10	Sachiko Hanaoka	10 / 10	Outside Director	Eriko Kawai	10 / 10
Toshihiro Matsui	10 / 10	Hiromasa Kawashima	10 / 10	Outside Director	Katsuyuki Nishikawa	10 / 10
Keiko Tashiro	10 / 10	Michiaki Ogasawara	10 / 10	Outside Director	Toshio Iwamoto	10 / 10
		Hiroataka Takeuchi	10 / 10	Outside Director	Yumiko Murakami	8 / 8*

* Attendance at the Board of Directors meetings since being appointed in June 2021

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 FY2020 evaluation

Based on the issues pointed out in the evaluation of the effectiveness in FY2020, many improvements were made and measures taken, including those listed below, in working to enhance effectiveness.

① Strengthening of Medium-Term Management Plan monitoring

Concerning the monitoring of the Medium-Term Management Plan by the Board of Directors, efforts were made to secure more time for discussion and to improve the depth of those discussions. With regard to the monitoring of Group companies, discussions were held based on reports from the presidents of each company.

② Strengthening of risk monitoring

As far as Top Risks are concerned, in light of growing social interest in SDGs/ESG issues, including climate change, geopolitical risks, fears of rising inflation and interest rates, DX, and cybersecurity as well as changes in the business environment, the scope and definition of major risks were reviewed and decided by the Board of Directors (reflected in the risk appetite statements). Discussions on monitoring important investment projects and cybersecurity were also held at Board of Directors' meetings.

Corporate Governance

③ Continuation of discussions on SDGs/ESG

The decision was made at a Board of Directors' meeting to formulate/revise the Environmental and Social Policy Framework and to set targets for reducing greenhouse gas (GHG) emissions (formulation of the Daiwa Securities Group Carbon Neutral Declaration).

④ Other

Discussions on human capital were held at Board of Directors' meetings. At meetings of the Outside Directors' Council, opinions were exchanged with outside directors on the basis of the CEO's summaries since his appointment.

■ Overview of the results of the effectiveness of the Board of Directors for FY2021

Regarding the evaluation of the effectiveness of the Board of Directors in FY2021, the Company evaluated the following items with reference to the advice of specialized agencies and confirmed that the effectiveness is ensured.

Evaluation Items	1. Management strategy 2. Risk management 3. Engagement with stakeholders 4. Composition and operation of the Board of Directors Questions relating to 1. Management strategy include Medium-Term Management Plans, SDGs/ESG, Group governance, corporate culture, and agenda items for Board of Directors' meetings.
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Each director awarded high marks to the monitoring of the Medium-Term Management Plan, reports from the presidents of major subsidiaries, and discussions on Top Risks. The themes mentioned as those that should continue to be addressed going forward included SDGs/ESG, DX, cyberse-
curity, human capital, geopolitical risk, and economic security.

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.

Major Agenda Items Covered by the FY2021 Board of Directors

Major discussion topics covered by the FY2021 Board of Directors	
Major resolution items	Current Medium-Term Management Plan review, Management policy
	Risk appetite statements (second-half · following first half-year)
	Selection for inclusion in the new market segment (Prime Market)
	Environmental and Social Policy Framework
	Greenhouse gas (GHG) emissions reduction target (Net Zero Carbon Declaration)
	Financial results, dividends/acquisition of treasury stock, executive appointments, etc.
Major reporting items	Annual plan monitoring
	Reports from major Group companies
	Risk monitoring
	Important new businesses, investments, and business alliances, and group restructuring
	Response to LIBOR reforms
	Response to revised Corporate Governance Code
	Engagement status with shareholders and investors, etc.
	Reports from the Nominating Committee, Audit Committee, and Compensation Committee
	Discussions on cybersecurity and human capital

Status on Stockholdings

■ Criteria and approach for the classification of investment shares

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

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

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

■ Investment stocks held for purposes other than purely investment purposes

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

The Company has established qualitative and quantitative standards for the holding of listed shares for purposes other than pure investment purposes (strategic shareholdings). The Company will hold the strategic shareholding shares only when they determine that such shareholding is of significance.

Outside Directors Council

The primary purpose of the Outside Directors Council is sharing information among the Outside Directors with the aim of also exchanging opinions on issues relating to the Board of Directors. There are also instances where outside experts conduct lectures as required. In FY2021 there were four meetings. Among the topics for discussion were: the role of outside directors when M&A proposals are made; the impact AI is having on socioeconomics; opinions on the plans for FY2021 Board of Directors' meeting agendas; human resource strategy; a review of the past year and how to proceed with the evaluation of the effectiveness of the Board of Directors in FY2021.

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.

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 2022 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.

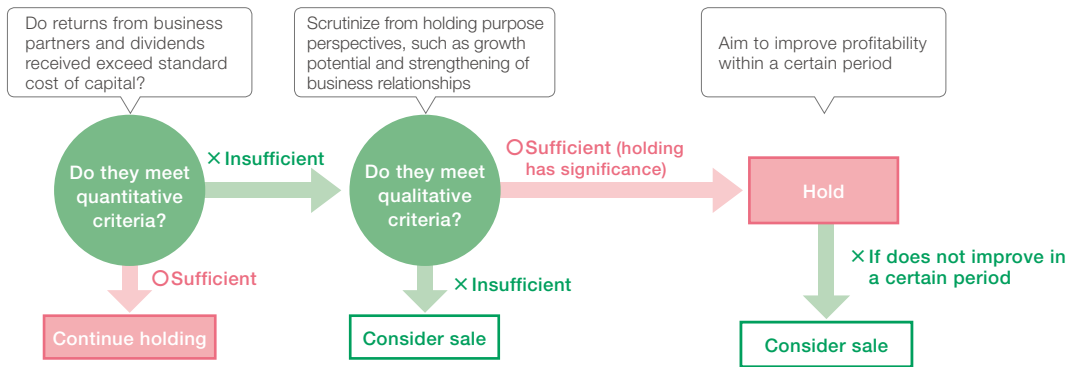
Reference: Suggestions and responses in past evaluations of Board of Directors' effectiveness

Evaluation FY	Points identified in evaluation of Board of Directors' effectiveness	Main responses to points identified
FY2014	Diversification of Board of Directors' members	Financial accounting expert appointed to outside directors
	Strategy/plan discussion enhancements	Established Outside Directors' Council, attended by executive team, to discuss the Medium-Term Management Plan
FY2015	Sharing of fiscal year plans, etc., with executive team	At Outside Directors' Council meetings, executive team explains outside director-selected themes and discusses them among outside directors
	Enhanced explanations of risk-related agenda items	Increased number of issues to discuss and expanded reports at Board of Directors' meetings, enhanced prior explanations, glossaries distributed
FY2016	Strategy/plan discussion enhancements	More exchanges of opinion and discussions with outside directors when formulating the new Medium-Term Management Plan
	Clarification of role of Board of Directors' meetings	Executive training by external instructors/Training at Outside Directors' Council meetings
	Diversification of Board of Directors' members	Appointed new outside director with international experience/wealth of experience and achievements in financial field
	Improving understanding of agenda items (financial expertise)	Glossary creation, preliminary explanation of risk-/regulatory-related matters by officers/managers in charge
FY2017	Sharing of requests from institutional investors, etc.	Requests/discussions from investors/analysts reported at Board of Directors' meetings
	Discussion of potential future risks, etc.	Business continuity plans (BCPs) discussed with outside directors
	Oversight of medium-term/annual plans	Status reports on Group numerical targets (quarterly) and departmental KPIs (half-yearly)
	Arrangement of succession plans	Status of development of successor candidates reported at Board of Directors' meetings
	Clarification of issues in meeting materials	Improved documentation, including compilation
FY2018	Sharing of requests from institutional investors, etc.	In addition to reporting at Board of Directors' meetings, sharing of external evaluations on a quarterly basis
	Discussion of potential future risks, etc.	Sharing awareness of outside directors' role with regard to compliance
	Discussions on SDGs	Development of SDGs promotion system and progress status reported at Board of Directors' meetings
	Governance system expansion	Official regulations for regular reviews of future CEO candidates put in place, reports from affiliated subsidiaries expanded
FY2019	Enhanced support for outside directors	Establishment of Corporate Secretariat Office Established Corporate Governance Guidelines, reconfirmed roles Outside directors' participation in discussions on new Medium-Term Management Plan from outset Increased opportunities for exchanges of opinions between Outside Directors' Council and outside directors and internal directors and responsible officers
	Strengthening of Group governance	Strengthening of reporting on important risk-taking by Group companies and governance of overseas bases
	Expansion of discussions on important issues	Confirmed customer-oriented business operations, SDGs/ESG initiatives, and COVID-19 response, actively discussed DX and potential future risks

Note: For FY2020, please refer to the main text.

Corporate Governance

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	114	17,601
Stocks other than unlisted stocks	104	110,406

(Companies for which shares were added in FY2021)

	Number of companies	Total amount acquired as added shares (millions of yen)	Reasons for adding shares
Unlisted stocks	3	547	Focusing on expanding its securities business, the Company acquired shares in two new companies with the goal of collaborating with and bolstering its relationship with business partners. Furthermore, one issue name was acquired through the return of investments associated with the dissolution of a silent partnership.
Stocks other than unlisted stocks*1	2	1,367	The Company acquired additional shares in one company with the goal of maintaining and strengthening its relationships with its existing partner in the securities-related sector. Furthermore, with the new listing of a previously unlisted stock owned by the Company, one issue name was added.

*1 One issue name was added through share exchanges.

*2 One issue name was deleted due to the new listing. In addition to the above, one issue name was deleted through share exchanges.

See the Company's Annual Securities Report for the fiscal year ended March 31, 2022 for information regarding each specified investment stock issue.
https://www.daiwa-grp.jp/english/ir/toolkit/pdf/report_01.pdf

■ 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.

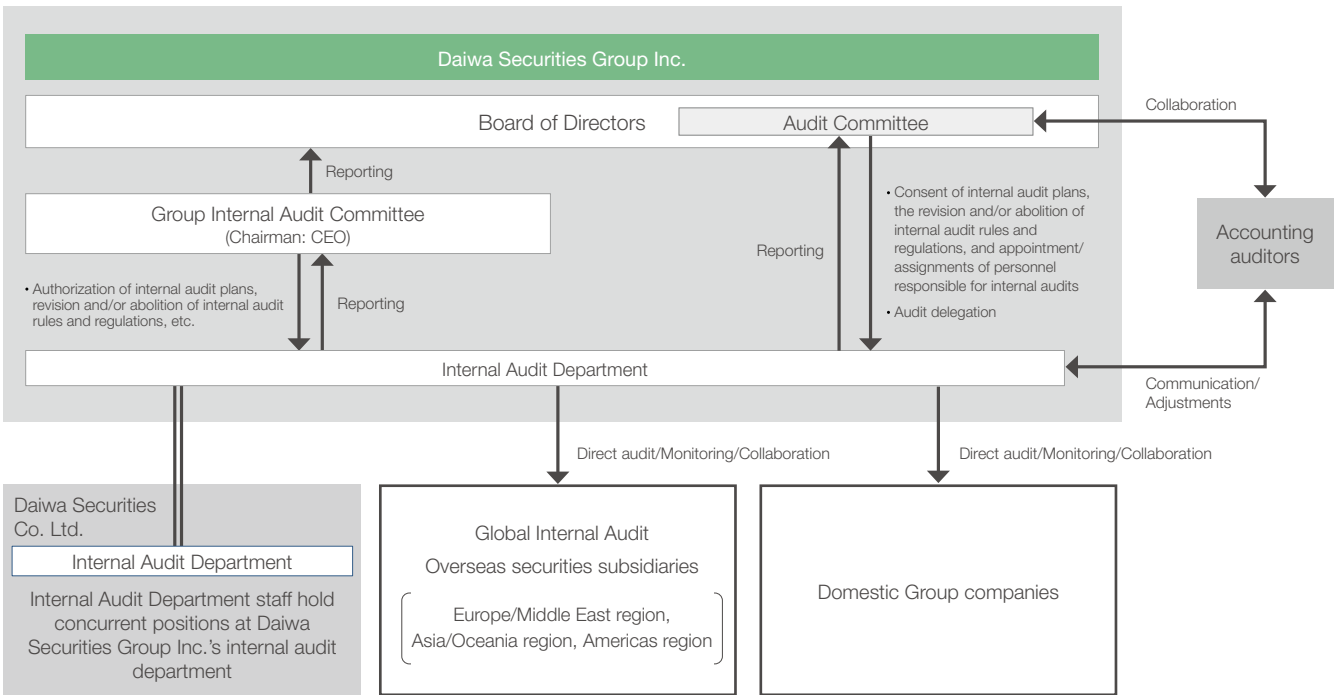
■ Internal audits

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

■ Whistleblowing system (Corporate Ethics Hotline)

The Group operates a Corporate Ethics Hotline through which employees can report acts of misconduct directly to a corporate ethics officer of Daiwa Securities Group Inc. or outside lawyers. This system primarily serves to detect and prevent violations of laws, regulations, and rules, and any other acts that risk damaging the Group's corporate value, at an early stage. In addition to Group officers and

employees, anyone who works at the Group's offices can use this system. When the hotline is contacted, the corporate ethics officer, in cooperation with the persons responsible for handling internal whistleblowing at each Group company, carries out a factfinding investigation, while taking steps to protect the caller. In FY2021, 48 reports were received through the whistleblowing system.

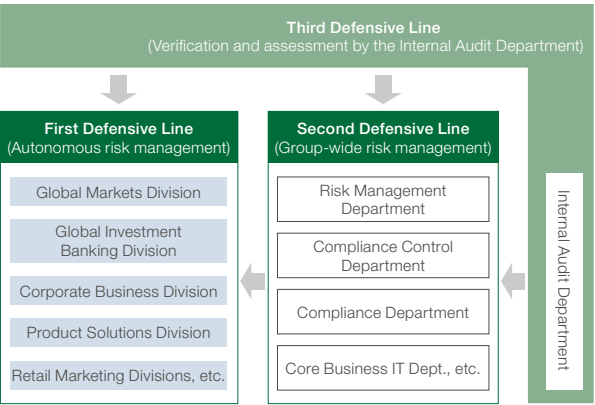
Structure and achievements of the whistleblowing system (Corporate Ethics Hotline)
<https://www.daiwa-grp.jp/english/about/governance/compliance.html>

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.

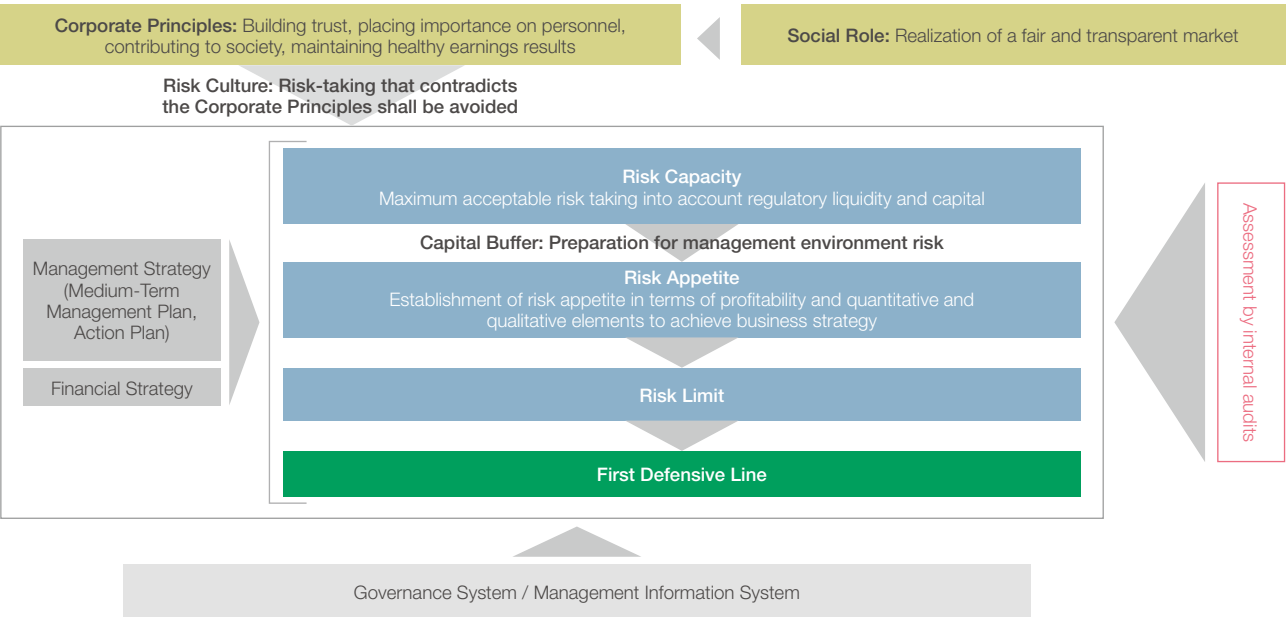


Risk Appetite Framework

International financial institutions are increasingly required to exhibit sufficient soundness to operate their functions as financial intermediaries during times of economic and market 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



The quantitative risk appetite index is a topic of discussion and determination by the Board of Directors as part of the Risk Appetite Statement and reviewed twice a year.

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

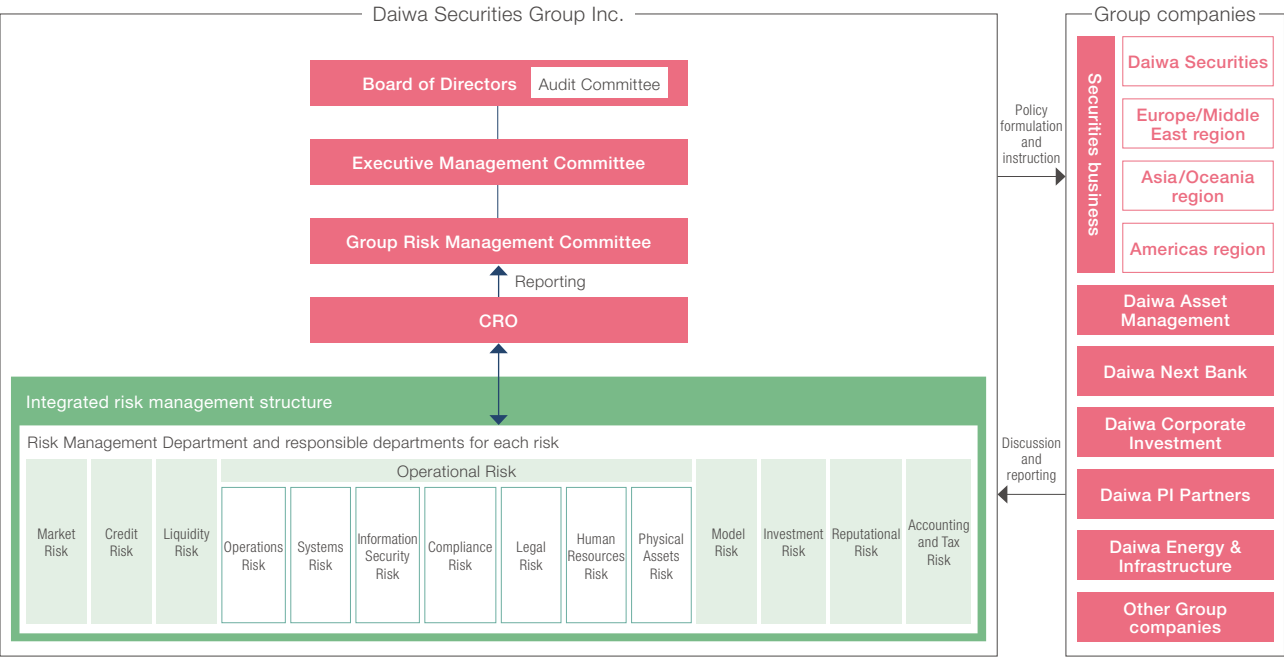
RAF-related audits of the Board of Directors and management business execution are conducted by the Audit Committee.

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 appropriately controlling climate-change risk and other risks that are likely to manifest over the medium to long term, in addition to short-term risks.

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 Group company conducts risk management suited to the risk profile and size of its business in accordance with the basic policies related to risk management. The Risk Management Department within Daiwa Securities Group Inc. and responsible departments for each risk monitor the risk management systems and risk status of Group companies. The risk status of Group companies grasped through such monitoring, as well as their risk management issues, is

reported to the CRO, who is appointed from among corporate executive officers, as necessary. The CRO gives directions to address the risk management system, risk status, and other issues for each company, verifies the performance of risk management systems, and conducts reviews if necessary according to the business scale, characteristics, and risk status of each company. The CRO is in charge of reporting risk to the CEO, and does not concurrently serve as the officer in charge of internal audits or as a member of the Audit Committee.

The risk status and other issues of Group companies are reported to the Group Risk Management Committee, a sub-committee of the Daiwa Securities Group Inc. Executive Management Committee. This committee deliberates and decides on policies for risk management and specific measures. The Group Risk Management Committee also deliberates and revises the risk management process. This committee is comprised separately from the Audit Committee, and also reports on the details of its discussions to the Audit Committee.

Risk Management

The Board of Directors verifies the performance of risk management systems and processes through deliberation and decisions on RAF and Top Risk-related matters. 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.

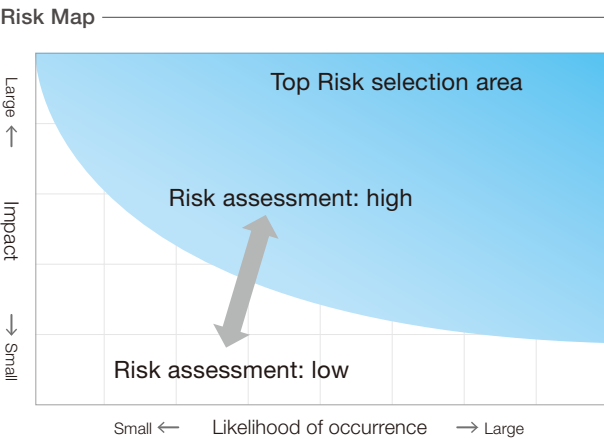
Because the Group utilizes its own accounts to temporarily hold product positions for sales purposes and to provide products to customers, the Group is subject to market risk due to market fluctuations and risk for which hedges do not function, foreign currency and other liquidity risk, credit risk related 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. 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* and Top Risk management to manage risk on an integrated basis, including measuring the impact on capital and liquidity within the Group from a forward-looking perspective.

* 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.

Top Risks

The risk events that require special attention in light of the Group's business characteristics are selected and managed as Top Risks. Top Risks are selected by management, for which a framework has been established that enables management to identify and debate a wide range of risks during the selection process. Specifically, in order to comprehensively visualize as many risk events as possible, related departments organize and extract risk events based on cases collected from within and outside the Group, and present these as candidates for Top Risks. Following this, the directors and corporate executive officers of Daiwa Securities Group Inc. make a forward-looking assessment regarding these risk events based on their degree of impact on the Group's performance and likelihood of occurrence, and extract and select the top risks from among these candidates.

In particular, the Group has positioned climate change as one of the Top Risks, and conducts climate change scenario analyses using stress tests. The results are then reported to management and disclosed.



Addressing the TCFD
<https://www.daiwa-grp.jp/english/sdgs/environment/tcfd.html>

List of Top Risks

Risk Event	Example
Worsening of international dispute and conflict	Intensifying war between Russia and Ukraine, US-China conflict, etc.
Inflation concern and interest hike in US	—
Increased awareness of social contribution (ESG)	Impairment of the Group's reputation resulting from its ESG responses and disclosure being viewed as inadequate
Rapid spread of digital transformation (DX)	Decline in competitiveness due to inadequate DX responses
Climate change	Decline in value of holding assets and decrease in disposition opportunities due to climate change
Large-scale earthquakes and floods	Increase in various costs following disasters
Deteriorated performance and impaired asset values at investees	—
Cyberattacks	—
System failure	—
Compliance risk	Inappropriate act, etc., by officers and employees, including money laundering and insider trading
Information security risk	Leak of material information, etc.

1 Market risk management

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

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

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

*¹ Value at Risk (VaR) represents the maximum possible loss of a given trading portfolio with a given probability over a given time horizon.
*² Stress tests are used to calculate the Group's maximum losses based on scenarios of the most significant market fluctuations of the past and due to scenarios based on hypothetical risk events.

2 Credit risk management

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

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

Counterparty risk

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

Issuer risk

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

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, consolidated net stable funding ratio, and its own liquidity management indicators.

The Group performs daily checks to ascertain that the liquidity portfolios 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, which allows the Group to continue its business operations even when it becomes impossible to procure funds without collateral for a full year.

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

4 Operational risk management

Operational risk is the risk of losses that occur when internal processes, people, and systems do not perform adequately or do not function; it can also arise from external events.

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

Major Group companies control their operational risks appropriately using risk control self-assessments (RCSAs) and other measures in accordance with the rules for operational risk management established by Daiwa Securities Group Inc. In addition, the Group has taken other necessary measures, including the implementation of rigid rules concerning

Risk Management

authority, the automation of office operations for reducing human errors, and the preparation of procedural manuals. Each Group company strives to reduce operational risk according to the nature of its own business.

Note: RCSA

RCSA (Risk Control Self-Assessment) uses a predetermined assessment sheet to identify and assess operational risks, analyzes risks based on frequency of occurrence and impact, and evaluates and verifies efficacy of risk mitigation efforts.

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 (▶▶P131)
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.

In light of the business environment, which is rapidly changing and difficult to predict, the Group is also building and strengthening a digital transformation (DX) promotion system. Having for example established a Data-Driven Business Council, chaired by the President, with the participation of various headquarters, at Daiwa Securities we are promoting a transformation to a Data-Driven Business Model that aims to improve business efficiency and improve the top line through data analysis, research, and utilization. Having newly put in place our Digital IT Master certification system, by which we will develop the human resources who will assume responsibility for business transformation utilizing advanced digital technology, and newly established Daiwa Digital College, which aims for all employees to acquire and master the IT and information analysis skills that they should possess for the realization of DX, we are working to develop human resources with digital IT expertise.

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, develop infrastructure to ensure business efficiency and safety, comply with legal requirements, and enhance the risk management system.

In FY2021, we made progress with initiatives designed to expand our points of contact with customers. These initiatives included the construction of a new CRM system*1 to support sales staff consulting activities, the renewal of Internet services aimed at user-friendly screens and menu structures for our customers, and system support for collaboration relating to discretionary investment services with Japan Post Group. In addition to promoting the construction of data

storage and analysis infrastructure, so that all Daiwa Securities officers and employees are able to make decisions based on data, efforts were also made to streamline middle- and back-office operations and to introduce a zero trust*2 security platform.

*1 Customer Relationship Management: A system that centrally manages customer information, such as contact history and transaction records with customers.
*2 A security concept that does not trust every access, be it internal or external, to data systems that must be protected and verifies its security.

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, in addition to working to strengthen systems for detecting and monitoring cyberattacks, continue to work toward improving the Group's 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 developing the cybersecurity management system, we are giving consideration to specific measures based on, for example, trends in cyberattacks, regular breach tests and vulnerability assessments by external specialist companies, and risk assessments within the Group based on them. During the period covered by the current Medium-Term Management Plan, we are planning to make our technological countermeasures, operational resilience, and governance more sophisticated. Specifically, we will be strengthening technological measures centered on building the zero-trust security infrastructure and human resources measures, including raising the awareness of officers and employees through enhanced education and training. In addition, through the development of global policies, we are strengthening the governance of domestic and overseas Group companies, while proceeding with the development of a system to prevent damage from cyberattacks and prevent their effects from spreading inside and outside the Group.

* 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

- ▶ Preventing insider trading
- ▶ Eliminating relationships with anti-social forces
- ▶ Securing information

Compliance System

The Group Compliance Committee deliberates and decides general policies and specific measures on matters involving compliance with laws and regulations, establishment of corporate ethics, and internal control for the Group.

The Group is engaged in compliance risk management regarding three priority items that are common to all Group companies, namely ▶securing market fairness and transparency, ▶eliminating anti-social forces (including measures for combatting money laundering and terrorism financing), and ▶information security.


At Daiwa Securities Group Inc., the Compliance Control Department, which is responsible for overall compliance planning and formulation, and which serves as a market gatekeeper, and the Compliance Department, which is tasked with providing direction and support to the sales branches and headquarters departments and divisions, collaborate in improving and strengthening Group-wide compliance systems.

In addition to those at domestic Group companies, the Group also works closely with the compliance departments at overseas Group companies in order to build a global compliance system.

Daiwa Securities Initiatives

At Daiwa Securities, the Compliance Department monitors transactions and solicitations by sales branches, identifies challenges and issues, and visits sales branches to check their business status and provide instructions. The Department also regularly conducts on-site inspections. Moreover, it visits the work sites of headquarters departments and divisions directly, identifying issues and providing training support. The Department uses online tools when providing face-to-face instructions and support is difficult due to the COVID-19 pandemic. The Customer Counseling Center, established within the Compliance Department, comprehensively handles customer feedback and complaints and reflects them in the business to improve customer satisfaction.

One of Daiwa Securities’ strengths lies in its stationing of full-time internal administrators at all sales branches. These internal administrators serve as Compliance Managers and work to improve the effectiveness of the PDCA cycle (plan, do, check, act) at each sales branch. They also cooperate closely with the Compliance Department in an effort to build a solid compliance system.

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

Tax Policy

In order to enhance corporate governance as it relates to taxation, Daiwa Securities Group has established the Daiwa Securities Group Tax Policy, which serves as a code of conduct and decision-making standard for taxation. All Daiwa Securities Group companies in Japan and overseas shall comply with it.

Daiwa Securities Group Tax Policy

1. Compliance

Daiwa Securities Group fulfils its social responsibility by complying with laws and ordinances of every country and region, and through appropriate tax payments with high ethical standards.

2. Tax Planning

Daiwa Securities Group makes every effort to eliminate tax risks by eliminating double taxation through tax treaties and other means, optimizing tax expenses through appropriate use of preferential tax treatment, and conducting appropriate tax treatment in light of the tax regulations of each country and region.

In addition, Daiwa Securities Group shall not engage in any inappropriate transactions without economic substance such as the transfer of profits to low-tax countries or regions, or the use of tax havens solely for the purpose of tax avoidance.

3. Transfer Pricing Taxation

For cross-border intragroup transactions, Daiwa Securities Group sets appropriate prices which comply with arm’s length

principles in accordance with the OECD Transfer Pricing Guidelines as well as tax laws and ordinances in each country and region.

4. Appropriate Disclosure

Daiwa Securities Group provides transparent and appropriate disclosure of its tax policy and other tax-related information.

5. Responsibility

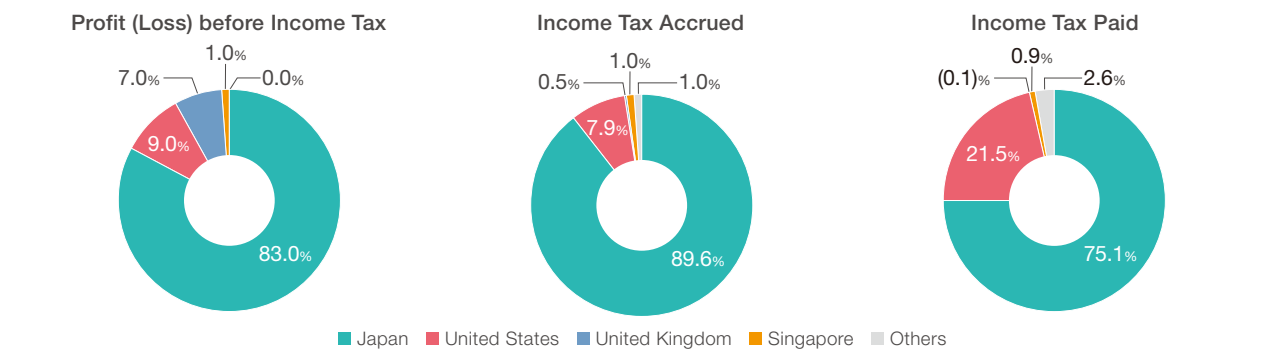
Daiwa Securities Group regards tax risks as key management issues and its Chief Financial Officer (CFO) is responsible for all tax issues of the group. In addition, the CFO, executive officer in charge of Finance, and Head of Finance Department of Daiwa Securities Group Inc. from time to time provide guidance and advice to subsidiaries and other departments within the group as necessary, so that corporate governance over tax matters is shared and implemented throughout Daiwa Securities Group.

6. Relationship to Tax Authority

Daiwa Securities Group maintains a relationship of trust with tax authorities by responding to them in a cooperative and honest manner.

Taxes Paid by Country (FY2020)

	Profit (Loss) before Income Tax*1		Income Tax Accrued*1		Income Tax Paid*1, *2	
	(Billions of yen)	(%)	(Billions of yen)	(%)	(Billions of yen)	(%)
Japan	118.92	83.0%	32.17	89.6%	16.28	75.1%
United States	12.86	9.0%	2.85	7.9%	4.67	21.5%
United Kingdom	10.04	7.0%	0.16	0.5%	(0.02)	−0.1%
Singapore	1.48	1.0%	0.37	1.0%	0.19	0.9%
Others	(0.02)	0.0%	0.35	1.0%	0.56	2.6%
Total	143.27	100.0%	35.89	100.0%	21.68	100.0%



*1 Data is based on the Country-by-Country Report submitted to tax authorities in each country.
*2 The amount of Income Tax Paid is the taxes actually paid (on a cash basis) during FY2020.

Messages from Corporate Executive Officers

CRO and CDO



Junichi Arihara
Senior Executive Managing Director
Daiwa Securities Group Inc.

Risk management system that contributes to appropriate decision making and medium- to long-term value improvement

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. In addition, risk events that are particularly important to the Group are managed as Top Risks.

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. Under our Medium-Term Management Plan, we are also advocating a Hybrid Strategy and making growth investments in new areas. In respect to risk management, we are working to increase the sophistication of our risk management system by investigating the risks associated with new businesses from various perspectives and by quantifying risk to the greatest extent possible.

Promoting data utilization, preparing transformation to data-driven management

As chief data officer (CDO), I am also working on the transformation to data-driven management. Previously, the main role of the CDO was data governance, which involved building an integrated database and ensuring high data quality from the perspectives of accuracy, completeness, and comprehensiveness to maintain the ability to aggregate risk data required by global financial regulations. Recently, however, the focus has shifted from defensive data management to offensive data utilization. In collaboration with the CIO, the Group as a whole is working on data utilization. Initiatives include building a data analysis platform that is easy for business departments to use, the introduction of data visualization and analysis tools, the establishment of the Data-Driven Business Council under the direct control of the President of Daiwa Securities, and the establishment of a CoE*, a group of experts to support the business sectors.

* Center of Excellence: An organization that functions to support business departments by accumulating knowledge and know-how associated with data and digital technologies.

Head of Compliance



Atsushi Mochizuki
Senior Executive Managing Director
Daiwa Securities Group Inc.

Toward a corporate culture that truly puts the Customer First

In FY2021, we focused on initiatives aimed at better knowing our customers at sales branches by collecting profile information and strengthening the capabilities of line managers. Know Your Customer (KYC) initiatives for learning about customers serve as the foundation for pursuing the greatest benefits for our customers, and also connect to reducing compliance risk beyond sales. In order to ensure that the Customer First sentiment raised in the Medium-Term Management Plan is unshakeable, we must ensconce this way of thinking at the level of the corporate culture. And we must also go beyond ensuring that each employee complies with laws and regulations, to deeply instill social norms and occupational ethics as professionals.

In addition to ensuring this customer-oriented operations approach, we are strengthening frameworks for preventing insider trading, market manipulation and other forms of unfair trading, money laundering, and other financial crimes in order to secure fairness in the markets. In terms of information management, we are promoting enhanced employee literacy and the use of IT and DX to address the threat of cyberattacks. Among the domestic Group companies encompassing a variety of business lines as a result of Hybrid Strategy and overseas Group companies pursuing global partnerships, we are preparing appropriate compliance frameworks corresponding to different risks.

Head of Internal Audit



Shiko Yanagisawa
Executive Managing Director
Daiwa Securities Group Inc.

Realizing internal audits that contribute to all stakeholders

As Daiwa Securities Group welcomed the 120th anniversary of its founding in May 2022, the social situation had become chaotic and predicting the future had come up against the challenges of a demanding era of VUCA. In particular, changes since COVID-19 have become prominent, creating a situation in which past performance and experience no longer apply. In order for us to sustain growth, we must, without question, discover new business opportunities among this era of VUCA, and will therefore promote Hybrid Strategy that expands the business portfolio through external networks and surrounding businesses centered on the conventional securities business. On the other hand, the risks that the Group must control are varied and complex, which requires more sophisticated risk management.

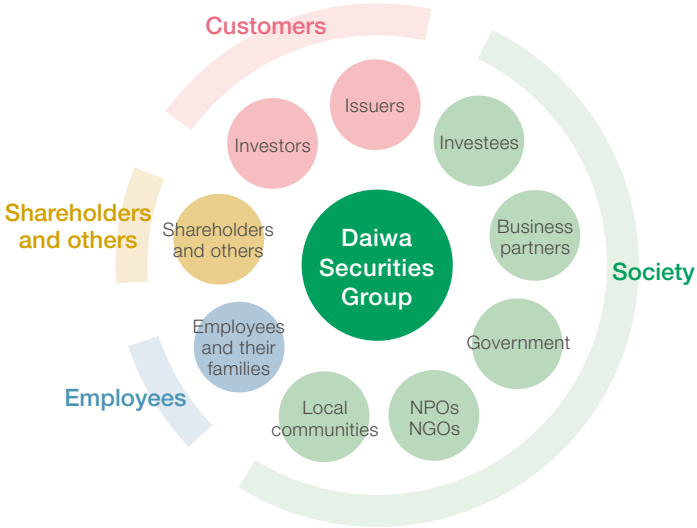
Under this business environment, internal audit departments play a role in ensuring that the Group responds appropriately to change. In addition to verifying and evaluating risk management systems, we provide recommendations and advice for improvement. We also monitor the business standing and internal control framework for each business sector throughout the year, and plan and implement risk-based audits founded on accurate analyses.

In today's world, companies are required to do more than simply maximize profits for shareholders, and must now conduct business activities that echo among their stakeholders. Which is why internal audit departments continue to make strategic and technological reforms of their own initiative in aims of realizing internal audits that contribute to all stakeholders.

Stakeholder Engagement

Daiwa Securities Group strives to engage proactively with stakeholders and disclose information in a fair, timely, and appropriate manner so that customers, shareholders and investors, local communities, employees and executives clearly understand and properly evaluate the Group's activities.

Basic Policy on Stakeholder Engagement



- ① Daiwa Securities Group will strive to engage with a broad range of stakeholders based on ISO 26000 and the Charter of Corporate Behavior of the Nippon Keidanren (Japan Business Federation).
- ② The Group will strive to deepen engagement with stakeholders already known to us, including customers, shareholders and other investors, business partners, employees and local communities.
- ③ The Group will strive to actively communicate and engage with third-party institutions, organizations, and individuals, etc., with whom we have previously had no contact in order to identify other stakeholders.

https://www.daiwa-grp.jp/english/sdgs/group_sdgs/stakeholder.html

Supply Chain Engagement

Daiwa Securities Group regularly checks documents disclosed by our equipment and service providers, as well as news reports about these companies and their reputation on the Internet. If any ESG-related issues are found, we take steps such as urging the business partners to make improvements. Particularly with regard to the environment, we disclosed Our Approach to Green Procurement, and ask suppliers to understand the Group's Environmental Vision, Environmental Principles, and Basic Environmental Policies as well as our structure of SDGs promotion and the purpose of supply chain management.

Having announced its Declaration of Partnership Building in February 2022, the Group will strive to build sustainable relationships that will enable our growth together with that of our business partners and to further increase the added value of the entire supply chain.

Supply Chain Management
https://www.daiwa-grp.jp/english/sdgs/social/supply_chain.html

Our Approach to Green Procurement
<https://www.daiwa-grp.jp/english/sdgs/environment/policy.html>

Environmental and Social Policy Framework

In December 2021, the Group revised its Environmental and Social Policy Framework (financing policy). In addition to new investments and loans, we have further strengthened our environmental and social risk management systems by expanding the scope of application to include underwriting of bond and stock issuance. 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. With the aim of stricter operation, this Framework will be reviewed regularly based on its implementation and changes in the external environment.

Environmental and Social Policy Framework
<https://www.daiwa-grp.jp/english/sdgs/governance/espolicy.html>

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 has been holding regular one-on-one ESG meetings with institutional investors since FY2019. In FY2020, we participated in an IR seminar for individual investors on the theme of ESG.

In February 2022, we held a theme meeting on the Hybrid Strategy for institutional investors and analysts, targeting the real estate asset management business and Daiwa Energy & Infrastructure in the Investment Division. From the perspective of preventing the spread of COVID-19 infections, instead of briefings at venues and one-on-one meetings face to face, we have been actively conducting dialogue by means of web interviews and telephone conferences since February 2020 and are working to maintain communications with our shareholders.

Also focusing on disseminating information to individual investors, we are regularly holding online-format briefings. We are taking steps to improve information dissemination through question-and-answer sessions and survey questionnaires. In FY2021, to increase familiarity with the content of integrated reports, we also created and uploaded to YouTube a video explaining the key points.

In addition, we are enhancing information disclosure on our IR website and undertaking the publication of, for example, integrated reports and business reports (booklets for shareholders). We will also strive to provide accurate and easily understood information to our shareholders going forward.

* Onsite events suspended due to the spread of COVID-19 (Some conferences were held online)

IR Activities in FY2021

Number of meetings with institutional investors and analysts	191
Meetings with overseas institutional investors included in the above	60
Number of briefings for individual investors	10
(total number of live participants and on-demand viewers)	(approx. 18,700)
(eight briefings via the Internet, two IR presentation videos for individuals)	

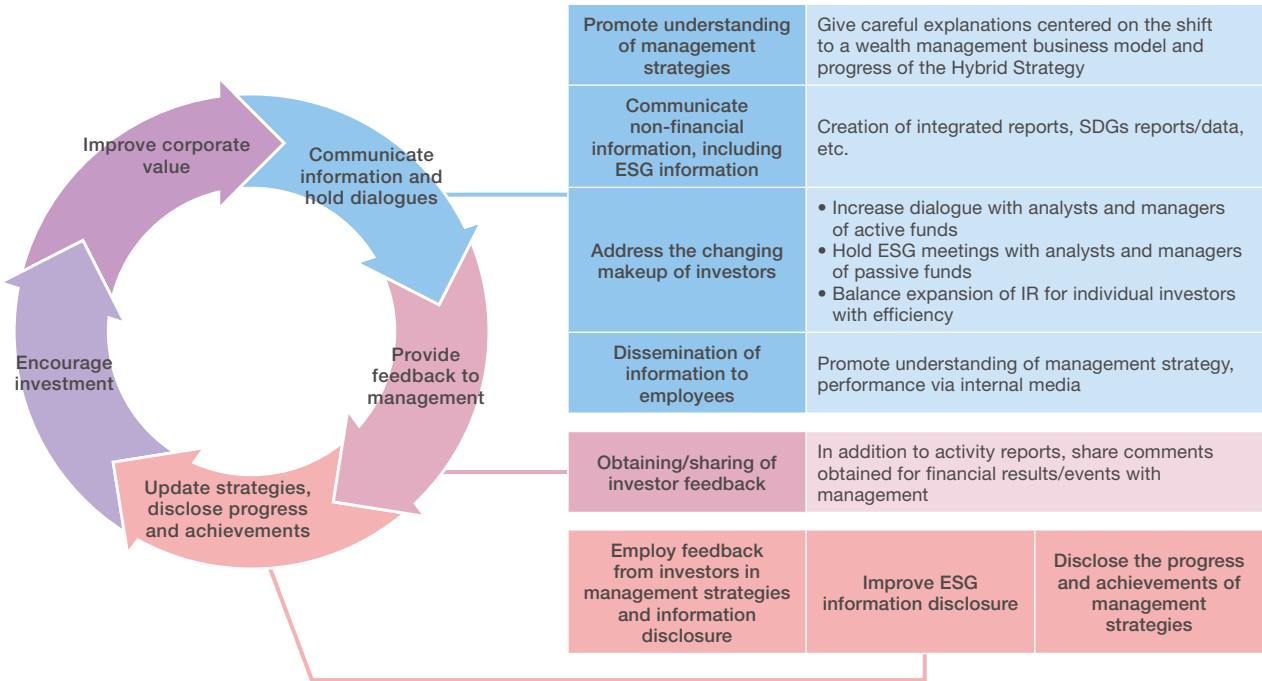
Online briefing special feature for individual investors
<https://www.daiwa-grp.jp/ir/digest/movie.html> (In Japanese only)

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 society, 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.

Engagement with shareholders and investors
<https://www.daiwa-grp.jp/english/sdgs/social/relation.html>

Strategic IR Cycle Envisioned by the Group to Improve Corporate Value



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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.

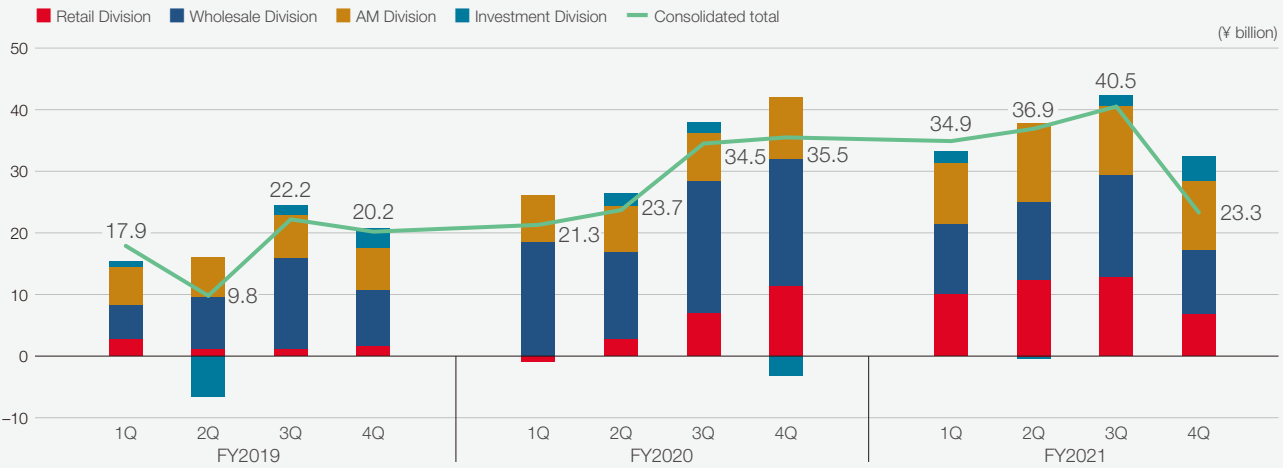
The Retail Division provides a wide range of financial products and services to customers, including individuals and unlisted companies.

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.

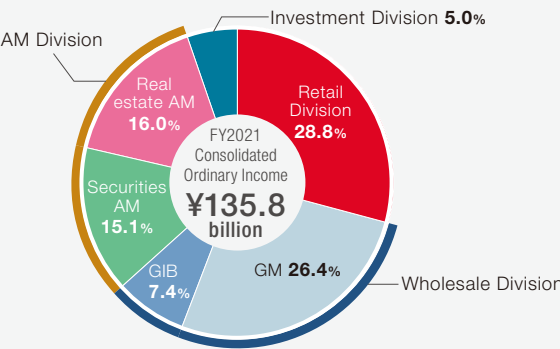
The Asset Management Division consists of a securities asset management business, setting up and managing investment trusts and providing investment advice and management services to institutional investors in Japan and overseas, and a real asset management business, managing investment corporations 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 creating new investment funds.

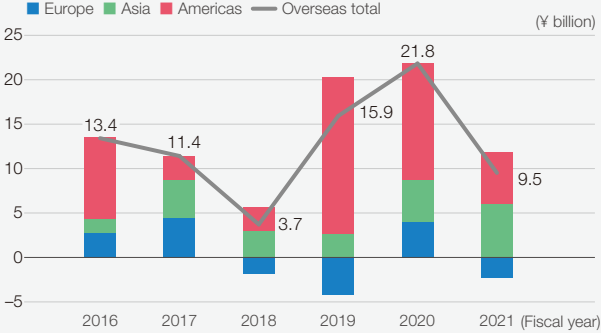
Ordinary Income by Segment



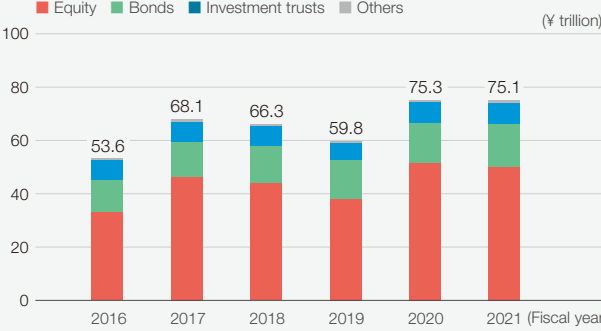
FY2021 Breakdown of Ordinary Income



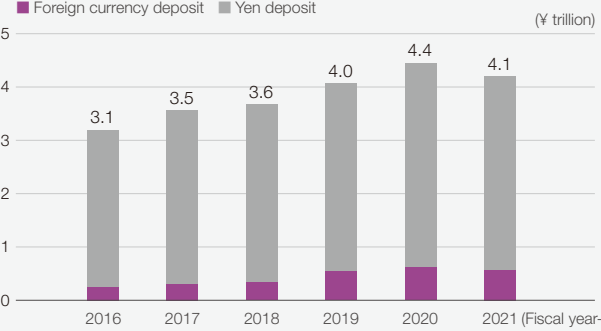
Overseas Ordinary Income



Daiwa Securities Assets under Custody



Daiwa Next Bank Balance of Deposits



Retail Division

Main Companies	▶ Number of branches and sales offices in Japan* 181
Daiwa Securities Co. Ltd. Retela Crea Securities Co., Ltd.	▶ Number of customer accounts with balance* 3,038 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. To achieve Customer First & Quality No. 1, the Group is pursuing its customers' best interests by shifting to a wealth management business model, expanding its solutions business through a total assets approach, and expanding points of contact with customers through the best mix of digital and real approaches.

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	Main products and services
▷ Individual investors	▷ Equities ▷ Bonds ▷ Investment trusts
▷ Corporate investors (business corporations, public corporations, local public organizations, other corporations)	▷ Wrap account services ▷ Insurance
	▷ Banking services ▷ Inheritance-related services, etc.
Channels	Social value
▷ Head and branch offices, sales offices (sales representatives, client support, etc.)	▷ Supporting asset formation in line with customers' life plans
▷ Daiwa's online trading	▷ Providing optimal solutions for customers' total assets
▷ Contact centers	▷ Improving customer satisfaction

Awareness of Environment

- ▷ Growing inflationary pressure ▷ 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 181 sales branches/sales offices and a customer base built up over 120 years since its foundation
- ▷ Highest number of CFPs in the financial industry
- ▷ Ability to develop and recommend products and services in line with customer needs
- ▷ Ability to provide products such as foreign equities, IPOs, primary and secondary offerings, foreign currency and time deposits through synergies with the Wholesale Division, Daiwa Next Bank and other divisions

Business Risks

- ▷ Risk of major decline in earnings due to weak demand for securities investment from customers owing to market slump, or investors becoming less inclined to own overall risk
- ▷ 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 FY2021

Action Plan for FY2021	Performance in FY2021
1. Realization of the wealth management business model	The Retail Division promoted efforts toward the realization of a wealth management business model, such as increasing the sophistication of its goal-based approach tools and the development of asset-based products. The Division worked to expand its asset-based revenues by increasing the balance of stock-related AUM such as fund wraps and asset-based fee plans for investment trusts.
2. Provision of products and services that meet customers' needs and expansion of the solution business through a total assets approach	A Customer Satisfaction Council was held every six months with the objective of improving products and services based on customer feedback. The Division worked to expand the array of foreign equities handled and reduce the burden on its customers by expediting estate inheritance procedures. It also provided products and services that meet all customers' needs. For example, it began handling Anshin-Tsunagaru Wrap, which is a wrap account service based on the concepts of asset succession support and asset preservation, and a real estate-related, small-lot trust beneficiary rights product formed by the Group.
3. Expansion of contact points with customers and optimization of costs through the merging of digital and real approaches	The Division promoted improved operational efficiency by expanding contact points with its customers through the opening of sales offices and other moves as well as by consolidating and improving efficiency at large branch offices and by the acceleration of digitalization.
4. Operation and monetization of new businesses utilizing external channels	With the aim of expanding its customer base and providing products and services in the field of asset formation, the Division considered and promoted collaborations with external partners, including the conclusion of an agreement for a comprehensive business alliance with Shikoku Bank.

In FY2021, continuing from FY2020, the Retail Division held Customer Satisfaction Councils with the aim of improving products and services based on customer feedback, while working to expand the array of foreign equities handled and reduce the burden on customers by expediting estate inheritance procedures. As a result, in an external NPS survey* we ranked number one in the face-to-face securities section for a third consecutive year.

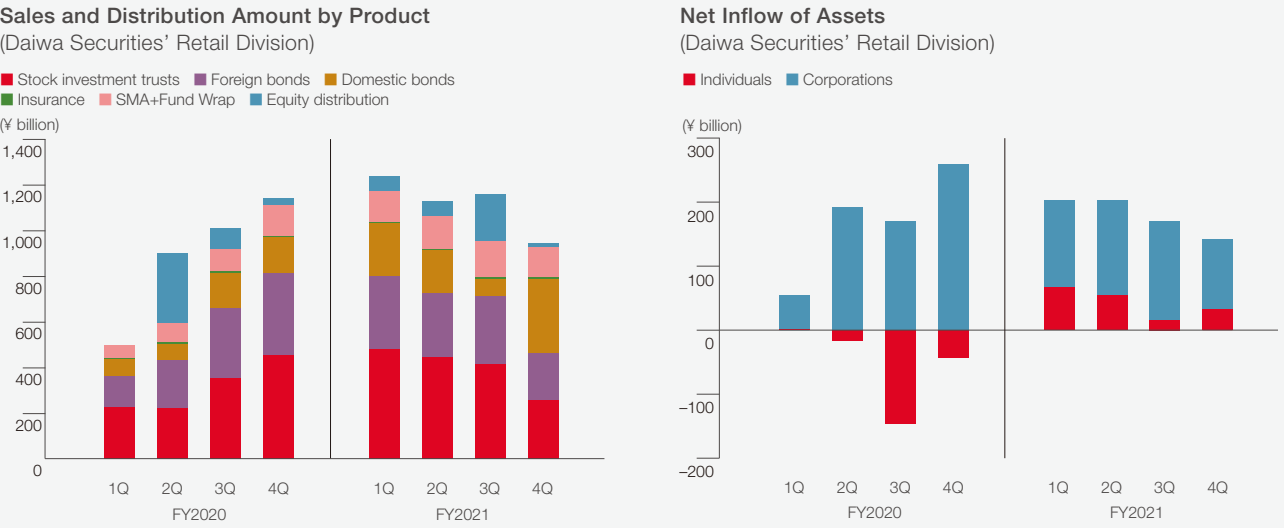
The Group worked to provide attractive products and services that meet all kinds of customer needs. In August 2021, we began handling the Anshin-Tsunagaru Wrap, a wrap account service based on the concepts of asset succession support and asset preservation.

In September 2021, we also added to the sales lineup small-lot real estate products, formed by the Group, which can be invested in small amounts, mainly in real estate in central Tokyo.

Furthermore, to expand the customer base of the Group and enhance services in the field of asset formation, we took steps to consider collaborations with companies that possess strong customer bases, such as Japan Post Group, Shinkin Central Bank, and Credit Saison. In March 2022, the Group signed the final agreement for a comprehensive business alliance with Shikoku Bank.

With respect to branch strategy, we increased the number of small, low-cost sales offices as part of our efforts to build an efficient network of branches and sales offices and, as a result, there were 181 branches, including 71 sales offices, in Japan as of the end of FY2021. Amid the COVID-19 pandemic, the Group worked to expand points of contact with its customers by actively utilizing digital tools, such as webinars and online interviews.

* NPS (an index that quantifies customer-based loyalty) benchmark results of an industry-specific survey conducted on users, announced by NTTCom Online Marketing Solutions Corporation in October 2021.



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

▶ Total value of underwriting and distribution

24 countries and regions

¥936.2 billion (equity)

¥12.2 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 risks
▷ Increase in ESG investing and dialogue with issuers 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

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 FY2021

Action Plan for FY2021	Performance in FY2021
1. Provision of diverse products and advanced solutions that meet customers' needs	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.
2. Expansion of the pan-Asian business base as a regional Asian broker	
3. Support for the sustainability of companies through the promotion of SDGs financing	The Division worked to strengthen our efforts in SDG-related finance, including the underwriting of SDGs-IPO*1.
4. Improvement of flexibility and service quality utilizing digital technology	Targeting real estate beneficiary rights, the Division worked to provide services that utilize cutting-edge technologies, such as realizing the first issue of asset-backed security tokens*2 in the Group.

*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 Asset-backed security tokens: Tokens with the properties of securities backed by assets, such as real estate and renewable energy, financial products issued and managed utilizing cutting-edge technologies such as blockchain.

In GM, offering timely products that address diverse customer needs and trading equities and bonds in response to changing market conditions contributed to earnings in FY2021. As a result of efforts to realize its Quality No. 1 objective, in the Nikkei Veritas Analyst Ranking by company, Daiwa Securities ranked No. 1 in the equity sector for the fourth consecutive year and No. 2 in the financial markets sector.

In the GIB's underwriting business, we served as the global coordinator* for the sale of shares by JAPAN POST HOLDINGS Co., Ltd. and a public offering by Renesas Electronics Corporation. The Group also served as lead manager for numerous projects, including for the SDGs-IPO offered by TESS Holdings Co., Ltd. and for the subordinated bonds issued by SoftBank Group Corp. and ENEOS Holdings, Inc. In the M&A advisory business, the Group was involved in a number of group reorganization and industry realignment deals in Japan, including the conversion of TOPPAN FORMS Co., Ltd. into a wholly owned subsidiary by Toppan Inc. and the merger of Fuji Co., Ltd. and MAXVALU NISHINIHON Co., Ltd. The framework for high-quality M&A advisory services around the world was strengthened thanks to the establishment of DC Advisory (Thailand) Co., Ltd., a joint venture with Thailand's 9 Basil Co., Ltd., and the launch of M&A advisory services by Daiwa Securities (China) Co., Ltd.

* Global coordinator: The lead manager securities company that oversees all activities when carrying out a public offering or sale of shares inside and outside of Japan.

Asset Management Division

Main Companies	
Securities asset management Daiwa Asset Management Co. Ltd.	▶ Assets under management by Daiwa Asset Management ¥23.6 trillion
Real estate asset management Daiwa Real Estate Asset Management Co. Ltd. Daiwa Office Investment Corporation	▶ Assets under management by two real estate asset management companies* ¥1,279.0 billion
	* Daiwa Real Estate Asset Management and Samty Residential Investment Corporation

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 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.

Engagement with Stakeholders

Customer attributes	Main products and services
▷ Individual investors	▷ Various investment trust products and REIT products (structuring and managing)
▷ Institutional investors in Japan and overseas	▷ Investment advisory services
▷ Financial institutions ▷ Government agencies	▷ Support for customers and distribution companies
Channels	Social value
▷ Distribution companies including Daiwa Securities (securities companies, registered financial institutions), etc.	▷ 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 the effects of such factors as valuation losses or the inability to receive rental and divesture income at anticipated levels and times, owing to fluctuations in real estate market conditions, changes in fund procurement interest rates, or various other circumstances affecting real estate investments

Initiatives in FY2021

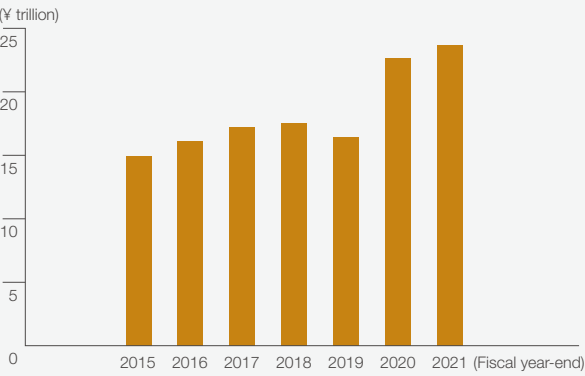
Action Plan for FY2021	Performance in FY2021
1. Expansion and enhancement of existing businesses by strengthening management capability, discovery capability, and product arrangement capability	At Daiwa AM, in addition to product development that accurately captured customer needs and fund management that emphasized investor returns, the balance of AUM increased due to continuous performance improvements.
2. Research and development, and commercialization of new businesses. Transition to corporate management grounded in ESG	To provide for customers of the Retail Division, we worked on the formation of alternative funds, including investments in venture companies.
3. Strengthening of asset management capability and establishment of a business foundation in the real estate asset management business	At Daiwa Real Estate AM, the balance of AUM increased due to the expansion of the balance of AUM of Daiwa Office Investment Corporation, Daiwa Securities Living Investment Corporation, and Daiwa Securities Logistics Private Investment Corporation. The combined AUM of Daiwa Real Estate AM and Samty Residential Investment Corporation increased by ¥66.1 billion from the end of FY2020, to ¥1,279.0 billion.
4. Promotion of the real estate business such as the consideration of new real estate investment products through coordination within the Group	Established in April 2021, Daiwa Securities Realty has developed small-lot real estate products, for which a trust beneficiary right scheme is utilized, and has begun offering new real estate investment products.

In securities AM, Daiwa AM worked to expand its AUM by strengthening its fund management capabilities and increasing the number of distributors offering its private investment trusts. The iFree Leveraged NASDAQ100 Fund and the Decarbonization Technology Equity Fund did well, with their assets growing by ¥118.4 billion and ¥78.1 billion, respectively. In addition, mainly due to capital inflow to the ETF, its net assets of publicly offered stock investment trusts increased by ¥622.9 billion in FY2021, and the balance of AUM was ¥20.2 trillion as of the end of FY2021. Against the backdrop of cooperation between the Japanese and Chinese governments in the area of securities markets, two Chinese ETFs were listed in Japan and China as part of the Japan-China ETF Connectivity scheme, which enables the listing of ETFs on the stock exchanges of both countries. Global X Japan Co., Ltd. provided 12 listed ETFs, such as theme-based and smart beta ETFs*1. Its AUM were ¥68.3 billion as of the end of FY2021.

In real estate AM, Daiwa Real Estate AM sought to improve the quality of its real estate portfolio by acquiring new properties and replacing assets and also to improve the value of its existing properties. The balance of its AUM as of the end of FY2021 was ¥1,279.0 billion. In September 2021, Daiwa Real Estate AM formed the DSREF Amaterasu Core Fund, Investment Limited Partnership, a private fund that will specialize in investing in solar power projects.

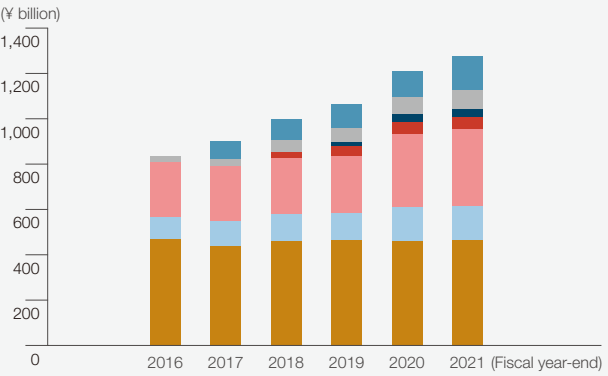
*1 ETFs that are linked to an index that aims to outperform the average returns for a market or industry by selecting stocks, quantitatively focusing on factors such as financial indicators or dividends.

Assets under Management of Daiwa Asset Management*2



*2 Total value of publicly offered investment trusts, privately offered investment trusts as well as investment advisory services including discretionary investment advisory.

Assets under Management of Real Estate AM Business



■ Daiwa Office Investment Corporation ■ Daiwa Residential Private Investment Corporation ■ Daiwa Securities Living Investment Corporation ■ Daiwa Hotel Private Investment Corporation ■ Daiwa Securities Logistics Private Investment Corporation ■ Other ■ Samty Residential Investment Corporation (Sub sponsor)

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)*12,329 companies
- ▶ Investment amount (cumulative)*1¥445.8 billion
- ▶ Outstanding principal investment balance*2.....¥294.5 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, management fees and performance fees received from funds based on contracts, dividends on stocks, and electricity sales income.

Initiatives in FY2021

Action Plan for FY2021	Performance in FY2021
1. Discovery of excellent investment opportunities, enhancement of value of investments and strengthening of monitoring systems	Having strengthened its collaboration with Daiwa Securities Group, PIP missed no opportunity in capturing investment projects.
2. Promotion of a capital recycling model in the energy sector	DEI promoted capital recycling to effectively utilize capital through the establishment of a private fund specializing in the solar power business and the contribution of assets held to the fund.
3. Establishment of an ongoing VC fund management business	In addition to steadily investing in growing companies in Japan and overseas, DCI promoted customer introductions and management guidance, while working to improve the corporate value of investee companies.
4. Development of socially meaningful investments conscious of the SDGs	PIP made investments in companies that contribute to the promotion of health and welfare as well as to the building of the foundations for industrial and technological innovation. DEI invested in renewable energy projects and infrastructure projects centered on solar power generation in Japan.

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. DAIWA-SSIAM Vietnam Growth Fund III L.P., jointly managed by SSI Asset Management (Vietnam) and DCI, closed its fund in October 2021, and Daiwa Taiwan-Japan BioVenture Investment Limited Partnership II, a fund that invests in unlisted biotechnology ventures in Japan and Taiwan, closed its fund in December 2021.

Daiwa PI Partners

PIP invested in money claims, real estate loans, and equity and loans to corporations in Japan and overseas. In March 2022, Blue Topaz Inc.*1, which is involved in venture debt*2, became a subsidiary of PIP toward the creation of a new capital recycling system through a Hybrid Strategy.

Daiwa Energy & Infrastructure

DEI has made investments in renewable energy businesses such as solar power projects and in infrastructure businesses such as an investment in Ucles Holdco S.L., a company that provides optical fiber facilities in Spain.

*1 It changed the name to Daiwa Blue Financial Inc. in March 2022.

*2 The provision of financing to startup companies in the form of loans and a way to raise capital for growth without diluting equity.

Other

Main Companies

- Think tank/Information systems
- Daiwa Institute of Research Ltd.

Banking

- Daiwa Next Bank, Ltd.
- Daiwa Securities Business Center Co. Ltd.
- Daiwa Facilities Co., Ltd.
- Fintertech Co. Ltd.
- CONNECT Co. Ltd.
- Daiwa Securities Realty Co. Ltd.

- ▶ Balance of deposits*¥4.1 trillion
- ▶ Number of accounts*1,569 thousand

* 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 FY2021

Daiwa Institute of Research group

DIR group contributed to the reduction of IT costs by improving the efficiency of system development for Daiwa Securities Group. In addition, it conducted research and development of AI related to forecasting stock prices and exchange rate trends, and provided system solutions to companies outside the Group. Also, as a think tank, it actively disseminated information based on current economic and social trends, including SDGs/ESG.

Action Plan for FY2021	Performance in FY2021
1. Establishment of IT service platforms and creation of new value through AI and data science	DIR steadily provided various services utilizing AI and data science to its customers, covering financial institutions, including the Group. Having developed an infrastructure that enables the provision of multi-cloud solutions that make full use of the features of multiple cloud services, DIR also established an organizational structure to expand the entrustment of BPO services for health insurance associations.
2. Contribution to the reduction of costs of Daiwa Securities Group by providing high-quality, stable services at low cost	By reducing development unit costs and development man-hours in the design development division as well as by the integration of system operation and maintenance work inside and outside the Group in the operation and maintenance division, DIR contributed to Group IT cost reductions and productivity improvements.
3. Acquisition of new customers through the coordination of systems, research and consulting, and expansion of external sales revenue through the operation of new businesses	DIR worked to acquire customers by deepening its relationships through proposals that accurately capture customer needs, secure bigger deals, and expand the areas of service provision by strengthening cooperation with external companies.
4. Enhancement of research quality by creating a virtuous cycle of communication, information gathering, and exchange of opinions	In addition to proactively disseminating information based on economic and social trends, including SDGs/ESG, DIR worked to utilize data science for economic analysis.

Daiwa Next Bank

It has been 10 years since Daiwa Next Bank was established, and the bank provides convenient services to a wide range of customers, such as yen-denominated deposits and foreign currency deposits with attractive interest rates, via the nationwide branch network of Daiwa Securities. In July 2021, the amount held by the bank in its Ouen (Supporting) Term Deposits topped ¥150 billion.

Action Plan for FY2021	Performance in FY2021
1. Provision of competitive interest rates and provision of appealing new products and new services	In foreign currency deposits, the bank maintained industry-leading interest rates and released basket time deposits as a new product.
2. Further strengthening of coordination within the Group and execution of new businesses such as financing projects	In addition to newly establishing a Loan Business Department, the bank worked to review its portfolio and expanded its investment and loan balances.
3. Diversification of investment	
4. Expansion of balance of Ouen (Supporting) Term Deposits and efforts to promote ESG investment and lending	The bank worked to expand the balance of its Ouen (Supporting) Term Deposits, which is one of its sustainability KPIs. The bank also continued to improve its readiness to strengthen its measures to counter money laundering/terrorism financing and made further improvements to its risk management.

CONNECT started a new partnership with MUFG Bank, Ltd. and Recruit Co., Ltd. in the asset formation business. Daiwa Securities Realty established in April 2021, has begun forming and selling small-lot real estate products to customers of the Group.

Key Financial Data*¹

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Millions of yen (Except as otherwise specified)											
Operating Performance											
Operating revenues	422,374	525,411	642,829	659,396	653,711	616,497	712,601	720,586	672,287	576,172	619,471
Commissions	220,845	229,522	301,937	291,115	288,418	273,335	313,625	283,027	266,574	286,835	314,051
Net gain on trading	79,416	123,537	156,499	157,220	131,324	128,120	109,005	92,218	93,802	118,895	101,522
Net gain (loss) on private equity and other investments	1,955	16,531	17,454	7,415	18,502	14,846	26,912	(232)	14	4,808	6,048
Interest and dividend income	79,761	93,276	107,974	125,934	149,451	143,241	190,444	291,005	258,122	93,188	75,978
Service fees and other revenues	40,395	62,544	58,963	77,710	66,014	56,953	72,613	54,567	53,772	72,444	121,870
Interest expense	59,689	70,130	60,333	80,070	89,530	98,725	148,348	242,468	209,916	54,480	44,714
Cost of service fees and other revenues	26,668	37,972	40,545	47,105	49,366	45,022	58,901	36,876	36,110	55,031	72,663
Net operating revenues	336,016	417,308	541,951	532,220	514,815	472,750	505,350	441,240	426,259	466,660	502,093
Selling, general and administrative expenses (SG&A)	359,729	333,496	357,358	361,380	364,517	353,687	370,292	373,914	371,970	373,800	386,559
Operating income (loss)	(23,713)	83,812	184,593	170,839	150,297	119,062	135,058	67,326	54,288	92,859	115,534
Ordinary income (loss)	(12,200)	95,176	197,045	184,578	165,148	135,623	155,676	83,159	70,283	115,175	135,821
Profit (loss) attributable to owners of parent	(39,434)	72,909	169,457	148,490	116,848	104,067	110,579	63,813	60,346	108,396	94,891
Segment Information * ²											
Net operating revenues											
Retail	172,033	184,415	253,093	232,033	217,922	188,051	214,247	185,865	166,430	169,505	188,879
Wholesale	78,488	133,109	175,338	180,568	178,014	182,875	171,192	158,903	172,289	215,860	195,863
Asset Management	37,424	43,591	48,714	55,140	50,528	46,438	49,390	48,232	48,091	51,145	71,052
Investment	1,090	17,495	19,989	8,351	19,730	15,736	27,401	1,766	2,502	4,602	11,055
Others/adjustments	46,980	38,696	44,815	56,126	48,618	39,647	43,118	46,473	36,943	25,546	35,242
Total	336,016	417,308	541,951	532,220	514,815	472,750	505,350	441,240	426,259	466,660	502,093
Ordinary income (loss)											
Retail	38,839	49,251	102,120	77,756	61,080	29,375	51,331	24,674	6,405	20,070	41,807
Wholesale	(68,717)	12,034	47,428	52,888	48,878	65,437	45,373	25,400	38,034	74,737	50,951
Asset Management	14,615	19,089	25,328	32,142	29,990	26,572	29,119	28,359	26,580	32,775	45,253
Investment	(1,976)	14,161	17,171	6,506	17,397	13,041	24,499	(1,093)	(877)	1,123	7,192
Others/adjustments	5,039	639	4,996	15,284	7,801	1,196	5,353	5,817	140	(13,532)	(9,382)
Total	(12,200)	95,176	197,045	184,578	165,148	135,623	155,676	83,159	70,283	115,175	135,821
Ordinary Income (Loss) from Overseas Operations											
Europe	(5,039)	(2,873)	(2,307)	(2,187)	(3,240)	2,759	4,227	(1,947)	(4,253)	3,969	(2,270)
Asia & Oceania	(17,720)	(7,610)	(3,763)	(2,768)	(4,130)	1,480	4,433	2,946	2,601	4,659	5,986
Americas	(3,058)	(87)	916	1,050	2,686	9,254	2,742	2,766	17,644	13,188	5,809
Total	(25,818)	(10,571)	(5,154)	(3,904)	(4,684)	13,493	11,403	3,765	15,992	21,817	9,525
Financial Conditions (Fiscal year-end)											
Total assets	18,924,038	19,049,099	19,480,863	23,001,585	20,420,818	19,827,296	21,135,041	21,126,706	23,822,099	26,099,330	27,531,089
Net assets	951,702	1,082,567	1,253,462	1,434,680	1,313,005	1,343,433	1,370,520	1,256,430	1,257,766	1,591,841	1,639,888
Regulatory Indicators											
Consolidated Capital Adequacy Ratio * ³											
Consolidated Common Equity Tier 1 Capital Ratio	—	19.0%	20.6%	19.7%	20.7%	22.2%	21.78%	21.64%	18.69%	18.70%	17.29%
Consolidated Tier 1 Capital Ratio	—	19.0%	20.9%	20.4%	20.8%	22.2%	21.78%	21.64%	21.16%	21.72%	19.77%
Consolidated Total Capital Ratio	27.4%	20.0%	21.8%	21.0%	20.9%	22.2%	21.78%	21.64%	21.16%	21.72%	19.77%
Consolidated Leverage Ratio	—	—	—	5.31%	5.97%	5.89%	5.57%	5.82%	5.80%	6.89%	6.59%
Consolidated Liquidity Coverage Ratio	—	—	—	—	156.2%	145.3%	146.6%	141.5%	150.6%	161.2%	149.0%
Cash Flows											
Cash flows from operating activities	2,032,677	1,795,021	1,123,594	725,966	221,746	44,543	(1,319,248)	304,857	167,190	390,979	(353,467)
Cash flows from investing activities	(973,494)	(798,491)	(448,493)	(13,265)	415,647	307,713	777,872	108,243	(215,397)	(91,641)	(218,534)
Cash flows from financing activities	(1,063,022)	(909,461)	25,584	343,385	(229,727)	143,231	432,813	55,741	(135,794)	438,067	377,090
Cash and cash equivalents at end of year	1,038,981	1,136,053	1,846,617	2,920,509	3,273,640	3,766,145	3,653,464	4,122,102	3,933,149	4,723,526	4,554,375
Per Share Data (Yen)											
Net income (loss) per share (EPS)* ⁴	(23.41)	43.00	99.63	87.07	68.25	61.53	66.88	39.95	39.11	71.20	63.06
Net assets per share (BPS)	463.04	536.72	633.53	725.27	720.86	745.80	786.56	794.54	796.33	875.12	925.81
Dividend per share (DPS)	6.00	15.00	34.00	30.00	29.00	26.00	28.00	21.00	20.00	36.00	33.00
Closing share price	327.0	656.0	898.0	946.0	692.3	677.9	678.7	539.0	419.2	572.1	692.7
Other Indicators											
Dividend payout ratio	—	34.9%	34.1%	34.5%	42.5%	42.3%	41.9%	52.6%	51.1%	50.6%	52.3%
Market capitalization (Period-end closing price, number of shares issued basis)	572,047	1,147,592	1,570,942	1,654,912	1,211,095	1,152,009	1,153,368	915,965	712,379	972,214	1,177,159
ROE	—	8.6%	17.0%	12.8%	9.5%	8.4%	8.8%	5.1%	4.9%	8.5%	7.0%

*1 Key Financial Data has not been audited by an independent auditor.

*2 Details of major Group companies including in each Division are provided on pages 138-145.

*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 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.

Key Non-financial Data

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)

7 : Daiwa Securities Group Inc., Daiwa Securities Co. Ltd., Daiwa Asset Management Co. Ltd., Daiwa Institute of Research Ltd., Daiwa Securities Business Center Co. Ltd., Daiwa Facilities Co., Ltd. Daiwa Corporate Investment Co., Ltd.

6 : Daiwa Securities Group Inc., Daiwa Securities Co. Ltd., Daiwa Asset Management Co. Ltd., Daiwa Institute of Research Ltd., Daiwa Securities Business Center Co. Ltd., Daiwa Corporate Investment Co., Ltd.

4 : Daiwa Securities Co. Ltd., Daiwa Asset Management Co. Ltd., Daiwa Institute of Research Ltd., Daiwa Securities Business Center Co. Ltd.

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

Personnel Related

		FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Consolidated number of staff*1	G	13,725	14,691	15,106	15,240	15,024	14,825
Male		7,552	8,077	8,092	8,025	7,819	7,646
Female		4,660	4,938	5,210	5,347	5,292	5,220
Overseas		1,513	1,676	1,804	1,868	1,913	1,959
Consolidated number of employees	G	13,836	14,791	15,196	15,320	15,096	14,889
Number of temporary employees	G	945	946	915	635	390	262
Number of new graduates recruited*2	4	678	578	677	460	319	402
Male		345	289	337	244	164	232
Female		333	289	340	216	155	170
Average age	D	38.0	38.0	38.3	38.4	38.9	39.3
Male		39.6	39.6	39.8	39.7	40.2	40.5
Female		35.7	35.7	36.2	36.6	37.2	37.8
Average number of years of service	D	13.6	13.7	13.8	13.9	14.4	14.9
Male		15.2	15.3	15.4	15.5	15.9	16.3
Female		11.4	11.4	11.5	11.8	12.4	13.0
Employee turnover statistics (%)	D	3	3	3.7	4.4	3.6	4.2
Number of employee union members*3	6	6,943	7,134	7,202	6,992	6,640	6,505
Ratio of employees who are employee union members (%)*3	6	64.0	64.4	63.9	62.6	58.7	56.0
Work Motivation Survey*4	D						
Work		—	—	3.2	3.3	3.3	3.3
Organization		—	—	3.2	3.2	3.2	3.3
Colleagues		—	—	3.2	3.2	3.2	3.3
Growth or career advancement opportunity		—	—	3.2	3.2	3.2	3.3
Compensation		—	—	3.1	3.0	3.0	3.1

*1 The number of employees stationed overseas is included in the “Overseas” category.

*2 April 1 of the next fiscal year; in FY2018 and FY2019, six Group companies. Prior to FY2017, including Sumitomo Mitsui DS Asset Management Company, Limited.

*3 Prior to FY2018, including Sumitomo Mitsui DS Asset Management Company, Limited (excluding Daiwa Asset Management Co. Ltd.).

*4 Four-scale evaluation (maximum of four points)

Education Related

		FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Number of people who have completed selective management training programs	7						
Daiwa Management Academy (cumulative total)		380	403	426	451	471	496
Daiwa Leadership Program (cumulative total)		862	929	1,036	1,159	1,283	1,427
Number of people who have completed skill training (cumulative total)	6	7,507	9,362	13,488	17,853	22,819	29,307
Number of persons earning credentials*	7						
AFP		5,626	6,811	7,064	7,296	7,429	7,390
CFP®		718	782	876	1,106	1,165	1,321
(of which, Daiwa Securities Co. Ltd.)		643	698	796	1,020	1,071	1,214
CMA		1,542	1,613	1,644	1,470	1,490	1,509
CFA		59	59	63	49	47	53
TOEIC (730-990)		1,752	1,830	1,903	1,819	1,802	1,768
Overseas MBA program, etc.		173	177	176	152	145	142
Costs for educational investment							
Cost for the Group's educational investment (billions of yen)		2.1	2.1	2.2	2.2	1.8	1.9
Costs for educational investment per employee (millions of yen)		0.17	0.17	0.17	0.16	0.14	0.15
Operating income per employee (millions of yen)		8.6	9.1	4.4	3.5	6.2	7.8

* Prior to FY2018, including Sumitomo Mitsui DS Asset Management Company, Limited.

Diversity Related

		FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Percentage of employees who are female	G	38.1	37.9	39.2	40.0	40.4	40.6
Percentage of managers who are female	G	8.8	9.4	10.5	11.9	13.7	15.1
	D	10.6	11.6	12.9	14.5	16.3	18.3
Number of women newly appointed to managerial positions	D	62	40	61	64	83	78
Percentage of newly appointed managers who are female (%)	D	32.3	24.4	26.2	26.8	29.6	39.4
Number of employees re-hired under the Daiwa Master System	D	67	73	88	110	134	157
Percentage of employees who are persons with disabilities	D	2.02	2.10	2.33	2.57	2.58	2.62

Work-Life Balance Related

		FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Annual regular working hours	2	1,837.5	1,837.5	1,830.0	1,807.5	1,837.5	1,830
Average monthly overtime hours*	2	23.5	23.2	22.8	21.7	21.2	21.6
Paid vacation usage rate (%)	2	66	68	68	72	72	70
Number of employees taking childcare leave	G						
Female		671	695	696	680	646	582
Male		327	437	420	378	330	362
Percentage of employees taking childcare leave	D						
Female		100.0	100.0	100.0	100.0	100.0	100.0
Male		96.8	100.0	100.0	100.0	100.0	100.0
Short working hour system usage (persons)	D	324	373	446	505	503	520
Daycare subsidy usage (persons)	D	625	702	759	909	815	844
Number of employees taking nursing care leave	G						
Female		0	2	5	10	5	6
Male		2	3	3	3	3	2

* Number of employee union members of two companies.

Social Contribution Related

		FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
SDGs activity expenses (thousands of yen)	2	497,457	719,523	1,015,796	867,162	460,739	884,907
Education and research in economics and finance*1		42,351	130,122	82,579	73,261	80,546	179,126
Assistance to communities inside and outside of Japan through foundations and NPOs*2		128,594	149,441	175,813	174,815	253,296	217,780
Support for culture and the arts		323,110	437,458	751,961	614,700	124,258	485,731
Corporate citizenship initiatives		3,400	2,501	5,441	4,385	2,639	2,270

*1 Including Daiwa Asset Management Co. Ltd. and Daiwa Institute of Research Ltd. in addition to two companies.

*2 Including Daiwa Next Bank, Ltd. in addition to two companies.

Environment Related

		FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Domestic and overseas greenhouse gas emissions (t-CO ₂)							
Scope 1		1,015	998	944	868	842	954
Scope 2*1		34,772	33,131	30,732	29,878	24,739	18,790
Scope 3		3,521	5,288	5,920	5,880	3,007	3,321
Category 6 Business travel*2		—	1,880	2,495	2,008	76	189.5
Category 7 Commuting*3		1,443	1,466	1,497	2,080	1,600	1,700
Category 8 Leased vehicles (gasoline)		2,079	1,942	1,928	1,792	1,331	1,432

Notes: Greenhouse gas emissions for the Group are calculated for CO₂. Companies included in calculations are as follows:

In addition to Daiwa Securities 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 FY2019 and FY2020 have been revised.

*2 Greenhouse gas 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 Greenhouse gas emissions related to commuting expenses paid to officers and employees of Daiwa Securities Co. Ltd. (commensurate with in-office work rate)

Management’s Discussion and Analysis

Macroeconomic Conditions in FY2021

Overseas Markets

The global economy, which rapidly deteriorated due to the spread of COVID-19 in the first half of 2020, shifted to a recovery path in the second half and continued from 2021. According to the World Economic Outlook released by the International Monetary Fund (IMF) in April 2022, there was a rebound from the large slump in 2020 to a global growth rate of +6.1% in 2021, the highest growth rate since the IMF started publishing such growth rates in 1980. Although most countries in the world fell into negative growth in 2020, many of these countries turned to positive growth in 2021. However, in addition to the ongoing impact of COVID-19, uncertainty surrounding the future of the global economy remains strong, in the face of such new risks as the rise in the worldwide inflation rate and Russia's invasion of Ukraine.

The US economy has continued its steady recovery since late 2020. In addition to the government's measures to support the economy since the spread of COVID-19, the government's easing of behavioral regulations amid the steady roll-out of COVID-19 vaccines has led to real GDP growth in the January-March 2021 quarter of an annualized rate of +6.3% compared to the previous quarter. In addition to further progress in the resumption of economic activity in the April-June quarter, the increase in household incomes due to additional economic measures implemented by the Biden administration in March, which was launched in January 2021, has boosted personal consumption. With the increase in personal consumption as the main factor, the rate of real GDP growth in the April-June quarter accelerated to an annualized rate of +6.7% compared to the previous quarter, and real GDP has recovered to

pre-COVID-19 pandemic levels. In the July-September quarter, the resurgence of COVID-19 due to variants, and the impact of supply constraints due to component shortages such as in the automotive industry led to a slump in the growth rate to an annualized rate of +2.3% compared to the previous quarter. However, real GDP growth once again accelerated in the October-December quarter to an annualized rate of +6.9% compared to the previous quarter due to such factors as an increase in personal consumption underpinned by a recovery in employment conditions, amid stabilization of the spread of infections. Real GDP growth in the January-March 2022 quarter turned negative for the first time since the April-June 2020 quarter at an annualized rate of -1.5% compared to the previous quarter. Major factors included sluggish exports backed by the aforementioned supply constraints, increased imports, and inventory adjustments. On a positive note, final domestic demand focused on personal consumption accelerated from the previous quarter and remains firm.

From a financial perspective, the Federal Reserve Board (FRB) continued the accommodative monetary policy it has continued since the COVID-19 pandemic took hold during 2021. However, in addition to the adequate recovery made in the US economy from the slump caused by the COVID-19 pandemic, the inflation rate rose substantially above the target of 2%. Under these circumstances, the FRB changed its stance from one of tapering monetary easing and toward monetary tightening at the end of 2021. The FRB decided to commence scaling back its quantitative easing at the November 2021 Federal Open Markets Committee (FOMC), and the expansion of the balance sheet by the FRB, which had continued since the onset of

COVID-19, was suspended in February 2022. Furthermore, policy interest rates were raised 0.25 percentage points at the March 2022 FOMC, and the virtual zero interest rate policy that had continued since March 2020 came to an end.

European economies (eurozone economy) are greatly affected by COVID-19 trends, but viewed as a whole, the recovery trend is continuing. Many countries including Germany and France were forced to implement a second lockdown due to a resurgence of COVID-19, so real GDP growth in the eurozone for the January-March 2021 quarter recorded a second consecutive quarter of negative growth at an annualized rate of -0.5% compared to the previous quarter, with a slow start for the eurozone economy in 2021. However, the easing of behavioral restrictions amid the steady roll-out of COVID-19 vaccines in the April-June quarter steered the eurozone economy toward a recovery. Real GDP growth in the April-June quarter was an annualized rate of +8.9% compared to the previous quarter and the first positive growth in three quarters. This was followed in the July-September quarter by an annualized rate of +9.6% compared to the previous quarter, the second consecutive quarter of high growth in excess of the potential growth rate. However, there was only a slight increase in real GDP growth at an annualized rate of +1.0% compared to the previous quarter in the October-December quarter due to such factors as the tightening of behavioral regulations amid a resurgence in the number of new COVID-19 cases. In addition, although downward pressures on the economy moderated with the easing of behavioral restrictions from 2022, the rise in energy prices attributed to Russia's invasion of Ukraine that started in late February led to sluggish personal consumption and corporate activities. While domestic demand slowed year on year, real GDP growth in the January-March 2022 quarter grew at an annualized rate of +2.5% compared to the previous fiscal year mainly due to a decrease in imports.

From a financial perspective, the monetary easing by the European Central Bank (ECB) continues. Nevertheless, there is a growing trend toward contraction of monetary easing due to progress in the recovery of the eurozone economy. The September 2021 ECB Governing Council meeting indicated a policy to slow the pace of outright purchases of assets under the Pandemic Emergency Purchase Programme (PEPP), which was established because of the COVID-19 pandemic, from the October-December quarter. Then a decision was made at the December 2021 ECB Governing Council meeting to end outright purchases under that program in March 2022. In addition, with the acceleration in inflation, the March 2022 ECB Governing Council meeting also indicated a policy to bring forward the end of its Asset Purchase Programme

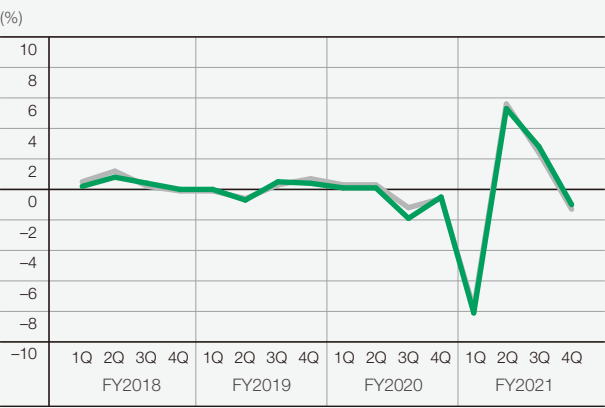
(APP), which it had been conducting since before the COVID-19 pandemic, to conclude as early as the July-September 2022 quarter.

Similar to advanced countries, the economies of emerging countries rapidly deteriorated in the first half of 2020 followed by an ongoing recovery from the second half of 2020. According to the IMF, after real GDP growth of emerging countries slumped to -2.0% in 2020, they recorded high growth of +6.8% in 2021.

Amongst emerging countries, the economic recovery continues in China, the world's second largest economy. In addition to the growth in exports from 2021, mainly due to the acceleration in US growth, the recovery in personal consumption, which had lagged, picked up pace and real GDP growth in the January-March quarter was +18.3% compared to the previous year, the highest growth rate since the release of quarterly data commenced in 1992. However, the pace of China's growth has slowed since the April-June quarter. Real GDP growth in the April-June quarter was also affected by the end of the rebound from the previous year at +7.9% compared to the previous year, which was a significant slowdown from the previous quarter. Furthermore, the sense of slowdown intensified from the July-September quarter, due to such factors as behavioral restrictions following an increase in infections from variants, the rise in resource prices, adjustments to the real estate market, and power shortages. Growth in the July-September quarter was +4.9% compared to the previous year while growth in the October-December quarter was +4.0% compared to the previous year. Subsequently, real GDP growth in the January-March 2022 quarter accelerated from the previous quarter to +4.8% compared to the previous year due to such factors as a recovery in personal consumption. However, a surge in the number of COVID-19 cases in March 2022 and lockdowns in many cities such as Shanghai under the zero COVID policy suddenly heightened the concerns of an economic slowdown.

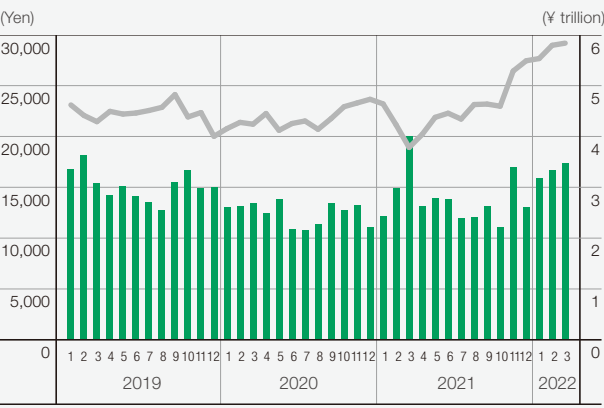
Viewed as a whole, the recovery trend continued in emerging countries other than China. The roll-out of vaccines advanced in many emerging countries and behavioral restrictions were gradually eased. Furthermore, the increase in export demand due to the recovery of major countries including the US and China underpinned the economies of emerging countries. On the other hand, high inflation due to the rise in resource prices, and controls on cash outflows through the contraction in monetary easing and higher interest rates in the US have forced many countries to raise interest rates. Taking into account the aforementioned, there is a growing risk of economic slowdown.

GDP Growth Rate in Japan



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

Nikkei 225 and Trading Value of TSE



■ Nikkei 225 at month-end (left) ■ TSE average daily trading value (right)
Sources: Tokyo Stock Exchange, Daiwa Institute of Research

Japan

The Japanese economy continues to be greatly affected by COVID-19 and the roller coaster trend continued. With the announcement of the second state of emergency declaration on January 7, 2021, real GDP growth turned negative again for the first time in three quarters in the January-March 2021 quarter, declining at an annualized rate of 1.6% compared to the previous quarter. This shifted to positive growth in the April-June quarter at an annualized rate of +2.6% compared to the previous quarter, but the third state of emergency declaration announced on April 23 continued until the end of September, resulting in negative growth in the July-September quarter, declining at an annualized rate of 3.2% compared to the previous quarter. With the resumption of economic activities since October, the October-December quarter real GDP growth turned positive at an annualized rate of +4.0% compared to the previous quarter, but the resurgence in the number of COVID-19 cases and the implementation of key measures to prevent the spread of infection in many regions since the beginning of 2022, resulted in real GDP growth once again turning negative in the January-March 2022 quarter, declining at an annualized rate of 0.5% compared to the previous quarter.

Breaking down each component, personal consumption alternated between rises and falls, greatly affected by the status of infections and the consequent behavioral regulations. Personal consumption in the January-March 2021 quarter declined for the first time in three quarters mainly due to a reduction in the consumption of such services as dining and entertainment services attributed to the impact of the state of emergency declaration. Subsequently, personal consumption recovered due to the recovery in the movement of people in the April-June quarter, but the resurgence of COVID-19 in the July-September quarter and the third state of emergency declaration led to a decline in personal consumption. After the state of emergency declaration was lifted at the end of September, there was a temporary trend toward recovery in personal consumption in the October-December quarter, but many regions implemented key measures to prevent the spread of infections due to a resurgence from the beginning of 2022, and the recovery in personal consumption, particularly services consumption, was once again at a standstill in the January-March 2022 quarter. There were signs of a recovery in housing investment in the first half of 2021 following a large drop caused by the COVID-19 pandemic. However, future uncertainty about employment and income

conditions and the rise in prices due to the higher price of materials led to a moderate decline from the second half of 2021.

Capital investment, which is in demand in the corporate sector, is generally flat. From October to December 2020 and for the first half of 2021, capital investment had been following an increasing trend. However, capital investment dropped in the July-September 2021 quarter, when supply constraints intensified due to turmoil in the supply chain caused by the spread of infections overseas as well as the state of emergency declaration, etc. Afterwards, a rising trend of exports continued and constraints on supply were loosened amid overseas economic recovery in Europe, the US, and China, and from October to December 2021, capital investment once again rose. However, as a result of the uncertainty surrounding new waves of COVID-19 infections, the economic recovery was put on pause from January to March 2022. According to the Bank of Japan's Tankan (Short-Term Economic Survey of Enterprises in Japan) (March 2022 Survey), FY2021 Fixed Investment Plans (including Land Purchasing Expenses) are forecast at +4.6% compared to the previous year, with a forecast for an ongoing increase, albeit small, for FY2022 of +0.8% compared to the previous year.

From a financial perspective, the Bank of Japan maintained monetary easing measures that targeted long-term interest rates as well as short-term interest rates. In addition, with the sudden deterioration of the economy due to the spread of COVID-19, the BoJ strengthened its quantitative easing through such measures as the abolition of the upper limit on outright purchases of Japanese government bonds (JGBs) from April 2020 and expansion of the framework for outright purchases to include corporate bonds, etc. Nevertheless, amid the gradual recovery in the Japanese economy, the BoJ decided at its December 2021 Policy Board meeting to end the increase in outright purchase amount for corporate bonds, etc., in March 2022.

Amid the BoJ's ongoing accommodative monetary policy, the trend for 10-year JGB yields of close to 0% continues. However, the impact of fluctuations in US long-term interest rates since the beginning of 2021 has led to alternating increases and falls in Japanese long-term interest rates, albeit in small increments. Japanese long-term interest rates rose, albeit slightly, at the beginning of 2021 due to the rise in US long-term interest rates prompted by concerns in the US of an overheating and budget deterioration, and temporarily rose

above 0.15% for the first time since October 2018 at the end of February. From March, Japanese long-term interest rates were on a downward trend for a while with the decline in US long-term interest rates, but US long-term interest rates continued to rise and Japanese long-term interest rates also shifted toward an upward trend from around July when the FRB reduced quantitative easing and there were heightened expectations that the start of interest rate increases would be brought forward. In particular, there was heightened expectations that the pace of US interest rate increases would accelerate due to the high inflation from around the end of 2021. Due to the acceleration in the pace of increases in US long-term interest rates, the upward trend for Japanese long-term interest rates also intensified, with rates temporarily rising above 0.25% at the end of March 2022.

Looking at the foreign exchange market, overall there has been a trend for a weak yen since 2021. The Japan-US interest rate differential has widened due to the substantial rise in long-term interest rates in the US, so the yen continued to depreciate at a rapid pace in the January-March 2021 quarter, and the rate against the dollar, which had been around the ¥102 level at the beginning of the year reached the ¥110 level at the end of March. Subsequently, the rise in US interest rates stabilized and the trend was generally flat from around April to September. However, the yen declined against the dollar from the end of September as the upward trend for interest rates in the US once again intensified, with the yen depreciating to the ¥124 level for the first time since August 2015 in March 2022. Against the euro, there was a trend for the yen to decline from the beginning of 2021 until the beginning of June due to expectation for a recovery in the European economy as the roll-out of vaccines proceeded at a faster pace in Europe than Japan. Since mid-June, there was a growing view that the ECB would extend monetary easing as the pace of recovery in the European economy eased and the trend of the yen against the euro was generally flat. On the other hand, the yen temporarily appreciated against the euro with the start of Russia's invasion of Ukraine in February 2022, but growing expectations that the ECB would tighten monetary policy due to higher inflation because of higher energy prices resulted in rapid depreciation of the yen against the euro until the end of the fiscal year.

In the stock market, even though the Nikkei Stock Average rebounded to the ¥30,000 level at one point in February 2021 for the first time since August 1990, there was a moderate downward trend in stock prices from the

beginning of FY2021, weighed down by such factors as the repeated state of emergency declarations. Stock prices rose substantially in September due to a sense of hope for the new administration, with the Nikkei Stock Average once again surpassing ¥30,000 at one point. However, there was a roller coaster trend until the end of 2021 weighed down by a resurgence in infections and higher interest rates, etc. The Nikkei Average once again declined from 2022 when there were growing expectations that the US would accelerate its pace of monetary tightening.

The Nikkei Stock Average at the end of March 2022 was ¥27,821.43 (down ¥1,357.37 from the end of March 2021), 10-year JGB yields were 0.218% (up 0.114 percentage points), and the yen fell to ¥121.64/dollar (down ¥10.90).

Analysis of Consolidated Income Statements

Total Operating Revenues and Net Operating Revenues

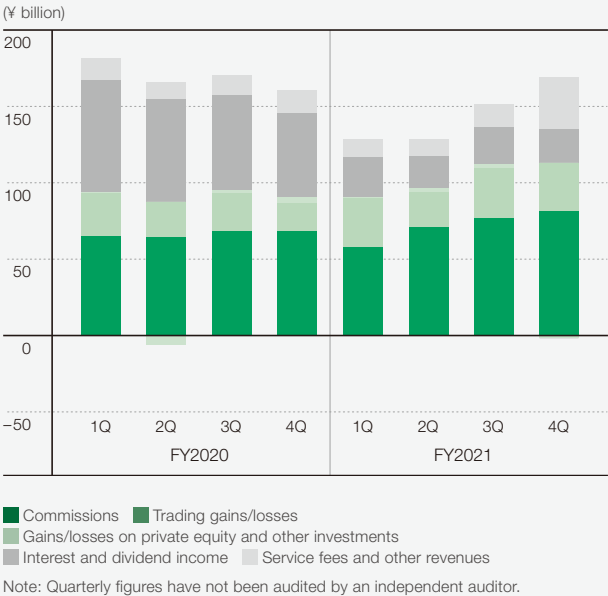
Total consolidated operating revenues in FY2021 increased by 7.5% compared to the previous fiscal year, to ¥619.4 billion, and net consolidated operating revenues increased by 7.6% year on year, to ¥502.0 billion.

Commissions received were up by 9.5% compared to the previous fiscal year, to ¥314.0 billion. Brokerage commission decreased by 2.7% year on year, to ¥75.9 billion, owing mainly to a decrease in the trading of Japanese stocks. Meanwhile, underwriting commission increased 2.9% compared to the previous fiscal year, to ¥39.2 billion, as a result of increased earnings due in part to multiple bond underwriting transactions, etc.

Breakdown of Net Operating Revenues

	Millions of yen		
	FY2020	FY2021	YoY
Operating revenues	¥576,172	¥619,471	7.5%
Commissions	286,835	314,051	9.5%
Brokerage commission	78,026	75,907	−2.7%
Underwriting commission	38,098	39,210	2.9%
Distribution commission	19,211	21,440	11.6%
Other commission	151,499	177,493	17.2%
Net gain on trading	118,895	101,522	−14.6%
Net gain/loss on private equity and other investments	4,808	6,048	25.8%
Interest and dividend income	93,188	75,978	−18.5%
Service fees and other revenues	72,444	121,870	68.2%
Interest expenses	54,480	44,714	−17.9%
Cost of service fees and other revenues	55,031	72,663	32.0%
Net operating revenues	¥466,660	¥502,093	7.6%

Breakdown of Consolidated Income



Net Gains/Losses on Trading

Net gain on trading decreased by 14.6% to ¥101.5 billion due to the decline in FICC revenue, etc.

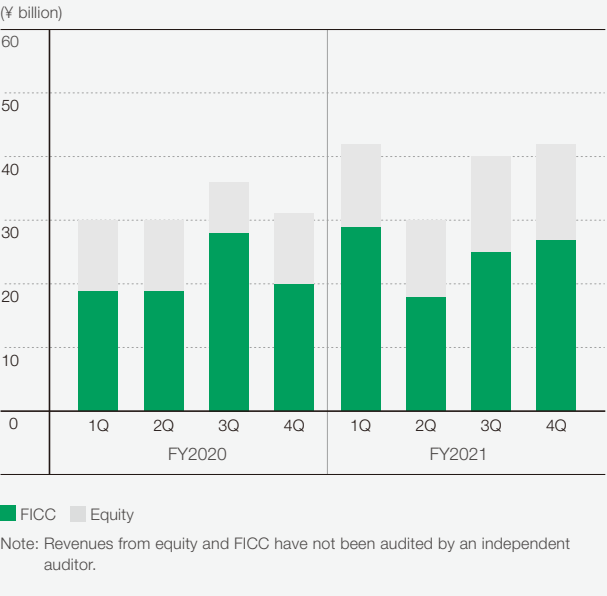
Equity revenues calculated on a managerial accounting basis, which is the sum of net trading gains/losses and financial income/expenses associated with trading, increased by 18.2% year on year, to ¥65.0 billion. FICC revenues decreased by 28.3% compared to the previous fiscal year, to ¥71.0 billion.

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

	Billions of yen		
	FY2020	FY2021	YoY
Equity	¥ 55.0	¥ 65.0	18.2%
FICC	99.0	71.0	-28.3%
Total	¥154.0	¥136.0	-11.7%

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)



Selling, General and Administrative (SG&A) Expenses, Ordinary Income and Profit Attributable to Owners of Parent

SG&A expenses edged up 3.4% compared to the previous fiscal year, to ¥386.5 billion. Trading-related expenses increased by 8.6% to ¥62.5 billion due to the increase in commission expenses, etc., paid to investment trust sales companies, personnel expenses increased 3.0% to ¥198.7 billion due to an increase in bonuses, etc., and depreciation increased 2.6% to ¥34.8 billion due to an increase in systems-related expenses, etc.

As a result of the above, ordinary income increased by 17.9% to ¥135.8 billion.

In addition, extraordinary income of ¥9.0 billion (¥51.6 billion in the previous fiscal year) was recorded due to gain on sale of investment securities and gain on sale of shares of subsidiaries and associates, etc., while extraordinary losses of ¥3.1 billion (¥22.2 billion in the previous fiscal year) was recorded due to business restructuring expenses, etc., so the result after deducting income taxes and profit attributable to non-controlling interests was a 12.5% year-on-year decline of ¥94.8 billion in profit attributable to owners of parent.

Breakdown of SG&A and Income

	Millions of yen		
	FY2020	FY2021	YoY
SG&A	¥373,800	¥386,559	3.4%
Trading-related expenses	57,612	62,588	8.6%
Personnel expenses	193,002	198,790	3.0%
Real estate expenses	38,441	37,643	-2.1%
Office cost	24,365	24,740	1.5%
Depreciation	33,920	34,811	2.6%
Taxes and dues	11,493	10,678	-7.1%
Allowance for doubtful accounts	281	32	-88.6%
Other	14,682	17,274	17.7%
Operating income	92,859	115,534	24.4%
Non-operating income/expenses	22,316	20,287	-9.1%
Ordinary income	115,175	135,821	17.9%
Extraordinary gains/losses	29,391	5,844	-80.1%
Income before income taxes	144,567	141,666	-2.0%
Income taxes	34,915	37,521	7.5%
Profit attributable to owners of parent	¥108,396	¥ 94,891	-12.5%

Cost Structure



Segment Information

Retail Division

In the current fiscal year, we pursued initiatives such as transitioning to a wealth management business model and structural reforms of costs. Sales and the distribution amount of stock investment trusts increased, with contribution from the increase in sales of asset-based fee plan

for investment trusts, which we commenced offering from October 2020. In addition, Contract AUM reached a record high of ¥2,957.3 billion due to the increase in both the contract amount and net increase in wrap accounts, while investment advisory and trade management fees, which is wrap-related revenue, also increased.

In FY2021, net operating revenues in the Division increased by 11.4%, to ¥188.8 billion, and ordinary income increased by 108.3%, to ¥41.8 billion, compared to the previous fiscal year.

Wholesale Division

In Global Markets, offering timely products that address diverse customer needs and trading equities in response to changing market conditions contributed to earnings. On the other hand, there was a decline in earning opportunities in fixed income revenue mainly due to lower interest rates and volatility in the Americas. As a result, net operating revenue in the current fiscal year declined by 16.9% from the previous fiscal year to ¥134.3 billion and ordinary income declined by 39.0% to ¥38.3 billion.

In Global Investment Banking, apart from serving as global coordinator*1 for the sale of shares of JAPAN POST HOLDINGS Co., Ltd. and a public offering of shares by Renesas Electronics Corporation, we served as lead manager for many transactions including the SDGs-IPO*2 offered by TESS Holdings Co., Ltd. and for subordinated bonds issued by SoftBank Group Corp. and ENEOS Holdings, Inc. Underwriting and secondary offering commissions in the current fiscal year increased by 2.9% from the previous fiscal year to ¥39.2 billion. In M&A advisory services, there was an increase in revenue due to many transactions executed domestically and overseas, and M&A-related commissions increased by 32.2% to ¥35.2 billion. As a result, net operating revenues for Global Investment Banking in the current fiscal year increased by 13.6% from the previous fiscal year to ¥61.5 billion. Ordinary income declined by 3.0% to ¥10.6 billion.

Net operating revenues for the Wholesale Division in the current fiscal year declined by 9.3% from the previous fiscal year to ¥195.8 billion, and ordinary income declined by 31.8% to ¥50.9 billion.

*1 Global coordinator: The lead manager securities company that oversees all activities when carrying out a public offering or sale of shares inside and outside of Japan.

*2 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.

Asset Management Division

The balance of assets under management in publicly offered stock investment trusts and publicly offered public and corporate bond investment trusts at Daiwa Asset Management increased ¥0.7 trillion from the end of the previous fiscal year to ¥21.6 trillion due to a net increase in funds. Daiwa Asset Management's operating revenue increased by 13.7% from the previous fiscal year to ¥74.9 billion, and ordinary income increased by 30.6% to ¥19.0 billion.

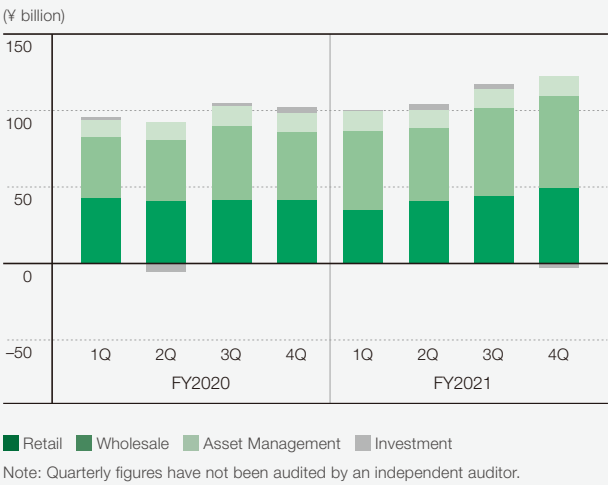
In real estate asset management, through the acquisition of new properties and the asset replacement, the total of assets under management for Daiwa Real Estate Asset Management and Samty Residential Investment Corporation was ¥1,279.0 billion, with an increase in revenue as well.

Segment Information

	Net Operating Revenues			Ordinary Income		
	FY2020	FY2021	YoY	FY2020	FY2021	YoY
	Millions of yen					
Retail	¥169,505	¥188,879	11.4%	¥ 20,070	¥ 41,807	108.3%
Wholesale	215,860	195,863	−9.3%	74,737	50,951	−31.8%
Asset Management	51,145	71,052	38.9%	32,775	45,253	38.1%
Investment	4,602	11,055	140.2%	1,123	7,192	540.0%
Others/adjustments	25,546	35,242	—	(13,532)	(9,382)	—
Consolidated total	¥466,660	¥502,093	7.6%	¥115,175	¥135,821	17.9%

Note: Assets by segment are not aggregated.

Breakdown of Net Operating Revenues by Segment



As a result, in FY2021, net operating revenues in the Asset Management Division increased by 38.9% over the previous fiscal year, to ¥71.0 billion, and ordinary income increased by 38.1%, to ¥45.2 billion, compared to the previous fiscal year.

Investment Division

Apart from securing the revenues from investment in monetary claims at Daiwa PI Partners, Daiwa Energy & Infrastructure expanded energy and infrastructure related investment, and recorded capital gains as well as income gains. Net operating revenues for the Investment Division in the current fiscal year increased 2.4-fold from the previous fiscal year to ¥11.0 billion, and ordinary income increased 6.4-fold to ¥7.1 billion.

Overseas Operations

The Overseas Division recorded an ordinary income of ¥9.5 billion, making for six consecutive years of full-year profits.

By region, Europe experienced growth in M&A and primary revenues, whereas FICC revenues declined, resulting in an ordinary loss of ¥2.2 billion. In Asia/Oceania, in addition to continued strength in Asian stock trading and business in Singapore targeting wealthy customers, the gain on equity-method investment to SSI also contributed to profits. As a result, ordinary income grew to its highest level in history, increasing 28.5% over the previous fiscal year, to ¥5.9 billion. The US experienced higher revenues from M&As, whereas FICC revenues declined significantly, resulting in an ordinary income of ¥5.8 billion, down 56.6% compared to the previous fiscal year.

During the fiscal year under review, Daiwa Securities Group established DC Benelux in the Netherlands in February as the 8th DC office in Europe. This move served to strengthen and expand the Global M&A Network, thereby forming a framework with a presence in every major market in Europe. The success of this initiative helped the Group achieve its highest revenues in history during the fiscal year under review, while the European and US pipelines have continued to build at a high level.

In June, the Group acquired a business permit from the China Securities Regulatory Commission, thereby allowing Daiwa Securities (China) Limited to begin operations in Beijing. As a company specialized in wholesale securities, it will engage in investment banking, brokerage, and principal transaction services. This joint securities company will leverage the Group's global network as well as the expertise of the joint venture partner in aims of expanding a unique business centered on cross-border operations.

Ordinary Income from Overseas Operations, Broken Down by Region

	Millions of yen	
	FY2020	FY2021
Europe	¥ 3,969	¥(2,270)
Asia & Oceania	4,659	5,986
Americas	13,188	5,809
Total	¥21,817	¥ 9,525

Note: Ordinary income from overseas operations has not been audited by an independent auditor.

Analysis of Consolidated Balance Sheets and Cash Flow Statements

Assets

Total assets as of the end of FY2021 stood at ¥27,531.0 billion, an increase of ¥1,431.7 billion, or 5.5%, compared to the end of the previous fiscal year. Current assets increased by ¥1,363.3 billion, or 5.5%, year on year, to ¥26,009.6 billion. While cash and cash deposits decreased by ¥170.8 billion, or 3.6%, to ¥4,592.3 billion, securities increased by ¥181.2 billion, or 18.2%, to ¥1,177.8 billion, trading assets increased by ¥170.8 billion, or 2.2%, to ¥8,004.9 billion; and collateralized short-term financing agreements increased ¥945.9 billion, or 12.7%, to ¥8,394.2 billion, compared to the end of the previous fiscal year. Meanwhile, the balance of fixed assets increased by ¥68.4 billion, or 4.7%, year on year, to ¥1,521.4 billion.

Liabilities and Net Assets

Total liabilities as of the end of FY2021 stood at ¥25,891.2 billion, an increase of ¥1,383.7 billion, or 5.6%, compared to the end of the previous fiscal year. Current liabilities increased by ¥1,725.9 billion, or 8.1%, compared to the end of the previous fiscal year, to ¥22,945.2 billion. Breaking down current liabilities by category, trading liabilities increased by ¥578.0 billion, or 13.2% year on year, to ¥4,945.9 billion; trade account payables, net decreased ¥771.8 billion, or 58.5% year on year, to ¥548.4 billion; collateralized short-term financing agreements increased ¥1,287.6 billion, or 15.7% year on year, to ¥9,463.6 billion; deposits for banking business decreased ¥226.9 billion, or 5.1% year on year, to ¥4,189.1 billion; short-term borrowings increased ¥747.4 billion, or 53.1%, year on year, to ¥2,155.7 billion; and current portion of bonds payable increased ¥242.9 billion, or 119.2%, year on year, to ¥446.7 billion. Long-term liabilities stood at ¥2,942.2 billion, down ¥342.2 billion, or 10.4% year on year. Specifically, long-term debt decreased by ¥349.8 billion, or 22.0% year on year, to ¥1,237.0 billion.

Net assets as of the end of FY2021 stood at ¥1,639.8 billion, climbing ¥48.0 billion, or 3.0%, compared to the end of the previous fiscal year. The sum of common stock issued and capital surplus came to ¥477.8 billion. After adding profit attributable to owners of parent in FY2021 of ¥94.8 billion, and accounting for such factors as the payment of cash dividends applicable to the year of ¥63.7 billion, retained earnings amounted to ¥942.7 billion, an increase of ¥31.0 billion, or 3.4% year on year. The amount of treasury stock at cost deduction was ¥134.2 billion, an increase of ¥26.5 billion, or 24.7%, compared to the end of the previous fiscal year. Valuation difference on available-for-sale securities decreased by ¥12.0 billion, or 28.9% year on year, to ¥29.5 billion, and foreign currency translation adjustment increased by ¥34.4 billion, or 267.0% compared to the end of the previous fiscal year, to ¥47.2 billion. Non-controlling interests increased by ¥8.3 billion, or 3.4% year on year, to ¥257.4 billion.

Analysis of Cash Flows

In the current fiscal year, net cash used in operating activities amounted to ¥353.4 billion (compared to ¥390.9 billion provided in the previous fiscal year), mainly due to changes in trading products, loans (borrowings) secured by

securities, deposits from banking business and short-term guarantee deposits. Net cash used in investing activities totaled ¥218.5 billion, compared to ¥91.6 billion used in FY2020, mainly due to purchase of securities and purchase of investment securities. Net cash provided by financing activities totaled ¥377.0 billion, compared to ¥438.0 billion provided in FY2020, 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 FY2021 stood at ¥4,554.3 billion, a decrease of ¥169.1 billion compared to 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 utilize 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 and stable 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 Company is required to comply with the minimum standard (100%) of consolidated liquidity coverage ratio (LCR) and Net Stable Funding Ratio (NSFR) based on the criteria that indicates soundness in relation to liquidity of the soundness in the management of the highest designated parent company and its subsidiary corporations, etc.,

stipulated as criteria by which the highest designated parent company is to judge the soundness in the management of the highest designated parent company and its subsidiary corporations, etc., based on the provisions of Article 57-17, Paragraph (1) of the Financial Instruments and Exchange Act (2014 Financial Services Agency Public Notice No. 61.) The Company's daily average LCR in the fourth quarter of the fiscal year under review was 149.0%.

The Company's daily average LCR in the fourth quarter of the fiscal year under review was 149.0%, and the NSFR at the end of the fourth quarter of the fiscal year under review was 148.4%. The Company has organized its liquidity management system using original indices for liquidity management in addition to regulatory LCR and NSFR as per the above notification from the Financial Services Agency.

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.

Billions of yen		
Daily Average		
(January 1, 2022 to March 31, 2022)		
High-Quality Liquid Assets	(A)	¥2,642.1
Cash Outflows	(B)	3,522.5
Cash Inflows	(C)	1,750.2
Consolidated Liquidity Coverage Ratio (LCR)		
Total High-Quality Liquid Assets	(D)	2,642.1
Total Net Cash Outflows	(E)	¥1,772.3
Consolidated Liquidity Coverage Ratio (LCR)	(D)/(E)	149.0%

Billions of yen		
(March 31, 2022)		
Total Available Stable Funding	(A)	¥8,480.4
Total Required Stable Funding	(B)	5,713.5
Consolidated Net Stable Funding Ratio	(A)/(B)	148.4%

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 certain 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 credit-worthiness. 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, 2022, 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, 2022 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
ASSETS			
Cash and cash deposits:			
Cash and cash equivalents (Note 8)	¥ 4,554,376	¥ 4,723,526	\$ 37,330,951
Cash segregated as deposits for regulatory purposes (Note 8)	559,730	485,877	4,587,951
Time deposits (Notes 8, 12 and 13)	43,009	39,672	352,533
	5,157,115	5,249,075	42,271,435
Receivables:			
Loans receivable from customers (Notes 8 and 12)	1,933,758	1,996,121	15,850,475
Loans receivable from other than customers	6,890	6,909	56,475
Receivables related to margin transactions (Notes 6 and 8)	177,401	162,078	1,454,107
Other (Note 27)	752,316	623,394	6,166,525
Less: Allowance for doubtful accounts (Note 8)	(7,590)	(4,402)	(62,213)
	2,862,775	2,784,100	23,465,369
Collateralized short-term financing agreements (Notes 7, 8 and 27)			
	8,394,278	7,448,322	68,805,557
Trading assets (Notes 8, 9 and 12)			
	8,004,920	7,834,094	65,614,098
Securities (Notes 8, 10 and 12)			
	1,172,898	996,684	9,613,918
Private equity investments			
Private equity and other investments (Notes 8 and 10)	123,839	97,092	1,015,074
Less: Allowance for possible investment losses (Note 8)	(152)	(588)	(1,246)
	123,687	96,504	1,013,828
Other assets:			
Property and equipment, at cost	1,086,834	1,043,779	8,908,475
Less: Accumulated depreciation	(172,955)	(163,301)	(1,417,664)
	913,879	880,478	7,490,811
Goodwill	19,658	21,230	161,131
Other intangible fixed assets	101,826	107,557	834,640
Investment securities (Notes 8, 10 and 12)	443,447	402,590	3,634,811
Deferred tax assets (Note 18)	11,993	11,397	98,303
Other	329,656	271,957	2,702,099
Less: Allowance for doubtful accounts	(1,423)	(1,037)	(11,664)
Less: Allowance for possible investment losses (Note 8)	(3,620)	(3,620)	(29,672)
	1,815,416	1,690,552	14,880,459
	¥27,531,089	¥26,099,331	\$225,664,664

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
LIABILITIES AND NET ASSETS			
Debt:			
Short-term borrowings (Notes 8, 12, 13 and 16)	¥ 1,752,074	¥ 1,333,340	\$ 14,361,262
Commercial paper (Note 8)	116,000	265,000	950,820
Long-term debt (Notes 8, 12, 13 and 16)	3,667,494	3,440,546	30,061,426
	5,535,568	5,038,886	45,373,508
Payables:			
Payables to customers and counterparties (Notes 8 and 15)	795,393	760,693	6,519,615
Payables related to margin transactions (Notes 6, 8 and 12)	70,319	64,022	576,385
Deposits for banking business (Note 8)	4,189,105	4,416,097	34,336,926
Other (Note 8)	61,116	66,551	500,951
	5,115,933	5,307,363	41,933,877
Collateralized short-term financing agreements (Notes 7, 8 and 27)			
	9,463,697	8,176,095	77,571,287
Trading liabilities (Notes 8 and 9)			
	4,945,901	4,367,822	40,540,172
Trade account payables, net (Note 8)			
	548,406	1,320,280	4,495,131
Accrued and other liabilities:			
Income taxes payable	8,649	17,963	70,893
Deferred tax liabilities (Note 18)	42,242	43,176	346,246
Accrued bonuses	37,586	36,316	308,082
Retirement benefits (Note 17)	44,716	45,387	366,525
Other (Note 27)	144,783	150,502	1,186,746
	277,976	293,344	2,278,492
Statutory reserves (Note 19)			
	3,718	3,700	30,475
Total liabilities	25,891,199	24,507,490	212,222,942
Contingent liabilities (Note 20)			
Net assets			
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	2,027,844
Capital surplus	230,452	230,651	1,888,952
Retained earnings	942,794	911,742	7,727,820
Treasury stock at cost	(134,200)	(107,646)	(1,100,000)
Deposit for subscriptions to treasury stock	26	10	213
	1,286,469	1,282,154	10,544,829
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	29,587	41,588	242,516
Deferred gains or losses on hedges	9,940	(3,058)	81,475
Translation adjustment	47,288	12,886	387,607
	86,815	51,416	711,598
Stock subscription rights (Note 22)	9,109	9,125	74,664
Non-controlling interests	257,497	249,146	2,110,631
Total net assets	1,639,890	1,591,841	13,441,722
	¥27,531,089	¥26,099,331	\$225,664,664

See accompanying notes.

Consolidated Statements of Income

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2022 and 2021

		Millions of yen	Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Operating revenues:			
Commissions (Notes 24 and 26)	¥314,051	¥286,836	\$2,574,189
Net gain on trading (Note 29)	101,522	118,895	832,148
Net gain on private equity and other investments	6,049	4,808	49,582
Interest and dividend income (Note 27)	75,978	93,188	622,770
Service fees and other revenues (Note 26)	121,871	72,445	998,943
	619,471	576,172	5,077,632
Interest expense (Note 27)	44,714	54,480	366,508
Cost of service fees and other revenues	72,663	55,032	595,598
Net operating revenues (Note 26)	502,094	466,660	4,115,526
Selling, general and administrative expenses (Notes 17 and 31)	386,559	373,801	3,168,516
Operating income	115,535	92,859	947,010
Other income (expenses):			
Provision for statutory reserves, net (Note 19)	(18)	219	(148)
Other, net (Note 32)	26,149	51,488	214,336
	26,131	51,707	214,188
Income before income taxes	141,666	144,566	1,161,198
Income taxes (Note 18):			
Current	39,610	35,589	324,672
Deferred	(2,089)	(674)	(17,123)
	37,521	34,915	307,549
Profit	104,145	109,651	853,649
Profit attributable to non-controlling interests	9,254	1,255	75,853
Profit attributable to owners of parent	¥ 94,891	¥108,396	\$ 777,796
		Yen	U.S. dollars (Note 1)
Per share amounts:			
Net income	¥63.06	¥71.20	\$0.52
Diluted net income	62.72	70.90	0.51
Cash dividends applicable to the year	33.00	36.00	0.27

See accompanying notes.

Consolidated Statements of Comprehensive Income

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2022 and 2021

		Millions of yen	Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Profit	¥104,145	¥109,651	\$ 853,649
Other comprehensive income:			
Valuation difference on available-for-sale securities	(12,055)	14,971	(98,811)
Deferred gains (losses) on hedges	13,166	10,345	107,918
Translation adjustment	31,582	17,595	258,869
Share of other comprehensive income of associates accounted for using equity method	3,945	908	32,336
Total other comprehensive income	36,638	43,819	300,312
Comprehensive income	¥140,783	¥153,470	\$1,153,961
		Millions of yen	Thousands of U.S. dollars (Note 1)
Comprehensive income attributable to:			
Comprehensive income attributable to owners of the parent	¥130,292	¥152,107	\$1,067,967
Comprehensive income attributable to non-controlling interests	10,491	1,363	85,994

See accompanying notes.

Consolidated Statements of Changes in Net Assets

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2022 and 2021

	Number of shares of common stock (thousands)	Owners' equity					Accumulated other comprehensive income					Millions of yen
		Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Deposit for subscriptions to treasury stock	Valuation difference on available-for- sale securities	Deferred gains or losses on hedges	Translation adjustment	Stock subscription rights	Non- controlling interests	
Balance at March 31, 2020	1,699,379	¥247,397	¥230,809	¥834,443	¥(110,351)	¥13	¥ 26,853	¥(13,593)	¥(5,556)	¥8,902	¥38,849	
Cumulative effects of changes in accounting policies												
Restated balance		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	
Balance at March 31, 2021	1,699,379	247,397	230,651	911,742	(107,646)	10	41,588	(3,058)	12,886	9,125	249,146	
Cumulative effects of changes in accounting policies				(82)								
Restated balance		247,397	230,651	911,660	(107,646)	10	41,588	(3,058)	12,886	9,125	249,146	
Cash dividends paid				(63,790)								
Profit attributable to owners of parent				94,891								
Purchase of treasury shares					(29,297)							
Disposal of treasury shares				33	2,743							
Retirement of treasury shares												
Change of scope of consolidation												
Other			(199)			16						
Net changes of items other than owners' equity							(12,001)	12,998	34,402	(16)	8,351	
Balance at March 31, 2022	1,699,379	¥247,397	¥230,452	¥942,794	¥(134,200)	¥26	¥ 29,587	¥ 9,940	¥47,288	¥9,109	¥257,497	

	Thousands of U.S. dollars (Note 1)										
	Owners' equity					Accumulated other comprehensive income					
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Deposit for subscriptions to treasury stock	Valuation difference on available-for- sale securities	Deferred gains or losses on hedges	Translation adjustment	Stock subscription rights	Non- controlling interests	
Balance at April 1, 2021	\$2,027,844	\$1,890,582	\$7,473,295	\$ (882,344)	\$ 82	\$340,885	\$(25,066)	\$105,623	\$74,795	\$2,042,180	
Cumulative effects of changes in accounting policies			(672)								
Restated balance	2,027,844	1,890,582	7,472,623	(882,344)	82	340,885	(25,066)	105,623	74,795	2,042,180	
Cash dividends paid			(522,869)								
Profit attributable to owners of parent			777,796								
Purchase of treasury shares				(240,139)							
Disposal of treasury shares			270	22,483							
Retirement of treasury shares											
Change of scope of consolidation											
Other		(1,630)			131						
Net changes of items other than owners' equity						(98,369)	106,541	281,984	(131)	68,451	
Balance at March 31, 2022	\$2,027,844	\$1,888,952	\$7,727,820	\$(1,100,000)	\$213	\$242,516	\$ 81,475	\$387,607	\$74,664	\$2,110,631	

See accompanying notes.

Consolidated Statements of Cash Flows

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2022 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	
Cash flows from operating activities:			
Profit	¥ 104,145	¥ 109,651	\$ 853,649
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	46,160	42,337	378,361
Allowance for doubtful accounts, net	3,766	8,074	30,869
Statutory reserves, net	18	(219)	148
Loss (gain) related to fixed assets	1,071	10,724	8,779
Loss (gain) related to investment securities	(3,124)	(2,273)	(25,607)
Loss (gain) on sale of shares of subsidiaries and associates	(2,927)	—	(23,992)
Loss (gain) on step acquisitions	—	(46,963)	—
Loss (gain) on change in equity	—	(180)	—
Deferred income taxes	(2,089)	(674)	(17,123)
Structural reform cost	44	4,319	361
Changes in operating assets and liabilities:			
Receivables and payables related to margin transactions	(9,026)	(42,929)	(73,984)
Other receivables and other payables	(120,434)	103,290	(987,164)
Collateralized short-term financing agreements	310,366	219,893	2,543,984
Trading assets and liabilities	(368,927)	(41,578)	(3,023,992)
Private equity and other investments	(23,821)	(8,691)	(195,254)
Deposits for banking business	(226,992)	378,896	(1,860,590)
Other, net	(61,697)	(342,699)	(505,716)
Total adjustments	(457,612)	281,327	(3,750,920)
Net cash flows provided by (used in) operating activities	(353,467)	390,978	(2,897,271)
Cash flows from investing activities:			
Increase in time deposits	(60,494)	(64,699)	(495,852)
Decrease in time deposits	61,198	58,018	501,623
Purchase of securities	(1,117,497)	(623,456)	(9,159,811)
Proceeds from sales and redemption of securities	996,100	570,283	8,164,754
Payments for purchases of property and equipment	(62,565)	(29,329)	(512,828)
Proceeds from sales of property and equipment	11,056	4,665	90,623
Payments for purchases of intangible fixed assets	(23,023)	(29,272)	(188,713)
Payments for purchases of investment securities	(51,188)	(82,600)	(419,574)
Proceeds from sales and redemption of investment securities	23,608	105,641	193,508
Payments of loans receivable	(534)	(595)	(4,377)
Collection of loans receivable	227	76	1,861
Other, net	4,578	(374)	37,524
Net cash flows provided by (used in) investing activities	(218,534)	(91,642)	(1,791,262)

Notes to Consolidated Financial Statements

DAIWA SECURITIES GROUP INC.
Years ended March 31, 2022 and 2021

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 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 181 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

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

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, 2022, which was ¥122 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.

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

		Millions of yen	Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Cash flows from financing activities:			
Increase in short-term borrowings and commercial paper	264,984	419,571	2,172,000
Increase in long-term debt	911,208	967,675	7,468,918
Decrease in long-term debt	(700,591)	(922,262)	(5,742,549)
Payments of cash dividends	(63,791)	(30,429)	(522,877)
Dividends paid to non-controlling interests	(10,533)	(2,050)	(86,336)
Proceeds from share issuance to non-controlling shareholders on establishment of consolidated subsidiaries	—	7,781	—
Other, net	(24,187)	(2,218)	(198,254)
Net cash flows provided by (used in) financing activities	377,090	438,068	3,090,902
Effect of exchange rate changes on cash and cash equivalents			
	25,761	6,797	211,156
Net increase or decrease in cash and cash equivalents	(169,150)	744,201	(1,386,475)
Cash and cash equivalents at beginning of year	4,723,526	3,933,150	38,717,426
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	—	25,968	—
Increase (Decrease) in cash and cash equivalents resulting in change in scope of consolidation	—	20,207	—
Cash and cash equivalents at end of year	¥ 4,554,376	¥4,723,526	\$37,330,951

See accompanying notes.

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 recognition of significant revenues and expenses—The Company and its domestic consolidated subsidiaries recognize revenues at the amount expected to be received in exchange for promised goods or services at the time when control of the relevant goods or services is transferred to the customers. In relation to recognition of revenues from contracts with customers, the nature of principal performance obligations for major businesses and typical timing for the satisfaction of those performance obligations (i.e., typical timing of revenue recognition) are described in Note 24 “Revenue recognition.”

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 tax sharing system
The Company and some of its domestic consolidated subsidiaries will transition from the consolidated taxation system to the group tax sharing system from the fiscal year ending March 31, 2023. Due to the provisions of “Practical Solution on the Treatment of Tax Effect

3. Change in presentation method

(“Consolidated statements of cash flows”)

In the previous consolidated fiscal year, “Dividends paid to non-controlling interests” was included in “Other, net” of “Cash flows from financing activities,” is separately presented in the current consolidated fiscal year due to the increased monetary importance.

To reflect this change in presentation, the consolidated financial statements for the previous consolidated fiscal year

Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (PITF No. 39, March 31, 2020) paragraph 3, the Company and some of its domestic consolidated subsidiaries do not apply Paragraph 44 of “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28, February 16, 2018), but apply the provisions of the pre-amended tax laws when calculating the amounts of deferred tax assets and liabilities regarding the transition to the group tax sharing system, which was established by the “Act for Partial Revision of the Income Tax Act etc.” and amendments of the single tax payment system. “Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System” (PITF No. 42, August 12, 2021), which sets out accounting and disclosure of corporation and local taxes and tax effect accounting under the group tax sharing system, will be applied from the beginning of the fiscal year ending March 31, 2023.

Unapplied accounting standard

- “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, June 17, 2021)

(a) Overview

The treatment of measurement of Fair value for investment funds was determined. Also, the treatment of the note on Fair value for investment funds and partnerships (the net amount equivalent to the equity interest in the balance sheets is recognized), etc., was determined.

(b) Application date

The Company applies the standards from the beginning of the fiscal year ending March 31, 2023.

(c) Impact of application

There is no impact for the consolidated financial statements due to this application.

have been reclassified.

As a result, ¥(4,268) million (\$34,984 thousand) disclosed in “Other, net” under “Cash flows from financing activities” in “Consolidated statements of cash flows,” for the previous fiscal year, has been reclassified to ¥(2,050) million (\$16,803 thousand) in “Dividends paid to non-controlling interests” and ¥(2,218) million (\$18,180 thousand) in “Other, net.”

4. Change in accounting policy

The Company applies the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) from the beginning of the current consolidated fiscal year, under which revenues are recognized at the amount expected to be received in exchange for promised goods or services at the time when control of the relevant goods or services is transferred to customers.

The Accounting Standard for Revenue Recognition is applied according to the transitional treatment as stipulated in the provision of Paragraph 84 of the standard. In the case where the new accounting policy was retroactively applied before the beginning of the current consolidated fiscal year, the amount of the cumulative effect was added to or deducted from retained earnings at the beginning of the current fiscal year, and the new accounting policy was applied from the relevant initial balance of retained earnings. In accordance with the method stipulated in Paragraph 86 of the Accounting Standard for Revenue Recognition, the new accounting policy was not retrospectively applied to contracts wherein almost all revenues were recognized before the beginning of the current consolidated fiscal year

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) 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 ¥98.9 billion (\$811 million) and ¥17.0 billion (\$140 million), respectively. (In the fiscal year ended March 31, 2021, they are ¥47.0 billion and ¥19.8 billion.) 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

according to the former treatment. Applying the method as stipulated in the supplementary provision (1) of Paragraph 86 of the Accounting Standard for Revenue Recognition, the new accounting policy was applied retroactively to contracts based on the terms of the contracts after all modifications made up until the start of the current consolidated fiscal year had been reflected. The amount of the cumulative effect of the relevant changes was added to or deducted from retained earnings at the beginning of the current consolidated fiscal year.

As a result, as the amount of the cumulative effect has been reflected in the net assets at the beginning of the current consolidated fiscal year, the retained earnings balance at the beginning of the current fiscal year on the consolidated statements of changes in net assets decreased by ¥82 million (\$672 thousand).

According to the transitional treatment as stipulated in Paragraph 89-3 of the Accounting Standard for Revenue Recognition, the company does not disclose Disaggregation of revenue from contracts with customers for the previous consolidated fiscal year.

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, “Matters concerning the fair value and fair value hierarchy by level of 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, “Matters concerning the fair value and fair value hierarchy by level of 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	Thousands of U.S. dollars
	2022	2021	2022
Private equity and other investments	¥123,839	¥ 97,092	\$1,015,074
Allowance for possible investment loss	(152)	(588)	(1,246)
Loans receivable from customers (investment division)	76,798	68,279	629,492
Allowance for doubtful accounts (investment division)	(7,000)	(3,987)	(57,377)
Total	¥193,485	¥160,796	\$1,585,943

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, 2022.

(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. In the fiscal year ended March 31, 2022, Daiwa recorded a loss of ¥3.2 billion (\$26.2 million) mainly from aircraft-related investments and ¥1.1 billion (\$9.0 million) from overseas investments and loans.

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 COVID-19 pandemic will continue until the end of the fiscal year ending March 31, 2023, after which it will gradually come to an end. For aircraft-related investments, which have been significantly impacted by the spread of the COVID-19 pandemic, due to the prolonged decline in aviation demand, Daiwa is reevaluating certain aircraft-related investments and has recorded an additional allowance for doubtful accounts.

In addition, Daiwa assumes that the impact of the sharp rise in natural resource prices due to the situation in Russia and Ukraine, etc. will be short-term and as such utilizes forecasts by international organizations and other sources for medium- to long-term price projections that have a significant impact on the evaluation of investments.

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, 2022 and 2021 consisted of the following:

		Millions of yen	Thousands of U.S. dollars
	2022	2021	2022
Assets:			
Loans on margin transactions	¥170,556	¥152,077	\$1,398,000
Cash collateral pledged for securities borrowing on margin transactions	6,845	10,001	56,107
	¥177,401	¥162,078	\$1,454,107
Liabilities:			
Borrowings on margin transactions	¥ 5,328	¥ 4,139	\$ 43,672
Cash received for securities lending on margin transactions	64,991	59,883	532,713
	¥ 70,319	¥ 64,022	\$ 576,385

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, 2022 and 2021 consisted of the following:

		Millions of yen	Thousands of U.S. dollars
	2022	2021	2022
Assets:			
Securities purchased under agreements to resell	¥3,110,403	¥2,393,871	\$25,495,107
Securities borrowed	5,283,875	5,054,451	43,310,450
	¥8,394,278	¥7,448,322	\$68,805,557
Liabilities:			
Securities sold under agreements to repurchase	¥4,702,260	¥3,476,447	\$38,543,115
Securities loaned	4,761,437	4,699,648	39,028,172
	¥9,463,697	¥8,176,095	\$77,571,287

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 war-
rants, 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 model 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, 2022 (fiscal year-end) was
¥1.9 billion (\$15.6 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 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

The fair value evaluation models for trading products are

used under the model risk management system, after
undergoing the verification/approval process. In addition,
in line with changes in market conditions, Daiwa regularly
conducts reviews for fair value evaluation models to
match 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 the 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 the 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, 2022, 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 ¥10.7 billion (\$87.7 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, 2022, 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 ¥1.5 billion (\$12.3 million) and ¥0.1 billion (\$0.8 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., the 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, 2022 is ¥7.2 billion (\$59.0 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, 2022, 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”) and Net Stable Funding Ratio (hereinafter “NSFR”) in accordance with the 2014 Financial Services Agency Notification No. 61. In addition to the regulatory LCR and NSFR reporting in accordance with the notification of the Financial Services Agency, Daiwa has established a liquidity management framework based on its own liquidity management indicators. 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, the Company verifies every day that enough liquidity is secured for such repayment and outflows even in various stress scenarios. The Company 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

Since certain assumptions are used in the calculation of the fair value of financial instruments, the prices may fluctuate if different assumptions are used.

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, July 4, 2019, 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)³ 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			
	2022			
	Fair Value			
	Level 1	Level 2	Level 3	Total
Assets				
(1) Trading products				
[1] Trading securities and other				
Equities	¥ 115,391	¥ 142	¥ 73	¥ 115,606
Government bonds, corporate bonds, etc.	2,265,333	189,523	—	2,454,856
General business bonds	7,320	445,249	20	452,589
Foreign bonds	1,823,468	298,980	51,978	2,174,426
Other	10,855	595,073	995	606,923
[2] Derivative transactions				
Equity	64,192	168,739	82,180	315,111
Interest rate	1,637	1,176,145	5,008	1,182,790
Currency	2	542,977	3,568	546,547
Credit / other	12	32,664	8,179	40,855
(2) Securities, private equity and other investments and investment securities				
Available-for-sale securities				
Equities	133,979	—	—	133,979
Government bonds, corporate bonds, etc.	189,600	30,749	—	220,349
General business bonds	—	199,302	18,333	217,635
Foreign bonds	117,859	270,930	17,342	406,131
Total assets	¥4,729,648	¥3,950,473	¥187,676	¥8,867,797
Liabilities				
(1) Trading products				
[1] Trading securities and other				
Equities	¥ 178,322	¥ —	¥ —	¥ 178,322
Government bonds, corporate bonds, etc.	1,221,603	159	—	1,221,762
Foreign bonds	1,367,511	25,989	—	1,393,500
Other	—	147,629	—	147,629
[2] Derivative transactions				
Equity	139,036	184,877	5,843	329,756
Interest rate	441	1,134,416	4,677	1,139,534
Currency	8	481,937	444	482,389
Credit / other	—	39,735	6,060	45,795
Total liabilities	¥2,906,921	¥2,014,742	¥ 17,024	¥4,938,687
Derivatives other than trading transactions ^{1, 2}				
Currency	¥ —	¥ 7,171	¥ —	¥ 7,171
Total derivatives other than trading transactions	¥ —	¥ 7,171	¥ —	¥ 7,171

	Thousands of U.S. dollars			
	2022			
	Fair Value			
	Level 1	Level 2	Level 3	Total
Assets				
(1) Trading products				
[1] Trading securities and other				
Equities	\$ 945,828	\$ 1,164	\$ 598	\$ 947,590
Government bonds, corporate bonds, etc.	18,568,303	1,553,467	—	20,121,770
General business bonds	60,000	3,649,582	164	3,709,746
Foreign bonds	14,946,459	2,450,656	426,049	17,823,164
Other	88,975	4,877,648	8,156	4,974,779
[2] Derivative transactions				
Equity	526,165	1,383,106	673,607	2,582,878
Interest rate	13,419	9,640,532	41,049	9,695,000
Currency	16	4,450,631	29,246	4,479,893
Credit / other	98	267,738	67,041	334,877
(2) Securities, private equity and other investments and investment securities				
Available-for-sale securities				
Equities	1,098,189	—	—	1,098,189
Government bonds, corporate bonds, etc.	1,554,098	252,041	—	1,806,139
General business bonds	—	1,633,623	150,270	1,783,893
Foreign bonds	966,057	2,220,738	142,148	3,328,943
Total assets	\$38,767,607	\$32,380,926	\$1,538,328	\$72,686,861
Liabilities				
(1) Trading products				
[1] Trading securities and other				
Equities	\$ 1,461,656	\$ —	\$ —	\$ 1,461,656
Government bonds, corporate bonds, etc.	10,013,140	1,303	—	10,014,443
Foreign bonds	11,209,106	213,025	—	11,422,131
Other	—	1,210,074	—	1,210,074
[2] Derivative transactions				
Equity	1,139,639	1,515,385	47,894	2,702,918
Interest rate	3,615	9,298,492	38,336	9,340,443
Currency	66	3,950,303	3,639	3,954,008
Credit / other	—	325,697	49,672	375,369
Total liabilities	\$23,827,222	\$16,514,279	\$ 139,541	\$40,481,042
Derivatives other than trading transactions ^{1, 2}				
Currency	\$ —	\$ 58,779	\$ —	\$ 58,779
Total derivatives other than trading transactions	\$ —	\$ 58,779	\$ —	\$ 58,779

1 Of the derivative transactions, the amount booked on the consolidated balance sheet to which hedge accounting is applied is ¥4,213 million (\$34,533 thousand).

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 ¥115,217 million (\$944,401 thousand) in assets and ¥7,214 million (\$59,130 thousand) in liabilities in "Trading securities and other," and ¥208,467 million (\$1,708,746 thousand) 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, March 17, 2022).

Millions of yen				
2021				
Fair Value				
	Level 1	Level 2	Level 3	Total
Assets				
(1) Trading products				
[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 products				
[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^{1, 2}

Currency	¥	—	¥ (2,122)	¥	—	¥ (2,122)
Total derivatives other than trading transactions	¥	—	¥ (2,122)	¥	—	¥ (2,122)

1 Of the derivative transactions, the amount booked on the consolidated balance sheet to which hedge accounting is applied is ¥(10,590) million.

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 in assets and ¥10 million in liabilities in "Trading securities and other," and ¥125,934 million 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							
2022							
				Fair Value		Consolidated balance sheet amount	Difference total
				Level 1	Level 2	Level 3	Total
Assets							
(1) Loans receivable from customers							¥1,933,758
Allowance for doubtful accounts							(7,062)
	¥	—	¥	—	¥1,923,022	¥1,923,022	1,926,696
							¥ (3,674)
(2) Securities, private equity and other investments and investment securities							
[1] Held-to-maturity debt securities							
General business bonds		—		170,316	—	170,316	171,577
							(1,261)
[2] Subsidiaries companies' stocks and related companies' stocks				108,785	—	—	108,785
							73,256
							35,529
Total assets	¥108,785	¥170,316	¥1,923,022	¥2,202,123	¥2,171,529	¥30,594	
Liabilities							
(1) Long-term debt	¥	—	¥3,670,693	¥	—	¥3,670,693	¥3,667,494
							¥ (3,199)
(2) Deposits in the banking business		—	4,188,436		—	4,188,436	4,189,105
							669
Total liabilities	¥	—	¥7,859,129	¥	—	¥7,859,129	¥7,856,599
							¥ (2,530)

Thousands of U.S. dollars							
2022							
				Fair Value		Consolidated balance sheet amount	Difference total
				Level 1	Level 2	Level 3	Total
Assets							
(1) Loans receivable from customers							\$15,850,475
Allowance for doubtful accounts							(57,885)
	\$	—	\$	—	\$15,762,475	\$15,762,475	15,792,590
							\$ (30,115)
(2) Securities, private equity and other investments and investment securities							
[1] Held-to-maturity debt securities							
General business bonds		—		1,396,033	—	1,396,033	1,406,369
							(10,336)
[2] Subsidiaries companies' stocks and related companies' stocks				891,680	—	—	891,680
							600,459
							291,221
Total assets	\$891,680	\$ 1,396,033	\$15,762,475	\$18,050,188	\$17,799,418	\$250,770	
Liabilities							
(1) Long-term debt	\$	—	\$30,087,648	\$	—	\$30,087,648	\$30,061,426
							\$ (26,222)
(2) Deposits in the banking business		—	34,331,443		—	34,331,443	34,336,926
							5,483
Total liabilities	\$	—	\$64,419,091	\$	—	\$64,419,091	\$64,398,352
							\$ (20,739)

										Millions of yen								
										2021								
										Consolidated balance sheet amount	Difference total							
										Fair Value								
										Total								
										Level 1	Level 2	Level 3	Total					
Assets																		
(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			
Liabilities																		
(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)	

“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 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.

For Bonds, the fair value is based on quoted market prices (OTC and broker screen, 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 similar new loans are made, based on the type and period of the loan. In addition, for loans with floating interest rates, 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 party.

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 loan receivables 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

2022			
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	0.08-2.8%
		Currency basis	(0.8)-0.3%
Equity		Stock price volatility	18.4-20.6%
		Credit spread	0.03-4.2%
Credit / Other		Correlation coefficient	(0.08)-0.95
Other securities		Credit spread	0.4-1.2%
		Stock price volatility	22.8-55.8%

2021			
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 gain/loss recognized in gain/loss for the current fiscal year (the previous 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					
2022					
	Trading securities and other (Asset)	Derivatives transaction (Net amount)	Operating investment securities	Other Securities	Total
Balance at the beginning of the period	¥ 8,803	¥27,116	¥ 232	¥ 30,843	¥ 66,994
Gain / loss for the current fiscal year					
Recorded in gain and loss ²	1,144	30,025	—	—	31,169
Purchase, sale, issuance and settlement					
Purchase	127,421	4,776	3,871	12,000	148,068
Sale	(93,952)	(15)	—	—	(93,967)
Issuance	—	—	—	—	—
Settlement	—	22,428	—	—	22,428
Transfer to Level 3 fair value ^{1, 4}	13,542	27	—	—	13,569
Transfer from Level 3 fair value ^{1, 5}	(3,892)	(2,446)	(232)	(10,000)	(16,570)
Change in valuation difference	—	—	259	(1,298)	(1,039)
Balance at the end of the period	53,066	81,911	4,130	31,545	170,652
Unrealized gain / loss on financial instruments held on the consolidated balance sheet which is booked in gain / loss for the current fiscal year ³	(61)	52,453	—	—	52,392

Thousands of U.S. dollars					
2022					
	Trading securities and other (Asset)	Derivatives transactions (Net amount)	Operating investment securities	Other Securities	Total
Balance at the beginning of the period	\$ 72,156	\$222,262	\$ 1,902	\$252,811	\$ 549,131
Gain / loss for the current fiscal year					
Recorded in gain and loss ²	9,377	246,107	—	—	255,484
Purchase, sale, issuance and settlement					
Purchase	1,044,434	39,148	31,729	98,361	1,213,672
Sale	(770,098)	(123)	—	—	(770,221)
Issuance	—	—	—	—	—
Settlement	—	183,836	—	—	183,836
Transfer to Level 3 fair value ^{1, 4}	111,000	221	—	—	111,221
Transfer from Level 3 fair value ^{1, 5}	(31,902)	(20,049)	(1,902)	(81,967)	(135,820)
Change in valuation difference	—	—	2,123	(10,639)	(8,516)
Balance at the end of the period	434,967	671,402	33,852	258,566	1,398,787
Unrealized gain / loss on financial instruments held on the consolidated balance sheet which is booked in gain / loss for the current fiscal year ³	(500)	429,943	—	—	429,443

1 Transfers between levels are recognized at the beginning of the period.
2 Gain and loss related to "Trading securities and other (Assets)," and "Derivative transactions (Net amount)" are included in "Net gain on trading."
3 Unrealized gain / loss 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 gain and loss 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.

	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 previous fiscal year					
Recorded in gain and loss ²	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 ^{1, 4}	8,117	(1,111)	—	—	7,006
Transfer from Level 3 fair value ^{1, 5}	(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 gain / loss on financial instruments held on the consolidated balance sheet which is booked in gain / loss for the previous fiscal year ³	31	(27,166)	—	—	(27,135)

1 Transfers between levels are recognized at the beginning of the period.

2 Gain and loss related to "Trading securities and other (Assets)," and "Derivative transactions (Net amount)" are included in "Net gain on trading."

3 Unrealized gain / loss 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 gain and loss 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 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	¥81,911	¥2,097	¥2,097
Other securities	31,545	442	274

	Thousands of U.S. dollars		
	Fair value	Positive fair value fluctuations	Negative fair value fluctuations
Derivatives	\$671,402	\$17,189	\$17,189
Other securities	258,566	3,623	2,246

	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

(Note 3) In the previous 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
Subsidiary stock and affiliated company stock	
Unlisted stocks ¹	¥114,788
Other securities	
Unlisted stocks ¹	34,316
Partnership investment, etc. ²	111,199

1 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 Disclosures about Fair Value of Financial Instruments" (ASBJ Guideline No. 19, March 31, 2020).

2 Partnership investment, etc., are not subject to fair value disclosure in accordance with Article 27 of the Fair Value Measurement Implementation Guidance.

(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 ¹	¥118,868	\$ 974,328
Other securities		
Unlisted stocks ¹	36,889	302,369
Partnership investment, etc. ²	144,485	1,184,303

1 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 Disclosures about Fair Value of Financial Instruments" (ASBJ Guideline No. 19, March 31, 2020).

2 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, 2022:

	Millions of yen			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Loans receivable from customers	¥1,254,401	¥344,727	¥256,859	¥ 77,771
Securities, private equity and other investments and investment securities				
Held-to-maturity securities	8,300	—	—	163,277
Corporate bonds	8,300	—	—	163,277
Other securities with a maturity date	93,248	340,098	96,753	314,016
Bonds	93,248	340,098	96,753	314,016
Government bonds, municipal bonds, etc.	5,901	24,849	—	189,600
General business bonds	32,700	112,854	15,189	61,022
Foreign bonds	54,647	202,395	81,564	63,394
Total	¥1,355,949	¥684,825	¥353,612	¥555,064

* 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	\$10,281,975	\$2,825,631	\$2,105,402	\$ 637,467
Securities, private equity and other investments and investment securities				
Held-to-maturity securities	68,033	—	—	1,338,336
Government bonds, municipal bonds, etc.	—	—	—	—
Corporate bonds	68,033	—	—	1,338,336
Other securities with a maturity date	746,328	2,787,689	793,057	2,573,902
Bonds	746,328	2,787,689	793,057	2,573,902
Government bonds, municipal bonds, etc.	48,369	203,680	—	1,554,098
Corporate bonds	268,033	925,033	124,500	500,180
Foreign bonds	447,926	1,658,976	668,557	519,624
Total	\$11,114,336	\$5,613,320	\$2,898,459	\$4,549,705

(Note 6) Scheduled redemption amount of deposits in the banking business, and long-term debts after March 31, 2022:

	Millions of yen			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Deposits in the banking business	¥4,161,944	¥ 27,161	¥ —	¥ —
Long-term debts	854,034	1,736,223	608,155	469,082
Total	¥5,015,978	¥1,763,384	¥608,155	¥469,082

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

	Thousands of U.S. dollars			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Deposits for banking business	\$34,114,296	\$ 222,631	\$ —	\$ —
Long-term debts	7,000,279	14,231,336	4,984,877	3,844,934
Total	\$41,114,575	\$14,453,967	\$4,984,877	\$3,844,934

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

9. Trading assets and trading liabilities

Trading assets and trading liabilities at March 31, 2022 and 2021 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Trading assets:			
Trading securities:			
Equities	¥ 115,606	¥ 98,557	\$ 947,590
Government, corporate and other bonds	5,085,596	3,466,356	41,685,213
Investment trusts	115,217	215,460	944,402
Mortgage-backed securities and others	603,198	1,593,819	4,944,246
Derivatives:			
Equity transactions	315,111	208,643	2,582,877
Interest transactions	1,182,790	1,730,264	9,695,000
Currency transactions	546,547	500,026	4,479,893
Credit and others	40,855	20,969	334,877
	¥8,004,920	¥7,834,094	\$65,614,098

Trading liabilities:

Trading securities:			
Equities	¥ 178,322	¥ 206,682	\$ 1,461,656
Government, corporate and other bonds	2,615,262	1,764,442	21,436,573
Investment trusts	7,214	10	59,131
Mortgage-backed securities and others	147,629	61,835	1,210,074
Derivatives:			
Equity transactions	329,756	219,997	2,702,918
Interest transactions	1,139,534	1,650,935	9,340,443
Currency transactions	482,389	432,740	3,954,008
Credit and others	45,795	31,181	375,369
	¥4,945,901	¥4,367,822	\$40,540,172

* Government, corporate and other bonds include convertible bonds.

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, 2022 and 2021 consisted of the following:

	Millions of yen		
	Cost	Fair value	Difference
March 31, 2022:			
Government, municipal and other bonds	¥ —	¥ —	¥ —
Corporate bonds	171,577	170,316	(1,261)
Other	—	—	—
	¥171,577	¥170,316	¥(1,261)

	Millions of yen		
	Cost	Fair value	Difference
March 31, 2021:			
Government, municipal and other bonds	¥ —	¥ —	¥ —
Corporate bonds	155,384	155,717	333
Other	—	—	—
	¥155,384	¥155,717	¥333

	Thousands of U.S. dollars		
	Cost	Fair value	Difference
March 31, 2022:			
Government, municipal and other bonds	\$ —	\$ —	\$ —
Corporate bonds	1,406,369	1,396,033	(10,336)
Other	—	—	—
	\$1,406,369	\$1,396,033	\$(10,336)

Cost and fair value of marketable available-for-sale securities as of March 31, 2022 and 2021 consisted of the following:

	Millions of yen		
	Cost	Fair value	Difference
March 31, 2022:			
Equities	¥ 101,600	¥ 142,547	¥ 40,947
Government, corporate and other bonds	836,538	817,698	(18,840)
Other	224,459	232,261	7,802
	¥1,162,597	¥1,192,506	¥29,909

	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

	Thousands of U.S. dollars		
	Cost	Fair value	Difference
March 31, 2022:			
Equities	\$ 832,787	\$1,168,418	\$ 335,631
Government, corporate and other bonds	6,856,869	6,702,443	(154,426)
Other	1,839,828	1,903,779	63,951
	\$9,529,484	\$9,774,640	\$245,156

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, 2022 and 2021 are as follows:

Underlying asset	Transaction	Millions of yen		
		Contract amount	Fair value	Unrealized gains (losses)
Currency	Currency swap	¥ —	¥ —	¥ —
Currency	Foreign exchange forward	337,650	2,958	2,958

Underlying asset	Transaction	Millions of yen		
		Contract amount	Fair value	Unrealized gains (losses)
Currency	Currency swap	¥ 83,072	¥(1,088)	¥(1,088)
Currency	Foreign exchange forward	196,916	(1,034)	(1,034)

Underlying asset	Transaction	Thousands of U.S. dollars		
		Contract amount	Fair value	Unrealized gains (losses)
Currency	Currency swap	\$ —	\$ —	\$ —
Currency	Foreign exchange forward	2,767,623	24,246	24,246

B. Derivatives to which hedge accounting is applied

Main hedged items, contract amount and fair value of these derivatives at March 31, 2022 and 2021 are as follows:

Underlying asset	Hedging instrument	Hedge accounting treatment	Main hedged item	Millions of yen	
				Contract amount	Fair value
Interest	Interest swap	Fundamental method	Debt and securities	¥694,211	¥12,181
Currency	Currency swap	Fundamental method	Foreign currency loans and securities	13,164	(1,716)
Currency	Foreign exchange forward	Fundamental method	Foreign currency loans, securities, and cash	291,825	(6,251)

Underlying asset	Hedging instrument	Hedge accounting treatment	Main hedged item	Millions of yen	
				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)

Underlying asset	Hedging instrument	Hedge accounting treatment	Main hedged item	Thousands of U.S. dollars	
				Contract amount	Fair value
Interest	Interest swap	Fundamental method	Debt and securities	\$5,690,254	\$ 99,844
Currency	Currency swap	Fundamental method	Foreign currency loans and securities	107,902	(14,066)
Currency	Foreign exchange forward	Fundamental method	Foreign currency loans, securities, and cash	2,392,008	(51,238)

12. Pledged assets

Secured obligations at March 31, 2022 and 2021 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Short-term borrowings	¥324,310	¥240,961	\$2,658,279
Long-term debt	496,681	501,723	4,071,156
Payables related to margin transactions	5,328	4,139	43,672
Other non-current liabilities	—	313	—
	¥826,319	¥747,136	\$6,773,107

All above obligations at March 31, 2022 and 2021 were secured by the following assets:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Cash and deposits	¥ 3,081	¥ 3,557	\$ 25,254
Loans receivable from customers	836,584	887,425	6,857,246
Trading assets	536,323	411,637	4,396,090
Securities	64,309	71,261	527,123
Investment securities	17,942	24,673	147,066
Other current assets	57,275	62,519	469,467
	¥1,515,514	¥1,461,072	\$12,422,246

In addition to the above, securities borrowed amounting to ¥140,718 million (\$1,153,426 thousand) and ¥110,186 million were pledged as guarantees at March 31, 2022 and 2021, respectively.

Total fair value of the securities pledged as collateral at March 31, 2022 and 2021 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Securities loaned	¥ 6,093,554	¥5,486,331	\$49,947,164
Securities sold under agreements to repurchase	4,461,636	3,017,724	36,570,787
Other	508,194	426,044	4,165,524
	¥11,063,384	¥8,930,099	\$90,683,475

Total fair value of the securities received as collateral at March 31, 2022 and 2021 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Securities borrowed	¥6,615,035	¥5,838,082	\$54,221,598
Securities purchased under agreements to resell	2,839,885	1,916,399	23,277,746
Other	395,179	354,629	3,239,172
	¥9,850,099	¥8,109,110	\$80,738,516

13. Non-recourse debts

Non-recourse debts at March 31, 2022 and 2021 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Short-term borrowings	¥ —	¥ 899	\$ —
Long-term debt	28,295	25,770	231,926
	¥28,295	¥26,669	\$231,926

Specified assets for non-recourse debts at March 31, 2022 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Cash and deposits	¥ 1,646	¥ 1,731	\$ 13,492
Other current assets	47,844	42,233	392,164
	¥49,490	¥43,964	\$405,656

* The above amount is included in the amount of "12. Pledged assets."

14. Lease transactions

The information concerning operating leases at March 31, 2022 and 2021 are as follows:

Lessee:	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Operating leases:			
Future lease payments in respect of operating leases	¥57,097	¥64,222	\$468,008
Due within one year	11,730	11,380	96,148
Lessor:	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Operating leases:			
Future lease receipts in respect of operating leases	¥74,266	¥30,570	\$608,738
Due within one year	14,723	9,848	120,680

15. Payables to customers and counterparties

Payables to customers and counterparties at March 31, 2022 and 2021 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Deposits from customers	¥401,630	¥358,826	\$3,292,049
Guarantee deposits received	347,469	366,352	2,848,107
Other	46,294	35,515	379,459
	¥795,393	¥760,693	\$6,519,615

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, 2022 and 2021 was 0.02% and 0.01%, respectively.

Long-term debt at March 31, 2022 and 2021 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Bond payable in yen: 0.69% due CY2021	¥ —	¥ 30,000	\$ —
Bond payable in yen: 0.87% due CY2024	12,000	12,000	98,361
Bond payable in yen: 0.89% due CY2025	20,000	20,000	163,934
Bond payable in yen: 0.91% due CY2025	25,000	25,000	204,918
Bond payable in yen: 0.67% due CY2022	30,000	30,000	245,902
Bond payable in yen: 0.40% due CY2023	13,000	13,000	106,557
Bond payable in yen: 0.56% due CY2026	11,000	11,000	90,164
Bond payable in yen: 0.40% due CY2023	50,000	50,000	409,836
Bond payable in yen: 0.40% due CY2026	30,000	30,000	245,902
Bond payable in yen: 0.35% due CY2023	22,000	22,000	180,328
Bond payable in yen: 0.22% due CY2022	25,000	25,000	204,918
Bond payable in yen: 0.41% due CY2027	15,000	15,000	122,951
Bond payable in yen: 0.23% due CY2023	10,000	10,000	81,967
Bond payable in yen: 0.48% due CY2028	12,000	12,000	98,361
Bond payable in yen: 0.30% due CY2023	37,000	37,000	303,279
Bond payable in yen: 0.50% due CY2025	38,000	38,000	311,475
Bond payable in yen: 0.23% due CY2026	15,000	—	122,951
Bond payable in yen: 0.33% due CY2028	15,000	—	122,951
Bond payable in yen: 0.26% due CY2022	20,000	20,000	163,934
Bond payable in yen: 0.30% due CY2026	30,000	30,000	245,902
Bond payable in yen: 0.22% due CY2022	30,000	30,000	245,902
Bond payable in yen: 0.30% due CY2027	20,000	20,000	163,934
Bond payable in yen: 0.24% due CY2024	15,000	15,000	122,951
Bond payable in yen: 0.23% due CY2024	20,000	20,000	163,934
Bond payable in yen: 0.23% due CY2025	20,000	20,000	163,934
Bond payable in yen: 0.24% due CY2026	17,000	17,000	139,344
Bond payable in yen: 0.26% due CY2026	10,000	10,000	81,967
Bond payable in yen: 0.34% due CY2027	30,000	30,000	245,902
Bond payable in yen: 0.27% due CY2024	10,000	—	81,967

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Bond payable in U.S. dollars: 3.13% due CY2022	122,390	110,710	1,003,197
Bond payable in U.S. dollars: 0.83% due CY2021	—	16,607	—
Bond payable in U.S. dollars: 1.26% due CY2025	30,598	27,678	250,803
Bond payable in yen: 1.20%	125,000	125,000	1,024,590
Bond payable in yen: 1.39%	25,000	25,000	204,918
Bond payable in yen: 2.16% due CY2025	7,800	7,800	63,934
Bond payable in yen: 2.41% due CY2026	3,000	3,000	24,590
Bond payable in yen: 2.24% due CY2026	5,000	5,000	40,984
Bond payable in yen: 0.24% due CY2038	2,000	2,000	16,393
Bond payable in yen: 1.00% due CY2024	2,100	2,100	17,213
Bond payable in yen: 0.22% due CY2024	1,700	1,700	13,934
Bond payable in yen: 0.66% due CY2031	1,300	1,300	10,656
Bond payable in yen: 0.31% due CY2025	1,500	1,500	12,295
Bond payable in yen: 0.60% due CY2030	2,400	2,400	19,672
Bond payable in yen: 1.05% due CY2023	1,000	1,000	8,197
Bond payable in yen: 0.58% due CY2025	1,700	1,700	13,934
Bond payable in yen: 0.85% due CY2031	1,500	—	12,295
Bond payable in yen: 0.79% due CY2023	800	800	6,557
Euro medium-term notes issued by the Company and a domestic consolidated subsidiary, maturing through CY2052	1,053,605	813,813	8,636,107
Long-term borrowings principally from banks in yen, maturing through CY2049	1,640,758	1,661,863	13,448,836
Lease obligation	10,319	11,696	84,582
Other	6,024	5,879	49,379
	¥3,667,494	¥3,440,546	\$30,061,426

* 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, 2022 includes U.S.\$ 738,725 thousand.

Interest rates of euro medium-term notes range from (0.22)% to 1.43% at March 31, 2022 and from (0.29)% to 2.75% at March 31, 2021. The weighted average interest rate on total outstanding yen subordinated borrowings and

borrowings principally from banks at March 31, 2022 and 2021 was 0.27% and 0.25%, respectively. The weighted average interest rate on total outstanding lease obligations at March 31, 2022 was 1.79%.

Daiwa has an unused commitment line amounting to ¥12,239 million (\$100,320 thousand) under agreements with several banks at March 31, 2022.

17. Retirement benefits

Retirement benefits for employees

(1) Defined benefit plans

Retirement benefits in the consolidated balance sheets as of March 31, 2022 and 2021 are ¥44,236 million (\$362,590 thousand) and ¥44,773 million, respectively. Benefit expenses stated in the consolidated statements of income for the years ended March 31, 2022 and 2021 were ¥3,935 million (\$32,254 thousand) and ¥3,979 million, respectively.

Movement in retirement benefit obligations consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
At beginning of period	¥44,773	¥44,359	\$366,992
Service cost	3,935	3,979	32,254
Benefits paid	(4,587)	(3,672)	(37,598)
Other	115	107	942
At end of period	¥44,236	¥44,773	\$362,590

(2) Defined contribution plan

Benefit expenses to “Defined contribution” for the years ended March 31, 2022 and 2021 were ¥5,134 million (\$42,082 thousand) and ¥4,959 million, respectively.

Retirement benefits for directors

Directors’ retirement benefits in consolidated subsidiaries of ¥480 million (\$3,935 thousand) and ¥614 million are included in “Retirement benefits” in the accompanying consolidated balance sheets as of March 31, 2022 and 2021, respectively. Benefit expenses stated in the consolidated statements of income for the years ended March 31, 2022 and 2021 were ¥137 million (\$1,123 thousand) and ¥191 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, 2022 and 2021. 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, 2022 and 2021 is as follows:

	2022	2021
Statutory tax rate	30.6%	30.6%
Valuation allowance	(1.3)	3.1
Permanent difference (expense)	1.6	2.3
Permanent difference (income)	(0.7)	(0.6)
Lower tax rate applicable to income of overseas consolidated subsidiaries	(0.7)	(1.1)
Adjustment of unrealized inter-company profit	(0.3)	0.7
Amortization of goodwill	0.3	0.3
Share of profit and loss of entities accounted for using equity method	(1.3)	(2.7)
Gain on step acquisitions	—	(9.9)
Gain on change in equity	—	(0.0)
Profit attributable to non-controlling interests on real estate investment corporation	(2.1)	(0.4)
Other	0.5	1.8
Effective tax rate	26.5%	24.2%

Details of deferred tax assets and liabilities at March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Deferred tax assets:			
Net operating losses carry-forward	¥ 39,100	¥ 33,759	\$ 320,492
Retirement benefits	13,630	13,798	111,721
Loss on private equity and other investments	8,927	8,672	73,172
Loss on valuation of investment securities	8,353	8,243	68,467
Excess depreciation	6,021	5,555	49,352
Impairment losses on fixed assets	5,855	6,430	47,992
Compensation and bonuses	5,830	5,925	47,787
Allowance for doubtful accounts	5,360	4,100	43,934
Elimination of unrealized gain	4,518	4,930	37,033
Valuation difference on available-for-sale securities	4,208	—	34,492
Asset retirement obligations	2,387	2,857	19,566
Other	18,199	18,636	149,172
Gross deferred tax assets	122,388	112,905	1,003,180
Valuation allowance for net operating losses carry-forward	(38,548)	(32,932)	(315,967)
Valuation allowance for future deductible temporary differences	(51,236)	(52,526)	(419,967)
Less: Valuation allowance	(89,784)	(85,458)	(735,934)
Total deferred tax assets	32,604	27,447	267,246
Deferred tax liabilities	62,853	59,226	515,189
Net deferred tax assets (liabilities)	¥ (30,249)	¥ (31,779)	\$ (247,943)

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, 2022 and 2021 are as follows:

March 31, 2022	Millions of yen						Total
	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	over 5 years	
NOL carry-forward	¥ 1,465	¥ 1,240	¥ 2,016	¥ 1,010	¥ 3,369	¥ 30,000	¥ 39,100
Valuation allowance	(1,465)	(1,240)	(2,016)	(1,010)	(3,369)	(29,448)	(38,548)
Deferred tax assets	¥ —	¥ —	¥ —	¥ —	¥ —	¥ 552	¥ 552

March 31, 2021	Millions of yen						Total
	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	over 5 years	
NOL carry-forward	¥ 1,687	¥ 1,481	¥ 1,277	¥ 2,021	¥ 965	¥ 26,328	¥ 33,759
Valuation allowance	(1,687)	(1,481)	(1,277)	(2,021)	(608)	(25,858)	(32,932)
Deferred tax assets	¥ —	¥ —	¥ —	¥ —	¥ 357	¥ 470	¥ 827

March 31, 2022	Thousands of U.S. dollars						Total
	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	over 5 years	
NOL carry-forward	\$ 12,008	\$ 10,164	\$ 16,525	\$ 8,279	\$ 27,615	\$ 245,901	\$ 320,492
Valuation allowance	(12,008)	(10,164)	(16,525)	(8,279)	(27,615)	(241,376)	(315,967)
Deferred tax assets	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 4,525	\$ 4,525

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 ¥13,305 million (\$109,057 thousand) and ¥11,948 million at March 31, 2022 and 2021, 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, 2022 amounted to ¥314,694 million (\$2,579,459 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 ¥16 (\$0.13) per share amounting to ¥23,733 million (\$194,533 thousand) and ¥17 (\$0.14) per share amounting to ¥25,694 million (\$210,607 thousand) were approved by the Board of Directors on April 27, 2022 and October 27, 2021, 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, July 31, 2020 and July 29, 2021. 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, 2022 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	79,000	¥ 1	(\$0.01)	from July 1, 2005 to June 30, 2025
June 24, 2006	61,000	¥ 1	(\$0.01)	from July 1, 2006 to June 30, 2026
June 23, 2007	79,000	¥ 1	(\$0.01)	from July 1, 2007 to June 30, 2027
June 21, 2008	105,000	¥ 1	(\$0.01)	from July 1, 2008 to June 30, 2028
June 20, 2009	299,000	¥ 1	(\$0.01)	from July 1, 2009 to June 30, 2029
June 26, 2010	589,000	¥ 1	(\$0.01)	from July 1, 2010 to June 30, 2030
June 25, 2011	896,000	¥ 1	(\$0.01)	from July 1, 2011 to June 30, 2031
	—	¥ 326	(\$2.67)	from July 1, 2016 to June 24, 2021
June 27, 2012	677,000	¥ 1	(\$0.01)	from February 12, 2013 to June 30, 2032
	3,291,000	¥ 598	(\$4.90)	from July 1, 2017 to June 26, 2022
June 26, 2013	343,000	¥ 1	(\$0.01)	from February 10, 2014 to June 30, 2033
	3,483,000	¥1,062	(\$8.70)	from July 1, 2018 to June 25, 2023
June 26, 2014	422,000	¥ 1	(\$0.01)	from February 9, 2015 to June 30, 2034
	4,742,000	¥ 931	(\$7.63)	from July 1, 2019 to June 25, 2024
June 25, 2015	552,000	¥ 1	(\$0.01)	from February 16, 2016 to June 30, 2035
	3,961,000	¥ 733	(\$6.01)	from July 1, 2020 to June 24, 2025
June 28, 2016	556,000	¥ 1	(\$0.01)	from February 8, 2017 to June 30, 2036
	6,689,000	¥ 767	(\$6.29)	from July 1, 2021 to June 27, 2026
June 28, 2017	585,000	¥ 1	(\$0.01)	from February 8, 2018 to June 30, 2037
	—	¥ 815	(\$6.68)	from July 1, 2022 to June 27, 2027
June 27, 2018	—	¥ 686	(\$5.62)	from July 1, 2023 to June 26, 2028
August 9, 2019	—	¥ 502	(\$4.11)	from July 1, 2024 to July 30, 2029
July 31, 2020	—	¥ 508	(\$4.16)	from July 1, 2025 to July 30, 2030
July 29, 2021	—	¥ 633	(\$5.19)	from July 1, 2026 to July 28, 2031

23. 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.

(\$182,320 thousand) and ¥4,495 million, respectively.

Gain on sale from these properties for the years ended March 31, 2022 and 2021 were ¥1,003 million (\$8,221 thousand) and ¥468 million, respectively.

Net rental profit from these properties for the years ended March 31, 2022 and 2021 were ¥22,243 million

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, 2021	Change during the period	As of March 31, 2022	As of March 31, 2022	
¥692,743	¥78,163	¥770,906	¥906,988	

			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	¥576,141	¥692,743	¥695,256	

			Thousands of U.S. dollars	
		Book value	Fair value	
As of March 31, 2021	Change during the period	As of March 31, 2022	As of March 31, 2022	
\$5,678,221	\$640,680	\$6,318,902	\$7,434,328	

(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, 2022 and 2021 were ¥1,456 million (\$11,394 thousand) and ¥43,855 million, respectively.

(Note 4) Regarding the change during the period of March 31, 2020 and 2021, the variance of ¥567,694 million were due to the inclusion of Daiwa Office Investment Corporation into the consolidated subsidiaries.

24. Revenue recognition

1. Disaggregation of revenue from contracts with customers

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Commission received:	¥314,051	¥286,836	\$2,574,189
Brokerage commission	75,907	78,026	622,189
Commission for underwriting, secondary distribution and exclusive offer to sell, etc. to professional investors	39,210	38,099	321,393
Fees for offering, secondary distribution and exclusive offer to sell, etc. to professional investors	21,440	19,212	175,738
Other fees received	177,494	151,499	1,454,869

Disaggregation of revenue from contracts with customers is included in “Segment information.”

2. Basic information for understanding revenue from contracts with customers

Daiwa provides a wide range of services and recognizes its main sources of revenue as follows. Contracts including significant financing components are not included below.

Retail Segment and Wholesale Segment

The Retail Segment provides a wide range of financial instruments and services to mainly individuals and unlisted companies. The Wholesale Segment comprises of the Global Markets and Global Investment Banking segments. The Global Markets segment offers sales and trading services for equities, bonds, foreign exchange, and derivative products mainly to institutional investors, business corporations, financial corporations, public corporations, and others both domestically and internationally. The Global Investment Banking segment provides a diverse range of investment banking services both domestically and internationally, including the underwriting of securities and M&A advisory services.

In the Retail Segment and Wholesale Segment, mainly domestic and international securities subsidiaries of Daiwa recognize brokerage commission; commission for underwriting, secondary distribution and exclusive offer to sell, etc. to professional investors; fees for offering, secondary distribution and exclusive offer to sell, etc. to professional investors; and other fees received as revenue from contracts with customers.

Brokerage commission—Daiwa has obligations to provide trade execution services, etc., based on the stipulations and provisions of the transactions agreements entered into with customers. As these performance obligations are satisfied when Daiwa executes an order, revenues are recognized at the point of execution (at a point in time). Regarding the typical payment term, payment is received within several days of the execution date, which is the date the performance obligations have been satisfied.

Commission for underwriting, secondary distribution and exclusive offer to sell, etc. to professional investors—Daiwa has obligations to provide underwriting and secondary distribution services, etc., based on contracts with securities issuing companies. As these performance obligations are satisfied when underwriting conditions for underwriting contracts have been determined and when requirements for the measurement of market risk by underwriters have been set, revenues are recognized when the relevant business is complete (at a point in time), such as the date the conditions are determined. Regarding the typical payment term, payment is received between the determination date of underwriting contracts and the payment date or delivery date to the issuing company, etc., when the performance obligations have been satisfied.

Fees for offering, secondary distribution and exclusive offer to sell, etc. to professional investors—Daiwa has obligations to provide offering and secondary distribution services, etc. based on contracts with securities underwriting companies. As these performance obligations are satisfied when the application to the offerings, etc., is completed, revenues are recognized when the relevant business is complete (at a point in time), such as the date of the registration offering, etc. Regarding the typical payment term, payment is received between the date of the registration offering, etc. and the date of payment or delivery, which is the date the performance obligations have been satisfied.

Other fees received includes commission received from a range of services, with the main sources of revenue coming from agency fees, M&A-related fees, and investment advisory and trade management fees.

Agency fees—Daiwa has obligations to provide agency services for the handling of offering and sale, etc., based on mainly contracts entered into with investment trust companies. Transaction prices are calculated based on the net assets, etc., of the investment trust. As these performance obligations are satisfied when the benefit is consumed by customers as Daiwa provides services on a daily basis, revenues are recognized over time. Regarding the typical payment term, in most cases, payment is received within several days of the fiscal year end of the investment trust, etc.

M&A-related fees—Daiwa has obligations to provide advisory services including proposals, advice, price calculations, and document preparation support. For transaction prices, there are cases where contingency fees are set in addition to fixed fees, and the amount of consideration may be variable. Regarding the amount of consideration when setting contingency fees, normally, as the amount is highly influenced by various factors beyond the control of Daiwa, and as Daiwa cannot be certain that it is highly possible that a significant decline in revenue will not occur, only the fees that have been fixed by the end of the current consolidated fiscal year are recognized in the transaction price. For such fees, revenues are recognized upon completion of the service (at a point in time). Regarding the typical payment term, payment is received by the end of the month after the month in which the service is completed. In these contracts, when non-repayable prepaid payments for future services have been received, revenues are recognized when the Company provides the service.

Investment advisory and trade management fees—Daiwa has obligations to provide asset management services

based on discretionary investment contracts. Transaction prices are calculated based on the fair value of the contract asset balances, the net assets of funds, and excessive performance, etc. As these performance obligations are satisfied when the benefit is consumed by customers as Daiwa provides services on a daily basis, revenues are recognized over time. Regarding the typical payment term, payment is received between the reference date of fee calculation and the end of the following month.

Asset Management Segment

The Asset Management Segment is in charge of setting up and running investment trusts that invest in a range of assets, as well as offering investment advice and management services for pensions assets for institutional investors both domestically and internationally.

In the Asset Management Segment, mainly via Daiwa Asset Management Co. Ltd., commission received from management fees, etc., is mainly recognized as revenue from contracts with customers.

With regards to management fees, Daiwa has obligations to provide management services for assets under management based mainly on trust agreements. Management fees are recognized as a certain percentage of net assets, and accordingly a fee is calculated and received. As these performance obligations are satisfied when the benefit is consumed by customers as Daiwa provides services on a daily basis, revenues are recognized over time during the investment trust management period. Regarding the typical payment term, payment is received within several days of the balance sheet date of the investment trust, etc.

Investment Segment

The Investment Segment invests in assets such as monetary claims, private equity, real estate, energy, and infrastructure, and also carries out business centered on maximizing investment returns from existing projects and creating new investment funds.

In the Investment Segment, investment partnership management fees are mainly recognized as revenue from contracts with customers.

With regards to investment partnership management fees, Daiwa has obligations to provide asset management services based on partnership contracts, which comprise mainly of management fees and contingency fees. As these performance obligations are satisfied when the benefit is consumed by customers as Daiwa provides services on a daily basis, revenues from management fees are recognized over time, and calculated every quarter based on the amount of partnership assets and the total commitment

amount. Contingency fees are variable considerations recognized at a point in time. When it becomes highly possible that a significant decline in revenue will not occur, revenues are recognized through calculations based on the excess revenue generated when selling partnership assets. Regarding the typical payment term, payment is received for management fees every quarter and for contingency fees when partnership assets are distributed.

Other

Daiwa's other businesses include system consulting and system integration services, mainly through Daiwa Institute of Research Ltd. Revenue from contracts with customers is recognized mainly as other operating revenue.

For the sale of devices within our system development services, revenues are recognized at a point in time when the device is sold. In system development services other than the sale of devices, performance obligations are satisfied

when accomplishments are transferred to customers in conjunction with the provision of system integration and software development services, etc., and accordingly revenues are recognized over time. For information processing services, investigation services, and consulting services, performance obligations are satisfied when the benefit is consumed by customers as Daiwa provides services on a daily basis, and accordingly revenues are recognized over time.

3. Information on the amount of revenue from the current consolidated fiscal year and after the current consolidated fiscal year end date

(1) Contract balances

On consolidated balance sheets, contract assets and liabilities are recorded under other receivables and other current liabilities respectively. There are no significant revenue amounts recognized from the performance obligations which were satisfied (or partially satisfied) in the previous periods.

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Contract assets	¥ 2,328	¥ 3,589	\$ 19,082
Contract liabilities	5,602	4,599	45,918
Receivables from contracts with customers	34,488	34,429	282,689

(2) Transaction price allocated to the remaining performance obligations

As of the end of the current consolidated fiscal year, the total transaction price allocated to the remaining performance obligations is ¥7,361 million (\$60,336 thousand). Daiwa expects to recognize the remaining performance obligations as revenue per the schedule in the following table. Daiwa applies practical expedients in noting transaction prices allocated to the remaining performance obligations and does not note contracts with an initially expected contract period of one year or less.

	Millions of yen	Thousands of U.S. dollars
	2022	2022
Not later than one year	¥1,488	\$12,197
Later than one year and not later than two years	1,290	10,574
Later than two years and not later than three years	1,189	9,746
Later than three years and not later than four years	1,118	9,164
Later than four years and not later than five years	534	4,377
More than five years	1,742	14,278
Total	¥7,361	\$60,336

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 280.4% (unaudited) for March 31, 2022. Daiwa also announced that it has calculated the consolidated capital adequacy ratio as of March 31, 2022

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 Services Agency (i.e., in Basel III method). The consolidated capital adequacy ratio as of March 31, 2022 was 19.59%* (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 Daiwa'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 and disaggregation of revenue from contracts with customers)

	Millions of yen						
	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Total
Year ended March 31, 2022:							
Revenue from contracts with customers	¥123,501	¥108,566	¥116,795	¥20,907	¥369,769	¥ 64,674	¥434,443
Commissions	123,501	108,566	79,827	1,380	313,274	777	314,051
Service fees and other revenues (customers)	—	—	36,968	19,527	56,495	63,897	120,392
Net trading income and other	44,582	87,303	—	6,231	138,116	(58)	138,058
Other	(102)	(63)	(31,637)	(13,546)	(45,348)	(45,242)	(90,590)
Net operating revenues:							
Sales to customers	167,981	195,806	85,158	13,592	462,537	19,375	481,911
Intersegment sales and transfers	20,899	58	(14,105)	(2,537)	4,315	12,444	16,759
Total	¥188,880	¥195,864	¥ 71,053	¥11,055	¥466,852	¥ 31,819	¥498,670

	Millions of yen						
	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Total
Year ended March 31, 2021:							
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

	Thousands of U.S. dollars						
	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Total
Year ended March 31, 2022:							
Revenue from contracts with customers	\$1,012,303	\$ 889,886	\$ 957,336	\$ 171,369	\$3,030,894	\$ 530,114	\$3,561,008
Commissions	1,012,303	889,886	654,320	11,311	2,567,820	6,369	2,574,189
Service fees and other revenues (customers)	—	—	303,016	160,058	463,074	523,745	986,819
Net trading income and other	365,426	715,598	—	51,074	1,132,098	(475)	1,131,623
Other	(836)	(517)	(259,320)	(111,033)	(371,706)	(370,835)	(742,541)
Net operating revenues:							
Sales to customers	1,376,893	1,604,967	698,016	111,410	3,791,286	158,804	3,950,090
Intersegment sales and transfers	171,304	475	(115,614)	(20,795)	35,370	101,999	137,369
Total	\$1,548,197	\$1,605,442	\$ 582,402	\$ 90,615	\$3,826,656	\$ 260,803	\$4,087,459

* "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.
* "Revenue from contracts with customers" include future lease payments in respect of operating leases.
* "Net operating revenues" consist of "Operating revenue," "Interest expense," "Cost of service fees and other revenues" and "Commissions and brokerage" (Selling, general and administrative expenses).
* The Company does not disclose the segment information on assets because the management does not allocate it to each segment for managerial decision-making.

(Difference between the segment information and the consolidated financial statements)
(Adjustment of difference)

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Net operating revenues			
Reportable segment total	¥466,852	¥441,114	\$3,826,656
Net operating revenues from "Others"	31,818	25,839	260,803
Elimination between segments	(16,759)	(16,807)	(137,369)
Commission fee deducted from net operating revenues	19,116	15,857	156,689
Other adjustments	1,067	657	8,747
Net operating revenues of financial statements	¥502,094	¥466,660	\$4,115,526

(Impairment losses on fixed assets by reportable segment)

	Millions of yen						
	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Corporate/ Elimination Total
Year ended March 31, 2022:							
Loss on impairment	¥—	¥489	¥—	¥—	¥489	¥—	¥— ¥489

	Millions of yen						
	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Corporate/ Elimination Total
Year ended March 31, 2021:							
Loss on impairment	¥—	¥697	¥—	¥—	¥697	¥8,698	¥— ¥9,395

	Thousands of U.S. dollars						
	Retail	Wholesale	Asset Management	Investment	Reportable segment total	Others	Corporate/ Elimination Total
Year ended March 31, 2022:							
Loss on impairment	\$—	\$4,008	\$—	\$—	\$4,008	\$—	\$— \$4,008

(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, 2022 and 2021, 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			2022	
The Tokyo Tanshi Co., Ltd.	¥10,300	Receipt of cash collateral	¥ 58,448	Collateralized short-term financing agreements (liabilities)	¥ 46,475
		Payment of interest	65	Collateralized short-term financing agreements (assets)	668,170
		Securities lending	58,407	Receivables—Other	5
		Receipt of premium charges	137	Accrued and other liabilities—Other	15
		Pledge of cash collateral	312,339		
		Receipt of interest	207		
		Securities borrowing	312,156		
		Payment of premium charges	554		

		Millions of yen			
Name of related company	Paid-in Capital Millions of yen			2021	
The Tokyo Tanshi Co., Ltd.	¥10,300	Receipt of cash collateral	¥181,280	Collateralized short-term financing agreements (liabilities)	¥ 71,601
		Payment of interest	48	Collateralized short-term financing agreements (assets)	248,681
		Securities lending	183,574	Receivables—Other	10
		Receipt of premium charges	124	Accrued and other liabilities—Other	8
		Pledge of cash collateral	291,802		
		Receipt of interest	338		
		Securities borrowing	291,473		
		Payment of premium charges	964		

			Thousands of U.S. dollars
			2022
Receipt of cash collateral	\$ 479,082	Collateralized short-term financing agreements (liabilities)	\$ 380,943
Payment of interest	533	Collateralized short-term financing agreements (assets)	5,476,803
Securities lending	478,746	Receivables—Other	41
Receipt of premium charges	1,123	Accrued and other liabilities—Other	123
Pledge of cash collateral	2,560,156		
Receipt of interest	1,697		
Securities borrowing	2,558,656		
Payment of premium charges	4,541		

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

28. Special purpose entities subject to disclosure

Daiwa utilized seven special purpose entities for the year ended March 31, 2022 (six for the year ended March 31, 2021) principally for the securitization of structured notes and funds in order to support securitization of monetary assets of customers. In structured note-related transactions, Daiwa acquires and transfers bonds to those special purpose entities (incorporated in the Cayman Islands) and issues structured notes collateralized by those bonds. Daiwa does 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, 2022 and 2021 are ¥731,417 million (\$5,995,221

thousand) and ¥748,788 million, respectively.

Further, in fund-related transactions, Daiwa transfers its renewable energy investment assets to those special purpose entities through silent partnerships, and those special purpose entities solicits investments backed by the acquired renewable energy investment assets. Daiwa does not have any investment, etc. with voting rights, and no officers or employees are seconded to the special purpose entities. The amount of investment received by the special purpose entities subject to disclosure as of the fiscal years ended March 31, 2022 is ¥2,305 million (\$18,893 thousand), and Daiwa has invested ¥29 million (\$238 thousand) in those special purpose entities.

29. Net gain on trading

Net gain on trading for the years ended March 31, 2022 and 2021 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Equities and others	¥ 71,111	¥ 57,640	\$582,878
Bonds, forex and others	30,411	61,255	249,270
	¥101,522	¥118,895	\$832,148

30. Provision of allowance for doubtful accounts included in interest expenses

Provision of allowance for doubtful accounts included in interest expenses for the years ended March 31, 2022 and 2021 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
	¥4,430	¥7,358	\$36,311

31. Selling, general and administrative expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2022 and 2021 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Employees' compensation and benefits	¥198,790	¥193,003	\$1,629,426
Commissions and brokerage	31,857	28,260	261,123
Communications	19,879	18,888	162,943
Occupancy and rental	37,644	38,441	308,557
Data processing and office supplies	24,740	24,365	202,787
Taxes other than income taxes	10,679	11,494	87,533
Depreciation	34,811	33,921	285,336
Other	28,159	25,429	230,811
	¥386,559	¥373,801	\$3,168,516

32. Other income (expenses)

Details of “Other, net” in the accompanying consolidated statements of income for the years ended March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Gain on sale of non-current assets	¥ 45	¥ 57	\$ 369
Gain on receipt of donated non-current assets	318	—	2,610
Gain on sale of investment securities	3,859	4,231	31,629
Gain on sale of shares of subsidiaries and associates	2,927	—	23,990
Gain on step acquisitions	—	46,963	—
Gain on change in equity	—	180	—
Recoveries of written off receivables	303	—	2,482
Reversal of provision for loss on litigation	686	—	5,626
Gain on reversal of office relocation expenses	873	—	7,152
Other income	23,248	25,500	190,554
Loss on sale and retirement of non-current assets	(627)	(1,386)	(5,142)
Impairment losses	(489)	(9,395)	(4,008)
Loss on sale of investment securities	—	(219)	—
Loss on valuation of investment securities	(735)	(1,739)	(6,021)
Loss on valuation of shares of subsidiaries and associates	—	(896)	—
Provision of allowance for investment loss	—	(3,620)	—
Structural reform cost	(44)	(4,319)	(364)
Business restructuring expenses	(1,075)	—	(8,810)
Other expenses	(3,139)	(3,869)	(25,733)
	¥26,149	¥51,488	\$214,336

Impairment loss

(Fiscal year ended March 31, 2022)

The Company recognized impairment losses for the following asset group as follows:

			Millions of yen	Thousands of U.S. dollars
			Impairment loss	Impairment loss
Assets to be held and used	Condition	Location		
	Low profit-earning assets	Europe	¥489	\$4,008
Total			¥489	\$4,008

Assets are grouped in accordance with classifications used for management accounting.

As a result of the significant decline in profitability, the book values of certain assets were reduced to the recoverable amounts, and the amount of reduction between

the book value and recoverable amounts was recorded as an impairment loss as extraordinary loss.

The entire recorded amount is related to goodwill.

The recoverable amount of goodwill is measured by re-evaluated company value.

(Fiscal year ended March 31, 2021)

The Company recognized impairment losses for on following asset group as follows:

			Millions of yen
			Impairment loss
Assets to be held and used	Condition	Location	
	Low profit-earning assets	America, Asia-Oceania	¥ 697
Assets to be disposed	Low operating assets	Tohoku, Kanto, Chubu, Kinki, Chugoku, Shikoku, Kyushu region	8,698
Total			¥9,395

Assets are grouped in accordance with classifications used for management accounting. Assets to be disposed of are grouped by individual property.

For these assets, as a result of our decision to dispose or the significant decline in profitability, the book values of certain assets were reduced to the recoverable amounts, and the amount of reduction between the book value and recoverable amounts was recorded as an impairment loss as extraordinary loss.

The breakdown of the amounts is ¥697 million for assets to be held and used, comprising ¥381 million for buildings and ¥316 million for goodwill. The breakdown of the amounts is ¥8,698 million for assets to be disposed, comprising ¥6,027 million for land, ¥2,183 million for

33. Subsequent events

(Share repurchase and cancellation)

The Company adopted the resolution at the Board of Directors meeting on April 27, 2022 regarding the share repurchase under the provisions of the Articles of Incorporation pursuant to Article 459, Paragraph 1 of the Companies Act of Japan. In addition, at Executive Board meeting held on the same day, the Company resolved to cancel treasury stock in accordance with the provisions of Article 178 of the Companies Act of Japan, and canceled it on May 10, 2022.

(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.

buildings, ¥351 million for other intangible assets, and ¥135 million for lease.

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.

Business restructuring expenses

(Fiscal year ended March 31, 2022)

Business restructuring expenses include expenses associated with the restructuring of domestic subsidiaries.

(2) Details of the share repurchase

(i) Type of shares	Common Stock
(ii) Total number of shares to be repurchased	Up to 33 million shares (2.22% of total shares outstanding, excluding treasury stock)
(iii) Total amount to be paid for repurchase	Up to ¥ 25 billion (\$205 million)
(iv) Period of share repurchase	From May 18, 2022 to March 24, 2023 (However, no acquisitions will be made during the last 5 business days of each quarter and the 10 business days following the announcement of quarterly financial results.)
(v) Method of repurchase	Purchase on the stock market via trust bank

(3) Details of cancellation

(i) Type of shares	Common Stock
(ii) Total number of shares to be cancelled	130 million shares (7.64% of total shares outstanding before cancellation)
(iii) Total shares outstanding after cancellation	1,569,378,772 shares
(iv) Date of cancellation	May 10, 2022

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, 2022 and 2021, 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, 2022 and 2021, 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. In our audits of the consolidated financial statements of the current period, we have selected key audit matters by taking into account the impact of the spread of COVID-19 pandemic, as well as recent changes in the economic environment arising from the situation in Russia and Ukraine. As a result, we continued to include the key audit matters for the prior period audit, “Reasonableness of the valuation of private equity and other investments, and loans receivable from customers (the Investment Division)” and “Reasonableness of the valuation of Level 3 derivative instruments held as part of trading products” as the key audit matters for the current period.

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 ¥123.8 billion and loans receivable from customers of ¥76.8 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 ¥3.2 billion and a loss on foreign investments and loans of ¥1.1 billion were recognized for the current fiscal year due to revaluation in light of the deteriorating investees’ performance or for other reasons.

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,

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 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 to be 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

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.

(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 investments 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’ evaluation and an evaluation report from an external valuation 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;
 - the impact of the spread of COVID-19 pandemic; and
 - the impact of recent changes in the economic environment and soaring natural resource prices, among others, arising from the situation in Russia and Ukraine.
- Evaluation of the method of 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

investee companies belong and specialized knowledge of those industries requiring significant management judgment. Management judgment is also required in evaluating the feasibility of business improvement measures and investment recovery plans, among others, as they have a significant effect on the estimated future cash flows to be 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 was sufficient evidence supporting their recoverability had a significant effect on the consolidated financial statements. Also, there was a uncertainty in the estimate of future cash flows of investees who were impacted by the spread of COVID-19 pandemic or the recent changes in the economic environment and soaring prices of natural resources, among others, arising from the situation in Russia and Ukraine.

We, therefore, determined that our assessment of the reasonableness of the valuation of investments held by the Investment Division including 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.

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 ¥2,085 billion in current assets and ¥1,997 billion in

department regarding the matter.

- Assessment of key assumptions underlying the future cash flows

We inspected the documents prepared by the Company that described significant assumptions, including the investee companies’ business plans and the forecast of their future business environment, 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 appropriateness 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 and loans, 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 and electricity generation costs, 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. Especially, in our consideration of assumptions related to the trend of import prices of fuel, we evaluate the appropriateness of the assumptions related to the effect of soaring prices of natural resources arising mainly from the situation in Russia and Ukraine by performing a comparison between the forecasts adopted by the Company and other alternative forecasts published by international organizations and other institutions.

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 pandemic which formed a basis for future aircraft prices, was a significant assumption, and assessed the appropriateness of management’s assumption by comparing it with air travel demand forecasts published by airline industry groups.

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

current liabilities. 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 ¥99 billion and ¥17 billion, respectively.

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 products are measured at fair value in the consolidated balance sheet, while valuation gains or losses are reported within net gains or losses on trading in the consolidated income statement. The valuation gains recognized in the consolidated income statement for the Level 3 derivatives instruments that were recognized in the consolidated balance sheet were ¥52.4 billion. 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 fair 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.

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 in which inputs used in the pricing models and the marked-to-market valuation are validated by a department independent of the trading department; and
- controls in which the appropriateness 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.

(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 in 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 instruments 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 appropriateness 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.”

Other Information

The other information comprises the information included in the Integrated Report but does not include the consolidated financial statements, the financial statements, and our auditor's report thereon. The other information is expected to be made available to us after the date of this auditor's report. Management is responsible for the other information. The audit committee is responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the reporting process for the other information. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

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 Audits 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 audits in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audits. 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 audits in order to design audit procedures that are appropriate in the circumstances, while the objective of the audits 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 audits, significant audit findings, including any significant deficiencies in internal control that we identify during our audits. 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 audits 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, 2022 are presented solely for convenience. Our audits 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
June 29, 2022

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, 2022

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, 2022.

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Key Metrics (at consolidated group level)

KM1: Key metrics

Basel III template number	Millions of yen, %				
	March 2022	December 2021	September 2021	June 2021	March 2021
Available capital (amounts)					
1 Common Equity Tier 1 (CET1)	¥ 1,189,895	¥ 1,166,908	¥ 1,148,768	¥ 1,152,962	¥ 1,123,656
2 Tier 1	1,360,623	1,337,697	1,314,659	1,327,893	1,305,210
3 Total capital	1,360,623	1,337,697	1,314,659	1,327,893	1,305,210
Risk-weighted assets (amounts)					
4 Total risk-weighted assets (RWA)	6,879,435	6,800,516	6,514,283	6,271,241	6,008,356
Capital ratio					
5 CET1 ratio (%)	17.29%	17.15%	17.63%	18.38%	18.70%
6 Tier 1 ratio (%)	19.77%	19.67%	20.18%	21.17%	21.72%
7 Total capital ratio (%)	19.77%	19.67%	20.18%	21.17%	21.72%
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 (%)	11.77%	11.67%	12.18%	13.17%	13.72%
Leverage ratio					
13 Total leverage ratio exposure measure	20,641,305	19,588,138	18,239,765	18,785,385	18,916,695
14 Leverage ratio (%) including the impact of any applicable temporary exemption of central bank reserves	6.59%	6.82%	7.20%	7.06%	6.89%

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		¥1,263,083	
1a	Common stock and capital surplus		477,848	(i), (j)
2	Retained earnings		943,143	(k)
1c	Treasury stock (Δ)		134,175	(l), (m)
26	Planned distributions (Δ)		23,732	
	Others		—	
1b	Stock subscription rights		9,109	(p)
3	Accumulated other comprehensive income (and other reserves)		86,885	(o)
5	Minority interest after adjustments		—	
6	Common Equity Tier 1 capital before regulatory adjustments	(a)	1,359,078	
	Common Equity Tier 1 capital: regulatory adjustments	(2)		
8+9	Intangible assets other than mortgage-servicing rights (net of related tax liability)		156,070	
8	Goodwill (net of related tax liability)		52,499	(e), (g)
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)		103,571	(f)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)		204	(d), (h)
11	Cash-flow hedge reserve		(6,134)	(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		437	
15	Defined-benefit pension fund net assets		—	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)		190	(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)		18,413	(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)	169,182	
	Common Equity Tier 1 capital			
29	Common Equity Tier 1 capital (CET1) ((a) - (b))	(c)	¥1,189,895	

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		147,800	
	Instruments issued by Special Purpose Companies		—	
34-35	Minority interest after adjustments		38,437	(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)	186,237	
	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)		6,258	(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		9,251	
43	Total regulatory adjustments to Additional Tier 1 capital	(e)	15,509	
	Additional Tier 1 capital			
44	Additional Tier 1 capital ((d) - (e))	(f)	170,727	
	Tier 1 capital			
45	Tier 1 capital ((c) + (f))	(g)	1,360,623	
	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		9,044	(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)	¥ 9,044	

Basel III template number	Items	Millions of yen, %	
		Group Consolidated Quarter-End	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)	18,295	(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)	18,295
Tier 2 capital			
58	Tier 2 capital ((h) - (i))	(j)	—
Total capital			
59	Total capital ((g) + (j))	(k)	1,360,623
Risk-weighted assets			
60	Total risk-weighted assets	(l)	6,879,435
Consolidated capital adequacy ratio			
61	Common Equity Tier 1 (as a percentage of risk-weighted assets) ((c) / (l))		17.29%
62	Tier 1 (as a percentage of risk-weighted assets) ((g) / (l))		19.77%
63	Total capital (as a percentage of risk-weighted assets) ((k) / (l))		19.77%
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		11.77%
Amounts below the thresholds for deduction (before risk weighting)		(6)	
72	Non-significant investments in the capital of other financials		120,830 (a), (b), (c), (g)
73	Significant investments in the common stock of financials		76,886 (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)		11,789 (d), (h)
Applicable caps on the inclusion of allowance in Tier 2		(7)	
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to Standardized approach (prior to application of cap)		—
77	Cap on inclusion of allowance in Tier 2 under Standardized approach		—
78	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		(8)	
82	Current cap on AT1 instruments subject to Phase out arrangements		—
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		—
84	Current cap on T2 instruments subject to Phase out arrangements		—
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		—

Qualitative Disclosure (Consolidated)

1. Scope of consolidation

A) Discrepancy and the reason in the scope of consolidation defined under consolidated financial statements reported and that for consolidated capital adequacy ratio calculation under the provision of Article 3 of the Consolidated Capital Adequacy Ratio Notification published by Japan FSA (hereunder the Notification).
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: 136 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 Ltd	Information services
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 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 Securities Realty Co. Ltd.	Real estate-related 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

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	¥1,903	¥1,894
Daiwa Investor Relations Co. Ltd.	Research and consulting regarding corporate management policy, finance policy, shareholder policy, corporate image, and IR activities	672	389
DMS Ltd.	Information services		
	Market research and consulting services	197	187
Asian Energy Investments Pte., Ltd.	Investment management businesses		
	Investment advisory and agency businesses	84	83
Daiwa ACA HealthCare Inc.	Investment funds management businesses		
	Asset management businesses		
	Real estate businesses	332	299
Daiwa Corporate Investment Asia Ltd.	Investment businesses	128	105
ILC inc.	Investment management businesses		
	Investment advisory and agency businesses	0	0

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>

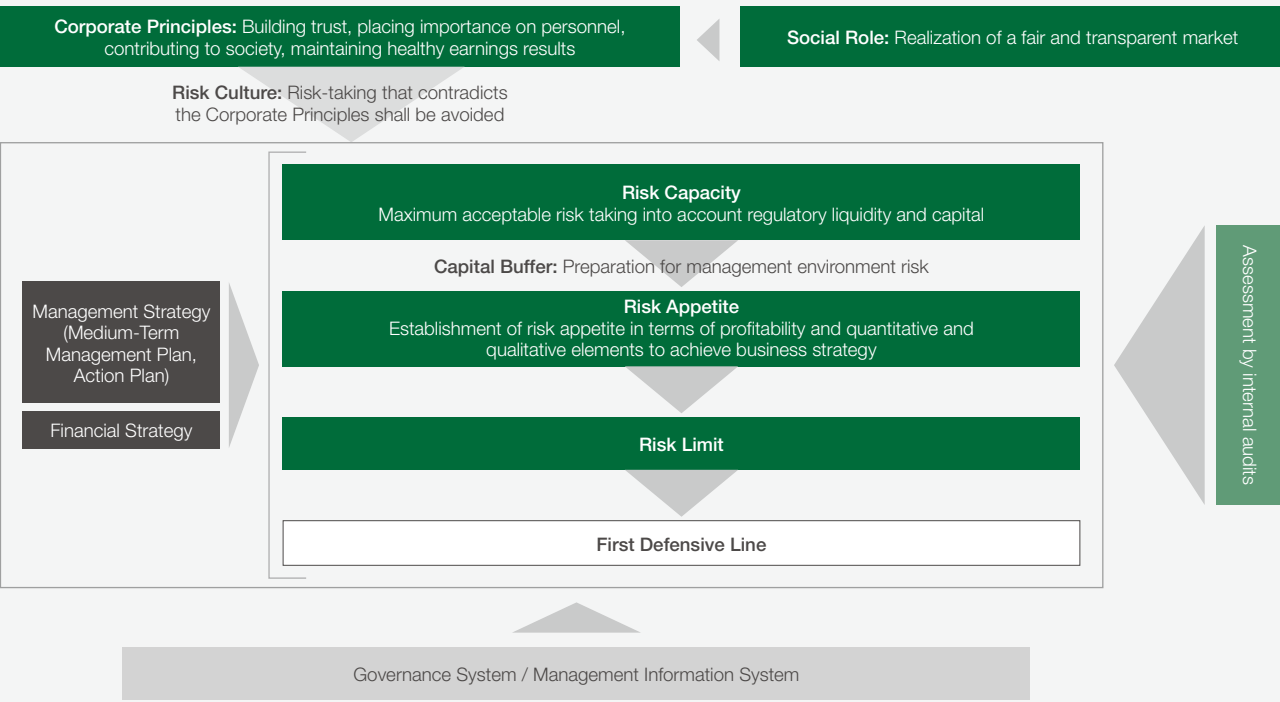
The risk appetite framework defines risk appetite as the type and total amount of risk that should be assumed in order to achieve profit targets and business plans. It is the framework of group-wide risk control.

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.

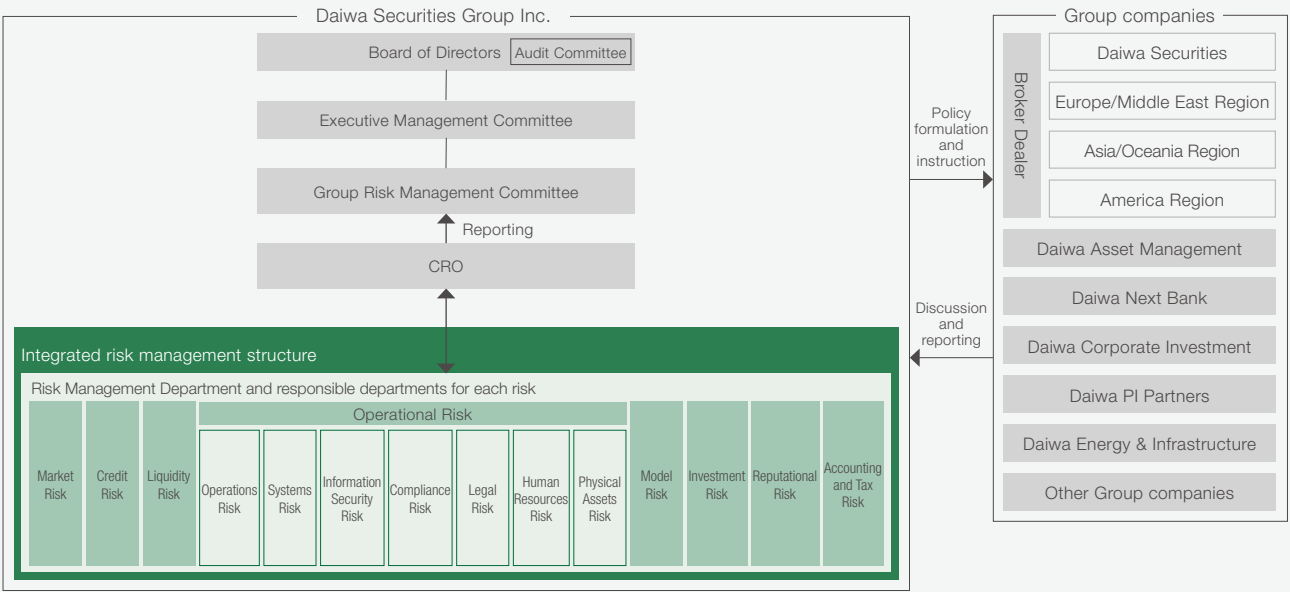
The risk appetite framework is also reviewed properly when business strategies or capital allocation plans are revised or the external environment changes significantly or great excess occurs on the risk profile.

<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, operational risk that inevitably arises in executing business and model risk stemming from the use of decision-making models. 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 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.

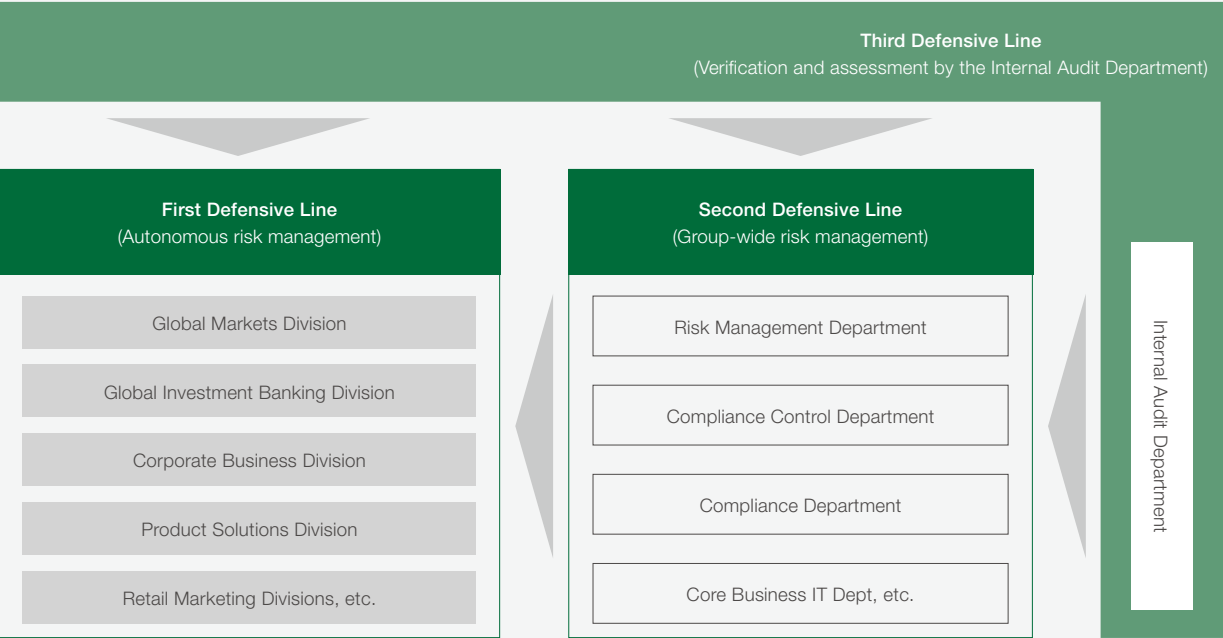
Executive Management, department and committee (to deliberate and decide the policies and specific measures of risk management) in charge of each risk

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 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.

7. Securitization exposures

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

The Group is involved in securitization transactions generally as an investor, and, accordingly, holds securitization products under investment, banking and trading business. Securitization products include market risk, credit risk, as well as risks related to the assets, stratified/tranched structure and others. Outstanding exposures and credit soundness of securitization products are periodically monitored by independent risk control departments.

B) Overview of monitoring framework of the regulation set forth under the provision of Article 226 Paragraph 1(i)-(iv) of the Notification

Based on the regulations, periodical monitoring of securitization exposures is being conducted in order to adequately grasp comprehensive risk characteristics of securitization exposures including risk characteristics of underlying assets, performance-related information of underlying assets, and the scheme of the securitization transaction.

C) 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.

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

Not applicable.

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

Not applicable.

E) Accounting policy applied for the securitization transaction

The Group complies with Accounting Standard Board of Japan Statement No. 10, "Accounting Standard for Financial Instruments" in recognizing, evaluating, and booking the occurrence or extinguishment of financial assets or liabilities related to securitization transactions.

F) Names of ECAs used for securitizations and the type of securitization exposures for which each agency is used

The following ECAs are used in order to determine the risk weight for the securitization exposures.

- Rating & Investment Information, Inc.
- Japan Credit Rating Agency, Ltd.

- Moody's Investors Service, Inc.
- S&P Global Ratings

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 2022, there was a single VaR breach 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.

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.

- There is no Incremental Risk Charge (IRC) nor Comprehensive risk.

<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.

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	¥ 4,592,384	¥ 4,595,080	
Cash segregated as deposits	559,729	559,729	
Notes and accounts receivable-trade	22,420	22,420	
Short-term investment securities	(a) 1,177,898	1,177,898	8, 18, 39, 54, 72, 73
Trading products	(b) 8,004,920	8,004,920	16, 18, 39, 54, 72, 73
Trading date accrual	—	—	
Operational investment securities	(c) 123,839	123,839	18, 39, 54, 72, 73
Allowance for investment loss	(151)	(151)	
Operating loans	1,933,758	1,933,758	
Work in process	768	768	
Margin transaction assets	177,401	177,401	
Loans secured by securities	8,394,277	8,394,277	
Advances paid	22,454	22,454	
Short-term loans receivable	439	439	
Accrued income	40,062	40,062	
Deferred tax assets	(d) —	—	10, 75
Other current assets	967,025	967,404	
Allowance for doubtful accounts	(7,589)	(7,589)	
Total current assets	26,009,638	26,012,714	
Noncurrent assets			
Property, plant and equipment	913,879	913,967	
Intangible assets	121,482	121,538	
Goodwill	(e) 19,657	19,657	8
Others	(f) 101,825	101,881	9
Investments and other assets	486,088	484,547	
Investment securities	(g) 443,446	441,870	8, 18, 39, 54, 72, 73
Deferred tax assets	(h) 11,992	11,993	10, 75
Others	30,650	30,683	
Total noncurrent assets	1,521,450	1,520,054	
Total deferred charges	—	—	
Total assets	¥27,531,089	¥27,532,768	

	Millions of yen		
	Balance sheets as in published statements	Under regulatory scope of consolidation	Cross-referenced to CC1
Liabilities			
Current liabilities			
Notes and accounts payable-trade	¥ 6,361	¥ 6,361	
Trading products	4,945,900	4,945,900	
Trading date accrual	548,406	548,406	
Margin transaction liabilities	70,318	70,318	
Loans payable secured by securities	9,463,697	9,463,697	
Deposits from banking business	4,189,105	4,189,105	
Deposits received	456,384	456,390	
Guarantee deposits received	347,468	347,468	
Short-term loans payable	2,155,782	2,155,782	
Commercial paper	116,000	116,000	
Current portion of bonds	446,760	446,760	
Income taxes payable	8,649	8,654	
Deferred tax liabilities	—	—	
Provision for bonuses	37,586	37,586	
Other current liabilities	152,851	153,053	
Noncurrent liabilities			
Bonds payable	1,563,631	1,563,631	
Long-term loans payable	1,237,048	1,237,048	
Deferred tax liabilities	42,241	42,241	
Net defined benefit liabilities	44,236	44,236	
Provision for loss on litigation	115	115	
Negative goodwill	—	—	
Other noncurrent liabilities	54,934	55,078	
Reserves under the special laws	3,717	3,717	
Total liabilities	25,891,200	25,891,559	
Net assets			
Shareholders' equity			
Common stock	(i) 247,397	247,397	1a
Capital surplus	(j) 230,451	230,451	1a
Retained earnings	(k) 942,793	943,142	2
Treasury stock	(l) (134,201)	(134,201)	1c
Advances on subscription of treasury stock	(m) 26	26	1c
Total shareholders' equity	1,286,467	1,286,816	
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	29,587	29,587	
Deferred gains or losses on hedges	(n) 9,940	9,940	11
Foreign currency translation adjustment	47,288	47,357	
Total accumulated other comprehensive income	(o) 86,815	86,884	3
Subscription rights to shares	(p) 9,109	9,109	1b
Minority interests	(q) 257,497	258,398	34-35, 48-49
Total net assets	¥ 1,639,888	¥ 1,641,208	

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

March 2022	Credit risk exposures			
	Loans	Securities	Others	
Japan	¥8,475,990	¥1,236,136	¥1,296,609	¥5,943,245
Overseas	569,771	67,463	31,957	470,350
Total (by area)	9,045,762	1,303,599	1,328,567	6,413,595
Sovereign	5,625,108	865,124	826,788	3,933,195
Financial institutions	1,049,502	113	20,171	1,029,217
Corporate	713,459	416,250	123,164	174,044
CCPs	38,203	—	—	38,203
Others	1,619,488	22,111	358,442	1,238,934
Total (by industry)	9,045,762	1,303,599	1,328,567	6,413,595
< 1 year	1,345,303	1,197,820	109,263	38,219
> 1 year ≤ 3 years	181,553	2	180,828	723
> 3 years ≤ 5 years	126,655	—	126,539	116
> 5 years ≤ 7 years	53,657	—	53,606	51
> 7 years	467,846	—	458,779	9,066
Indeterminate	6,870,745	105,777	399,549	6,365,418
Total (by maturity)	¥9,045,762	¥1,303,599	¥1,328,567	¥6,413,595

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)

March 2022	Millions of yen		
	Term-end balance	Term-end allowance	Write-offs for the year
Japan	¥86,557	¥15,682	¥—
Overseas	3,971	424	—
Total (by area)	90,528	16,107	—
Sovereign	0	—	—
Financial institutions	204	—	—
Corporate	76,209	11,759	—
Others	14,114	4,348	—
Total (by industry)	¥90,528	¥16,107	¥—

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	¥30,057	¥109	¥—	¥ 0	¥29,947
Overseas	89	—	—	—	89
Total (by area)	30,147	109	—	0	30,037
Sovereign	0	—	—	—	0
Financial institutions	204	—	—	—	204
Corporate	29,942	109	—	0	29,832
CCPs	—	—	—	—	—
Others	—	—	—	—	—
Total (by industry)	¥30,147	¥109	¥—	¥ 0	¥30,037

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)		¥561,946
Equity investments in funds (mandate-based approach)		23,319
Equity investments in funds (subject to 250% risk weight)		13,027
Equity investments in funds (subject to 400% risk weight)		—
Equity investments in funds (fall-back approach)		504
Total		¥598,796

4. Other quantitative disclosures

OV1: Overview of RWA

		Millions of yen			
		RWA		Minimum capital requirements	
Basel III template number		March 2022	March 2021	March 2022	March 2021
1	Credit risk (excluding counterparty credit risk) (CCR)	¥2,176,777	¥2,001,096	¥174,142	¥160,087
2	Of which standardized approach (SA)	1,067,472	973,879	85,397	77,910
3	Of which internal rating-based (IRB) approach	—	—	—	—
	Of which significant investments	—	—	—	—
	Of which exposures for estimated residual value of lease	—	—	—	—
	Others	1,109,305	1,027,217	88,744	82,177
4	Counterparty credit risk	1,296,492	1,216,028	103,719	97,282
5	Of which standardized approach for counterparty credit risk (SA-CCR)	484,335	502,669	38,746	40,213
6	Of which internal model method (IMM)	—	—	—	—
	Of which credit valuation adjustment (CVA) risk	511,268	436,339	40,901	34,907
	Of which exposures to central counterparties (CCPs)	36,806	25,311	2,944	2,024
	Others	264,082	251,709	21,126	20,136
7	Equity positions under market-based approach	—	—	—	—
8	Equity investments in funds (look-through approach)	310,782	274,039	24,862	21,923
9	Equity investments in funds (mandate-based approach)	21,587	21,506	1,726	1,720
	Equity investments in funds (subject to 250% risk weight)	32,567	—	2,605	—
	Equity investments in funds (subject to 400% risk weight)	—	—	—	—
10	Equity investments in funds (fall-back approach)	6,303	2,118	504	169
11	Settlement risk	206	9	16	0

		Millions of yen			
		RWA		Minimum capital requirements	
Basel III template number		March 2022	March 2021	March 2022	March 2021
12	Securitization exposures in banking book	140,647	121,218	11,251	9,697
13	Of which internal ratings-based approach (SEC-IRBA) or internal assessment approach (IAA)	—	—	—	—
14	Of which external ratings-based approach (SEC-ERBA)	140,647	118,851	11,251	9,508
15	Of which standardized approach (SEC-SA)	—	—	—	—
	Of which 1250% risk weight applied	—	2,367	—	189
16	Market risk	1,669,584	1,211,121	133,566	96,889
17	Of which standardized approach (SA)	827,455	857,500	66,196	68,600
18	Of which internal model approaches (IMM)	842,128	353,620	67,370	28,289
19	Operational risk	1,002,639	962,611	80,211	77,008
20	Of which basic indicator approach	1,002,639	962,611	80,211	77,008
21	Of which standardized approach	—	—	—	—
22	Of which advanced measurement approach	—	—	—	—
23	Amounts below the thresholds for deduction (subject to 250% risk weight)	221,847	198,605	17,747	15,888
	Amounts included in risk weighted asset due to transitional arrangements	—	—	—	—
24	Floor adjustment	—	—	—	—
25	Total	¥6,879,435	¥6,008,355	¥550,354	¥480,668

		Millions of yen			
		RWA		Minimum capital requirements	
Basel III template number		March 2022	December 2021	March 2022	December 2021
1	Credit risk (excluding counterparty credit risk) (CCR)	¥2,176,777	¥2,040,007	¥174,142	¥163,200
2	Of which standardized approach (SA)	1,067,472	951,111	85,397	76,088
3	Of which internal rating-based (IRB) approach	—	—	—	—
	Of which significant investments	—	—	—	—
	Of which exposures for estimated residual value of lease	—	—	—	—
	Others	1,109,305	1,088,895	88,744	87,111
4	Counterparty credit risk	1,296,492	1,345,286	103,719	107,622
5	Of which standardized approach for counterparty credit risk (SA-CCR)	484,335	580,404	38,746	46,432
6	Of which internal model method (IMM)	—	—	—	—
	Of which credit valuation adjustment (CVA) risk	511,268	493,196	40,901	39,455
	Of which exposures to central counterparties (CCPs)	36,806	24,581	2,944	1,966
	Others	264,082	247,104	21,126	19,768
7	Equity positions under market-based approach	—	—	—	—
8	Equity investments in funds (look-through approach)	310,782	294,000	24,862	23,520
9	Equity investments in funds (mandate-based approach)	21,587	39,069	1,726	3,125
	Equity investments in funds (subject to 250% risk weight)	32,567	31,393	2,605	2,511
	Equity investments in funds (subject to 400% risk weight)	—	—	—	—
10	Equity investments in funds (fall-back approach)	6,303	4,329	504	346
11	Settlement risk	206	34	16	2
12	Securitization exposures in banking book	140,647	133,013	11,251	10,641
13	Of which internal ratings-based approach (SEC-IRBA) or internal assessment approach (IAA)	—	—	—	—
14	Of which external ratings-based approach (SEC-ERBA)	140,647	130,638	11,251	10,451
15	Of which standardized approach (SEC-SA)	—	—	—	—
	Of which 1250% risk weight applied	—	2,375	—	190
16	Market risk	1,669,584	1,729,093	133,566	138,327
17	Of which standardized approach (SA)	827,455	1,046,481	66,196	83,718
18	Of which internal model approaches (IMM)	842,128	682,612	67,370	54,608

Basel III template number		Millions of yen			
		RWA		Minimum capital requirements	
		March 2022	December 2021	March 2022	December 2021
19	Operational risk	1,002,639	979,678	80,211	78,374
20	Of which basic indicator approach	1,002,639	979,678	80,211	78,374
21	Of which standardized approach	—	—	—	—
22	Of which advanced measurement approach	—	—	—	—
23	Amounts below the thresholds for deduction (subject to 250% risk weight)	221,847	204,609	17,747	16,368
	Amounts included in risk weighted asset due to transitional arrangements	—	—	—	—
24	Floor adjustment	—	—	—	—
25	Total	¥6,879,435	¥6,800,516	¥550,354	¥544,041

LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

	Millions of yen							
			Carrying values of items:					
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to credit risk framework ¹	Subject to counterparty credit risk framework	Subject to the securitization framework ²	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital	
Assets								
1. Cash and deposits	¥ 4,592,384	¥ 4,595,080	¥ 4,595,081	¥ —	¥ —	¥ 319,679	¥ —	
2. Cash segregated as deposits	559,729	559,729	559,729	—	—	78,427	—	
3. Notes and accounts receivable-trade	22,420	22,420	22,420	—	—	—	—	
4. Short-term investment securities	1,177,898	1,177,898	1,119,189	—	42,004	379,205	—	
5. Trading products	8,004,920	8,004,920	—	2,000,725	—	8,008,874	(3,954)	
6. Trading date accrual	—	—	—	4,687	—	37	17,144	
7. Operational investment securities	123,839	123,839	101,119	—	—	52,388	—	
8. Allowance for investment loss	(151)	(151)	(151)	—	—	—	—	
9. Operating loans	1,933,758	1,933,758	1,307,889	—	644,594	434,964	—	
10. Work in process	768	768	768	—	—	—	—	
11. Margin transaction assets	177,401	177,401	—	177,401	—	—	—	
12. Loans secured by securities	8,394,277	8,394,277	—	9,459,912	—	3,148,682	—	
13. Advances paid	22,454	22,454	22,454	—	—	139	—	
14. Short-term loans receivable	439	439	439	—	—	50	—	
15. Accrued income	40,062	40,062	40,062	—	—	13,477	—	
16. Deferred tax assets	—	—	—	—	—	—	—	
17. Other current assets	967,025	967,404	887,084	37,993	—	147,252	42,858	
18. Allowance for doubtful accounts	(7,589)	(7,589)	(7,589)	—	—	(398)	—	
19. Total current assets	26,009,638	26,012,714	8,648,495	11,680,719	686,599	12,582,779	56,048	
20. Property, plant and equipment	913,879	913,967	913,967	—	—	26,707	—	
21. Intangible assets	121,482	121,538	—	—	—	7,199	123,731	
22. Goodwill	19,657	19,657	—	—	—	3,893	19,657	
23. Others	101,825	101,881	—	—	—	3,306	104,073	
24. Investments and other assets	486,088	484,547	457,716	94	—	68,543	—	
25. Investment securities	443,446	441,870	421,465	—	—	64,925	—	
26. Deferred tax assets	11,992	11,993	9,335	—	—	1,664	—	
27. Others	30,650	30,683	26,915	94	—	1,953	—	
28. Total noncurrent assets	1,521,450	1,520,054	1,371,684	94	—	102,450	123,731	
29. Total deferred assets	—	—	—	—	—	—	—	
30. Total assets	¥27,531,089	¥27,532,768	¥10,020,180	¥11,680,814	¥686,599	¥12,685,230	¥179,780	

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 ¹	Subject to counterparty credit risk framework	Subject to the securitization framework ²	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital			
Liabilities										
31. Notes and accounts payable-trade	¥ 6,361	¥ 6,361	¥ —	¥ —	¥—	¥ —	¥ 6,361			
32. Trading products	4,945,900	4,945,900	—	1,991,254	—	4,945,900	—			
33. Trading date accrual	548,406	548,406	—	—	—	54,692	—			
34. Margin transaction liabilities	70,318	70,318	—	70,318	—	—	—			
35. Loans payable secured by securities	9,463,697	9,463,697	—	10,527,058	—	4,572,918	—			
36. Deposits from banking business	4,189,105	4,189,105	—	—	—	—	4,189,105			
37. Deposits received	456,384	456,390	—	—	—	47,414	456,384			
38. Guarantee deposits received	347,468	347,468	338,999	6,415	—	4,614	—			
39. Short-term loans payable	2,155,782	2,155,782	—	—	—	41,080	2,155,782			
40. Commercial paper	116,000	116,000	—	—	—	—	116,000			
41. Current portion of bonds	446,760	446,760	—	—	—	—	446,760			
42. Income taxes payable	8,649	8,654	—	—	—	898	8,649			
43. Deferred tax liabilities	—	—	—	—	—	—	—			
44. Provision for bonuses	37,586	37,586	—	—	—	18,611	37,586			
45. Other current liabilities	152,851	153,053	30,029	29,885	—	109,207	122,821			
46. Bonds payable	1,563,631	—	—	—	—	(738)	1,563,631			
47. Long-term loans payable	1,237,048	1,563,631	—	—	—	515	1,237,048			
48. Deferred tax liabilities	42,241	1,237,048	1,041	—	—	6	42,134			
49. Net defined benefit liabilities	44,236	42,241	—	—	—	—	44,236			
50. Provision for loss on litigation	115	115	—	—	—	—	115			
51. Negative goodwill	—	—	—	—	—	—	—			
52. Other noncurrent liabilities	54,934	55,078	—	227	—	13,357	40,550			
53. Reserves under the special laws	3,717	3,717	—	—	—	—	3,717			
54. Total liabilities	¥25,891,200	¥25,891,559	¥370,070	¥12,625,160	¥—	¥9,808,479	¥10,470,887			

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

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

	Millions of yen				
	Total	Items subject to:			
		Credit risk framework ¹	Counterparty credit risk framework	Securitization framework ²	Market risk framework
1. Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	¥27,352,988	¥10,020,180	¥ 11,680,814	¥686,599	¥12,685,230
2. Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	15,420,671	370,070	12,625,160	—	9,808,479
3. Total net amount under regulatory scope of consolidation	11,932,316	9,650,109	(944,346)	686,599	2,876,750
4. Off-balance sheet amounts	775,407	30,128	745,279	—	—
5. Differences in valuations	—	—	—	—	—
6. Differences due to different netting rules, other than those already included in row 2	—	—	—	—	—
7. Differences due to consideration of provisions	—	—	—	—	—
8. Differences due to prudential filters	—	—	—	—	—
9. Differences due to application of CEM	2,784,712	—	2,784,712	—	—
10. Differences due to netting and CRM for SFTs	19,654,690	—	19,654,690	—	—
11. Other differences	(8,751,992)	(158,480)	(19,236,643)	15,227	—
12. Exposure amounts considered for regulatory purposes	16,104,029	9,521,757	3,003,693	701,827	2,876,750

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				
	Defaulted exposures	Non-defaulted exposures	Allowances/ impairments	Net values ¹
On-balance sheet assets				
1. Loans	¥ 113	¥1,314,666	¥11,179	¥1,303,599
2. Debt securities	—	938,576	—	938,576
3. Other on-balance sheet assets (debt products)	30,055	4,742,625	2,189	4,770,491
4. Sub-total on-balance sheet assets (1+2+3)	30,168	6,995,868	13,369	7,012,667
Off-balance sheet assets				
5. Acceptances and guarantees	—	21,780	—	21,780
6. Commitments	—	25	—	25
7. Sub-total off-balance sheet assets (5+6)	—	21,805	—	21,805
Total				
8. Total (4+7)	¥30,168	¥7,017,674	¥13,369	¥7,034,473

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

CR2: Changes in stock of defaulted loans and debt securities

		Millions of yen
Previous reporting period end: September 2021		Amounts
Current reporting period end: March 2022		
1. Defaulted loans and debt securities at end of previous reporting period		¥30,729
2. Changes in loans and debt securities during the reporting period	Loans and debt securities that have defaulted since the last reporting period	—
3.	Returned to non-defaulted status	—
4.	Amounts written off	—
5.	Other changes ¹	(560)
6. Defaulted loans and debt securities at end of reporting period (1+2-3-4+5)		30,168

* ¹ Other changes include a decrease due to collection of exposures.

CR3: Credit risk mitigation techniques—overview

Millions of yen					
	Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by credit derivatives, of which: secured amount
1. Loans	¥1,074,482	¥229,117	¥229,117	¥—	¥—
2. Debt securities	938,576	—	—	—	—
3. Other on-balance sheet assets (debt products)	4,770,487	4	4	—	—
4. Total (1+2+3)	6,783,545	229,122	229,122	—	—
5. Of which defaulted	30,037	—	—	—	—

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	5,042,362	—	5,042,362	—	—	—	0.00%	—
3. Non-Japanese sovereign and central bank	127,137	—	127,137	—	10	—	0.01%	—
4. Bank for International Settlements (BIS)	—	—	—	—	—	—	—	—
5. Japanese local public authorities	34,535	—	34,535	—	—	—	0.00%	—
6. Non-Japanese public sector entities (excluding sovereign)	791	—	791	—	226	—	28.57%	—
7. Multilateral Development Banks (MDBs)	4,744	—	4,744	—	—	—	0.00%	—
8. Japan Finance Organization for Municipalities (JFM)	9,028	—	9,028	—	1,805	—	19.99%	—
9. Japanese government-sponsored entities	406,507	—	406,507	—	43,583	—	10.72%	—
10. Three major local public corporations of Japan	0	—	0	—	0	—	20.00%	—
11. Financial institutions and securities firms	1,012,898	3,820	1,012,898	3,820	207,121	—	20.37%	—
12. Corporates	715,996	22,436	486,874	21,370	464,343	—	91.36%	—
13. SMEs and individuals (risk weight 75% applied)	—	—	—	—	—	—	—	—
14. Residential mortgage loans	—	—	—	—	—	—	—	—
15. Projects including acquisition of real estate properties	22,213	3,845	22,213	3,845	24,352	—	93.45%	—
16. Past due exposures for three months or more (excluding residential mortgage loans)	30,037	—	30,037	—	45,055	—	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)	280,923	250	280,923	50	280,973	—	100.00%	—
22. Total	¥7,687,176	¥30,353	¥7,458,054	¥29,086	¥1,067,472	—	14.26%	—

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		5,042,362	—	—	—	—	—
3. Non-Japanese sovereign and central bank		127,116	—	—	—	20	—
4. Bank for International Settlements (BIS)		—	—	—	—	—	—
5. Japanese local public authorities		34,535	—	—	—	—	—
6. Non-Japanese public sector entities (excluding sovereign)		—	—	706	—	—	—
7. Multilateral Development Banks (MDBs)		4,744	—	—	—	—	—
8. Japan Finance Organization for Municipalities (JFM)		—	6	9,022	—	—	—
9. Japanese government-sponsored entities		—	377,183	29,323	—	—	—
10. Three major local public corporations of Japan		—	—	0	—	—	—
11. Financial institutions and securities firms		—	—	1,011,606	—	625	—
12. Corporates		—	—	32,729	—	35,451	—
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		¥5,208,759	¥377,189	¥1,083,388	¥—	¥36,097	¥—

Asset classes	Risk weight	Millions of yen				
		Credit risk exposures (post-CCF and post-CRM)				
		100%	150%	250%	1250%	Total
1. Cash		¥ —	¥ —	¥ —	¥ —	¥ —
2. Japanese government and central bank		—	—	—	—	5,042,362
3. Non-Japanese sovereign and central bank		0	—	—	—	127,137
4. Bank for International Settlements (BIS)		—	—	—	—	—
5. Japanese local public authorities		—	—	—	—	34,535
6. Non-Japanese public sector entities (excluding sovereign)		84	—	—	—	791
7. Multilateral Development Banks (MDBs)		—	—	—	—	4,744
8. Japan Finance Organization for Municipalities (JFM)		—	—	—	—	9,028
9. Japanese government-sponsored entities		—	—	—	—	406,507
10. Three major local public corporations of Japan		—	—	—	—	0
11. Financial institutions and securities firms		4,487	—	—	—	1,016,719
12. Corporates		440,062	—	—	0	508,244
13. SMEs and individuals (risk weight 75% applied)		—	—	—	—	—
14. Residential mortgage loans		—	—	—	—	—
15. Projects including acquisition of real estate properties		26,058	—	—	—	26,058
16. Past due exposures for three months or more (excluding residential mortgage loans)		—	30,037	—	—	30,037
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)		280,973	—	—	—	280,973
22. Total		¥751,668	¥30,037	¥—	¥ 0	¥7,487,141

CCR1: Analysis of counterparty credit risk (CCR) exposure by approach

	Millions of yen				
	Replacement cost	PFE	Alpha used for computing regulatory EAD		RWA
			EEPE	EAD post-CRM	
1. SA-CCR (for derivatives)	¥231,409	¥405,918		1.4 ¥ 892,259	¥484,335
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)				1,006,336	264,082
5. VaR for SFTs				—	—
6. Total					¥748,417

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	805,201	511,268
5. Total subject to the CVA capital charge	¥805,201	¥511,268

CCR3: Standardized approach—CCR exposures by regulatory portfolio and risk

	Risk weight	Millions of yen		
		EAD (post-CRM)		
		0%	10%	20%
Regulatory portfolio				
1. Japanese government and central bank		¥510,094	¥—	¥ —
2. Non-Japanese sovereign and central bank		18,370	—	17,324
3. Bank for International Settlements (BIS)		54,702	—	—
4. Japanese local public authorities		768	—	—
5. Non-Japanese public sector entities (excluding sovereign)		—	—	21,369
6. Multilateral Development Banks (MDBs)		2,968	—	—
7. Japan Finance Organization for Municipalities (JFM)		—	—	4,225
8. Japanese government-sponsored entities		—	—	7,640
9. Three major local public corporations of Japan		—	—	—
10. Financial institutions and securities firms		—	—	635,871
11. Corporates		—	—	4,334
12. SMEs and individuals (risk weight 75% applied)		—	—	—
13. Other assets		—	—	—
14. Total		¥586,904	¥—	¥690,765

	Risk weight	Millions of yen		
		EAD (post-CRM)		
		50%	75%	100%
Regulatory portfolio				
1. Japanese government and central bank		¥ —	¥—	¥ —
2. Non-Japanese sovereign and central bank		61	—	—
3. Bank for International Settlements (BIS)		—	—	—
4. Japanese local public authorities		—	—	—
5. Non-Japanese public sector entities (excluding sovereign)		4,007	—	—
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		966	—	—
11. Corporates		16,286	—	599,603
12. SMEs and individuals (risk weight 75% applied)		—	—	—
13. Other assets		—	—	—
14. Total		¥21,322	¥—	¥599,603

	Risk weight	Millions of yen		
		EAD (post-CRM)		
		150%	Others	Total credit exposure
Regulatory portfolio				
1. Japanese government and central bank		¥—	¥—	¥ 510,094
2. Non-Japanese sovereign and central bank		—	—	35,756
3. Bank for International Settlements (BIS)		—	—	54,702
4. Japanese local public authorities		—	—	768
5. Non-Japanese public sector entities (excluding sovereign)		—	—	25,376
6. Multilateral Development Banks (MDBs)		—	—	2,968
7. Japan Finance Organization for Municipalities (JFM)		—	—	4,225
8. Japanese government-sponsored entities		—	—	7,640
9. Three major local public corporations of Japan		—	—	—
10. Financial institutions and securities firms		—	—	636,838
11. Corporates		—	—	620,224
12. SMEs and individuals (risk weight 75% applied)		—	—	—
13. Other assets		—	—	—
14. Total		¥—	¥—	¥1,898,596

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	¥ 36,419	¥167,512	¥ 93,531	¥420,204	¥ 5,979,580	¥ 5,176,933
2 Cash—other currencies	11,692	30,938	2,034	21,874	5,327,410	4,480,884
3 Domestic sovereign debt	7,914	35,917	31	7,777	4,140,669	5,534,133
4 Other sovereign debt	304	—	—	—	4,136,931	4,482,368
5 Government agency debt	1,269	—	—	—	525,948	772,259
6 Corporate bonds	50,001	—	—	—	31,724	153,490
7 Equity securities	18,464	1,901	49,131	94,570	543,471	258,880
8 Other collateral	3,337	—	—	—	52,171	970,286
9 Total	¥129,403	¥236,270	¥150,345	¥544,426	¥20,737,908	¥21,829,235

* 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	¥ 523,952	¥ 835,320
2 Index credit default swaps	1,324,579	1,206,688
3 Total return swaps	—	—
4 Credit options	—	—
5 Other credit derivatives	—	—
6 Total notionals	1,848,532	2,042,008
Fair values		
7 Positive fair value (asset)	4,544	29,074
8 Negative fair value (liability)	(28,655)	(16,138)

CCR8: Exposures to central counterparties

	Millions of yen	
	EAD (post-CRM)	RWA
1 Exposures to QCCPs (total)		¥36,806
2 Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	¥878,073	17,487
3 (i) OTC derivatives	506,568	10,131
4 (ii) Exchange-traded derivatives	134,245	2,684
5 (iii) Securities financing transactions	237,260	4,671
6 (iv) Netting sets where cross-product netting has been approved	—	—
7 Segregated initial margin	151,445	
8 Non-segregated initial margin	15,613	3,420
9 Pre-funded default fund contributions	59,964	15,898
10 Unfunded default fund contributions	—	—
11 Exposures to non-QCCPs (total)		—
12 Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	—	—
13 (i) OTC derivatives	—	—
14 (ii) Exchange-traded derivatives	—	—
15 (iii) Securities financing transactions	—	—
16 (iv) Netting sets where cross-product netting has been approved	—	—
17 Segregated initial margin	—	
18 Non-segregated initial margin	—	—
19 Pre-funded default fund contributions	—	—
20 Unfunded default fund contributions	—	—

SEC1: Securitization exposures in the banking book

Type of underlying assets	Millions of yen		
	Group acts as originator		
	Traditional	Synthetic	Sub-total
1 Retail (total)—of which	¥—	¥—	¥—
2 residential mortgage	—	—	—
3 credit card	—	—	—
4 other retail exposures	—	—	—
5 re-securitization	—	—	—
6 Wholesale (total)—of which	—	—	—
7 loans to corporates	—	—	—
8 commercial mortgage	—	—	—
9 lease and receivables	—	—	—
10 other wholesale	—	—	—
11 re-securitization	—	—	—

Type of underlying assets	Millions of yen		
	Group acts as sponsor		
	Traditional	Synthetic	Sub-total
1 Retail (total)—of which	¥—	¥—	¥—
2 residential mortgage	—	—	—
3 credit card	—	—	—
4 other retail exposures	—	—	—
5 re-securitization	—	—	—
6 Wholesale (total)—of which	—	—	—
7 loans to corporates	—	—	—
8 commercial mortgage	—	—	—
9 lease and receivables	—	—	—
10 other wholesale	—	—	—
11 re-securitization	—	—	—

Type of underlying assets	Millions of yen		
	Group acts as investor		
	Traditional	Synthetic	Sub-total
1 Retail (total)—of which	¥249,088	¥—	¥249,088
2 residential mortgage	141,026	—	141,026
3 credit card	—	—	—
4 other retail exposures	108,062	—	108,062
5 re-securitization	—	—	—
6 Wholesale (total)—of which	452,738	—	452,738
7 loans to corporates	452,738	—	452,738
8 commercial mortgage	—	—	—
9 lease and receivables	—	—	—
10 other wholesale	—	—	—
11 re-securitization	—	—	—

SEC2: Securitization exposures in the trading book

Type of underlying assets	Millions of yen		
	Group acts as originator		
	Traditional	Synthetic	Sub-total
1 Retail (total)—of which	¥995	¥—	¥995
2 residential mortgage	995	—	995
3 credit card	—	—	—
4 other retail exposures	—	—	—
5 re-securitization	—	—	—
6 Wholesale (total)—of which	—	—	—
7 loans to corporates	—	—	—
8 commercial mortgage	—	—	—
9 lease and receivables	—	—	—
10 other wholesale	—	—	—
11 re-securitization	—	—	—

Type of underlying assets	Millions of yen		
	Group acts as sponsor		
	Traditional	Synthetic	Sub-total
1 Retail (total)—of which	¥—	¥—	¥—
2 residential mortgage	—	—	—
3 credit card	—	—	—
4 other retail exposures	—	—	—
5 re-securitization	—	—	—
6 Wholesale (total)—of which	—	—	—
7 loans to corporates	—	—	—
8 commercial mortgage	—	—	—
9 lease and receivables	—	—	—
10 other wholesale	—	—	—
11 re-securitization	—	—	—

Type of underlying assets	Millions of yen		
	Group acts as investor		
	Traditional	Synthetic	Sub-total
1 Retail (total)—of which	¥—	¥—	¥—
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	—	—	—

SEC3: Securitization exposures in the banking book and associated regulatory capital requirements—bank acting as originator or as sponsor
Not applicable.

	Millions of yen				
	Total exposures				
	Traditional securitization				
	Of which securitization				
				Of which retail underlying	Of which wholesale
Exposure values (by RW bands)					
1 ≤20% RW	¥698,622	¥698,622	¥698,622	¥245,884	¥452,738
2 >20% to 50% RW	500	500	500	500	—
3 >50% to 100% RW	2,704	2,704	2,704	2,704	—
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)	701,827	701,827	701,827	249,088	452,738
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)	140,647	140,647	140,647	50,099	90,547
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)	11,251	11,251	11,251	4,007	7,243
16 Of which standardized approach (SEC-SA)	—	—	—	—	—
17 Of which 1250% risk weight applied	—	—	—	—	—

	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)	¥560,400
2 Equity risk (general and specific)	118,526
3 Foreign exchange risk	139,989
4 Commodity risk	—
Options	
5 Simplified approach	—
6 Delta-plus method	—
7 Scenario approach	—
8 Securitization	8,538
9 Total	¥827,455

MR2: RWA flow statements of market risk exposures under an IMA

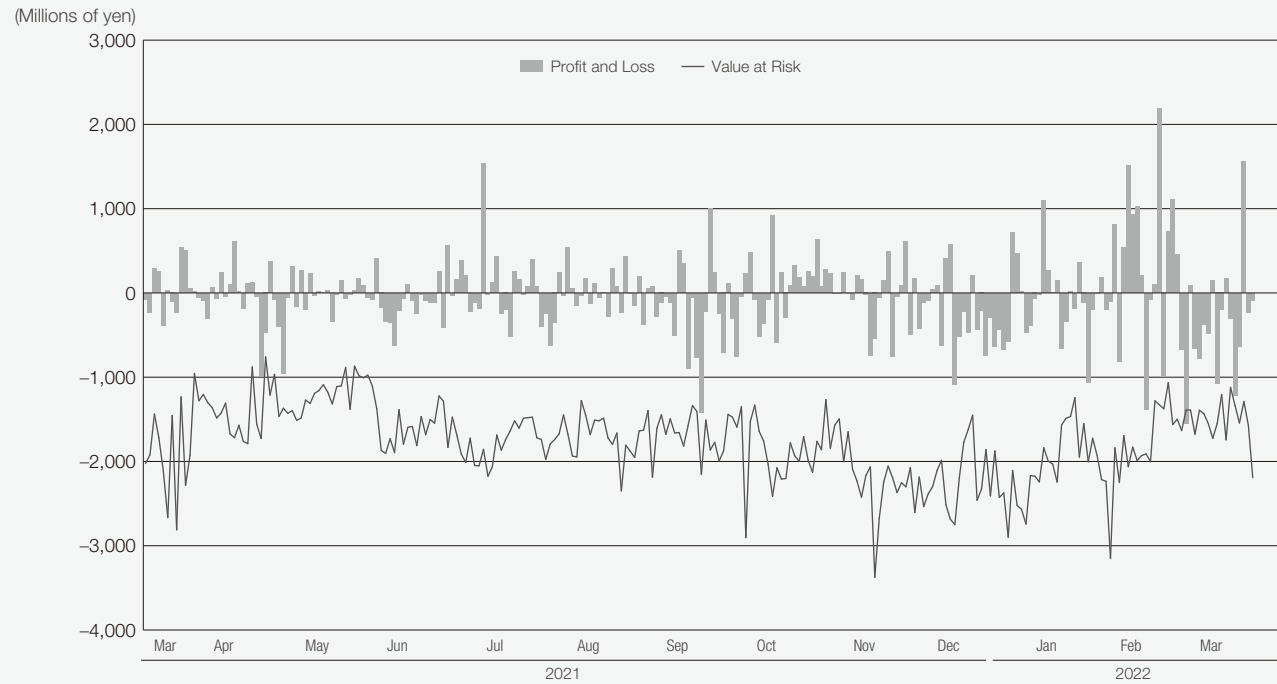
			Millions of yen					
			VaR	Stressed VaR	IRC	CRM	Other	Total RWA
1a	RWA at end of previous year		¥163,202	¥190,417	¥—	¥—		¥353,620
1b	Adjustments to RWA based on the regulatory consolidated capital at end of previous year		2.24	2.50	—	—		2.37
1c	Amounts of IMA at end of previous year		72,762	75,971	—	—		148,734
2	Change in reporting period	Movement in risk levels	39,164	74,553	—	—		113,718
3		Model updates/changes	—	—	—	—		—
4		Methodology and policy	—	—	—	—		—
5		Acquisitions and disposals	—	—	—	—		—
6		Foreign exchange movements	—	—	—	—		—
7		Other	—	—	—	—		—
8a	Amounts of IMA at end of reporting period		111,927	150,524	—	—		262,452
8b	Adjustments to RWA based on the regulatory consolidated capital at end of reporting period		2.54	3.70	—	—		3.20
8c	RWA at end of reporting period		284,666	557,461	—	—		842,128

			Millions of yen					
			VaR	Stressed VaR	IRC	CRM	Other	Total RWA
1a	RWA at previous quarter-end		¥250,426	¥432,185	¥—	¥—		¥682,612
1b	Adjustments to RWA based on the regulatory consolidated capital at previous quarter-end		2.74	3.76	—	—		3.31
1c	Amounts of IMA at previous quarter-end		91,070	114,638	—	—		205,708
2	Change in reporting period	Movement in risk levels	20,857	35,886	—	—		56,743
3		Model updates/changes	—	—	—	—		—
4		Methodology and policy	—	—	—	—		—
5		Acquisitions and disposals	—	—	—	—		—
6		Foreign exchange movements	—	—	—	—		—
7		Other	—	—	—	—		—
8a	Amounts of IMA at end of reporting period		111,927	150,524	—	—		262,452
8b	Adjustments to RWA based on the regulatory consolidated capital at end of reporting period		2.54	3.70	—	—		3.20
8c	RWA at end of reporting period		284,666	557,461	—	—		842,128

MR3: IMA values for trading portfolios

Millions of yen		Millions of yen	
VaR (10 day 99%) –		Incremental Risk Charge (99.9%)	
1 Maximum value	¥10,028	9 Maximum value	—
2 Average value	5,347	10 Average value	—
3 Minimum value	1,710	11 Minimum value	—
4 Period end	7,937	12 Period end	—
Stressed VaR (10 day 99%)		Comprehensive Risk capital charge (99.9%)	
5 Maximum value	22,086	13 Maximum value	—
6 Average value	9,814	14 Average value	—
7 Minimum value	2,012	15 Minimum value	—
8 Period end	10,441	16 Period end	—
		17 Floor (standardized measurement method)	—

MR4: Comparison of VaR estimates with gains/losses



IRRBB1: Quantitative information on IRRBB

	Millions of yen	
	March 2022	March 2021
1 Parallel up	¥ 4,792	¥ 8,123
2 Parallel down	23,103	19,572
3 Steepener	3,556	3,698
4 Flatteners	1,351	358
5 Short rate up	2,059	1,717
6 Short rate down	13,881	12,363
7 Maximum	23,103	19,572
8 Tier 1 capital	1,360,623	1,305,210

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%	¥ 15,369		
Luxembourg	0.50%	11,944		
Sum		27,313		
Total		¥3,389,020	0.00%	¥432

* 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	
On-balance sheet exposures			(1)
1		On-balance sheet items before adjustments	¥12,944,685 ¥11,898,008
1a	1	Total assets in the consolidated balance sheet	23,623,674 21,973,181
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)	1,679 2,075
1d	3	Assets other than the adjustments that are excluded from the total assets in the consolidated balance sheet	10,680,668 10,077,248
2	7	Tier 1 capital: regulatory adjustments	181,137 188,100
3		Total on-balance sheet exposures (excluding derivatives and SFTs)	(A) 12,763,548 11,709,908
Derivative exposures			(2)
4		Replacement cost associated with all derivatives transactions (with the 1.4 alpha factor applied)	644,629 603,503
5		Add-on amounts for PFE associated with all derivatives transactions (with the 1.4 alpha factor applied)	868,986 795,392
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	157,909 43,581
8		Exempted CCP leg of client-cleared trade exposures	
9		Adjusted effective notional amount of written credit derivatives	2,042,008 1,409,244
10		Adjusted effective notional offsets and add-on deductions for written credit derivatives	1,689,958 1,102,275
11	4	Total derivative exposures	(B) 1,707,756 1,662,283
Securities financing transaction exposures			(3)
12		Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	9,902,828 8,405,765
13		Netted amounts of cash payables and cash receivables of gross SFT assets	4,032,415 3,143,476
14		CCR exposure for SFT assets	209,387 157,761
15		Agent transaction exposures	
16	5	Total securities financing transaction exposures	(C) 6,079,800 5,420,050
Other off-balance sheet exposures			(4)
17		Off-balance sheet exposure at gross notional amount	148,589 177,566
18		Adjustments for conversion to credit equivalent amounts	58,388 53,112
19	6	Off-balance sheet items	(D) 90,201 124,454
Capital and total exposures			(5)
20		Tier 1 capital	(E) 1,360,623 1,305,210
21	8	Total exposures (A)+(B)+(C)+(D)	(F) 20,641,305 18,916,695
22		Leverage ratio on a consolidated basis (E) / (F)	6.59% 6.89%
Leverage ratio (including amount of the central bank reserves)			(6)
		Total exposures	(F) 20,641,305 18,916,695
		Amount of the central bank reserves	3,907,415 4,126,149
		Total exposures (including amount of the central bank reserves)	(F') 24,548,720 23,042,844
		Leverage ratio (including amount of the central bank reserves) (E) / (F')	5.54% 5.66%

2. Reasons for significant differences in the consolidated leverage ratio over previous year

There is no significant difference in the consolidated leverage ratio over the previous year.

Overview of Main Features of Regulatory Capital Instruments

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	1,263,083 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	83 million Yen	103 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	102 million Yen	173 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	220 million Yen	320 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 issued in February 2013	Stock subscription right series 9
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	384 million Yen	646 million Yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Stock subscription right	Stock subscription right
11	Original date of issuance	February 12, 2013	February 12, 2013
12	Perpetual or dated	NA	NA
13	Original maturity date	—	—
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date 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 February 2014	Stock subscription right series 10
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	327 million Yen	1,043 million Yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Stock subscription right	Stock subscription right
11	Original date of issuance	February 10, 2014	February 10, 2014
12	Perpetual or dated	NA	NA
13	Original maturity date	—	—
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date 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 February 2015	Stock subscription right series 11
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	358 million Yen	910 million Yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Stock subscription right	Stock subscription right
11	Original date of issuance	February 9, 2015	February 9, 2015
12	Perpetual or dated	NA	NA
13	Original maturity date	—	—
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date 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 February 2016	Stock subscription right series 12
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	366 million Yen	457 million Yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Stock subscription right	Stock subscription right
11	Original date of issuance	February 16, 2016	February 16, 2016
12	Perpetual or dated	NA	NA
13	Original maturity date	—	—
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date 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 February 2017	Stock subscription right series 13
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	393 million Yen	832 million Yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Stock subscription right	Stock subscription right
11	Original date of issuance	February 8, 2017	February 8, 2017
12	Perpetual or dated	NA	NA
13	Original maturity date	—	—
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date 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 February 2018	Stock subscription right series 14
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	425 million Yen	860 million Yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Stock subscription right	Stock subscription right
11	Original date of issuance	February 8, 2018	February 8, 2018
12	Perpetual or dated	NA	NA
13	Original maturity date	—	—
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date 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 15	Stock subscription right series 16
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	580 million Yen	249 million Yen
9	Par value of instrument	—	—
10	Accounting classification		
	Consolidated balance sheets	Stock subscription right	Stock subscription right
11	Original date of issuance	August 10, 2018	August 15, 2019
12	Perpetual or dated	NA	NA
13	Original maturity date	—	—
14	Issuer call subject to prior supervisory approval	NA	NA
15	Optional call date 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 17	Stock subscription right series 18
8	Amount recognized in regulatory capital (Currency in millions, as of the most recent reporting date)		
	Consolidated Capital Adequacy Ratio	202 million Yen	65 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 17, 2020	August 13, 2021
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 30,117 million Yen Tier 2 capital 7,086 million Yen	Additional Tier 1 capital 8,319 million Yen Tier 2 capital 1,957 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	123,200 million Yen	24,600 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

Report Regarding Consolidated Liquidity Coverage Ratio and Consolidated Net Stable Funding Ratio
Situation of Soundness in Liquidity Management as of Fourth Quarter in Fiscal Year 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 liquidity management as of the fourth quarter in fiscal year 2021.

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Key Metrics (at consolidated group level)

KM1: Key Metrics

		Unit: 1 Million Yen, %				
		Fourth Quarter in Fiscal Year 2021	Third Quarter in Fiscal Year 2021	Second Quarter in Fiscal Year 2021	First Quarter in Fiscal Year 2021	Fourth Quarter in Fiscal Year 2020
Consolidated liquidity coverage ratio						
15	Total high quality liquid assets	¥2,642,117	¥2,615,330	¥2,666,490	¥2,673,653	¥2,760,821
16	Total net cash outflows	1,772,313	1,797,829	1,709,909	1,749,312	1,712,430
17	Consolidated liquidity coverage ratio	149.0%	145.4%	155.9%	152.8%	161.2%
Consolidated net stable funding ratio						
18	Total available stable funding	8,480,413	8,267,404	8,815,759		
19	Total required stable funding	5,713,587	5,457,139	5,490,069		
20	Consolidated net stable funding ratio	148.4%	151.4%	160.5%		

Disclosure of Consolidated Liquidity Risk Management

1. Overview of Liquidity Risk Management Policy and Procedure

Daiwa Securities Group Inc. (“the Group”)’s funding activities focus on the principle of maintaining a sufficient level of liquidity in a stable and efficient manner to ensure continuous business operations.

The treasury department is designated as a division to manage the Group’s funding and takes action proactively to secure a stable funding amount during ordinary times in order to prevent business operations being disrupted in the event of severe changes occurring in the markets, and also manages to diversify maturities and sources of the procurement funds assuming a liquidity crisis when

new funding or roll-over is difficult.

The risk management department is designated as a division to manage the Group’s liquidity risk and monitors the liquidity risk and reports to the board daily by utilizing the risk appetite indicators and liquidity stress test.

The Group strives to construct an appropriate liquidity risk management structure to be able to grasp the situation of the liquidity risk in a timely manner. In addition, the Group developed a contingency funding plan in order to make an appropriate response when liquidity risk become evident.

2. Liquidity Risk Management Indicators and other issues related to consolidated Liquidity Management

A) Risk appetite indicators

The Group defines the Liquidity Coverage Ratio and Net Stable Funding Ratio as liquidity risk appetite indicators at the board.

and monitors them as EWI to detect quickly if a liquidity risk becomes evident, and seeks to manage the forward-looking funding and liquidity risk.

B) Liquidity Stress Test

The Group defines various stress scenarios and monitors daily that the liquidity portfolio covers the cash outflow prediction in the case where a certain amount of unsecured funding comes to maturity and stress occurs at the same time. Thus, even in the case where unsecured funding is not available for one year, the Group can continue its business operations.

C) Early Warning Indicator (“EWI”)

The Group sets certain thresholds for the indicators

D) Contingency Funding Plan

The Group recognizes that the occurrence of liquidity risk will have a direct impact on the business failure of financial institutions. Therefore, the Group defines a contingency funding plan in order to make an appropriate response during the time of liquidity crisis. The plan specifies policies of reporting lines and of the securement of funding according to the level of the tightness of the stress due to the internal factors such as the deterioration of the Group’s credit, and/or the external factors such as a disturbance in the financial markets.

Qualitative Disclosure (Consolidated)

1. Qualitative disclosure of consolidated Liquidity Coverage Ratio

A) Changes in consolidated Liquidity Coverage

Ratio over previous quarter

The Group’s total High Quality Liquid Asset (HQLA) was 2,642,117 million yen, an increase of 26,787 million yen from the previous quarter.

Cash outflows related to unsecured wholesale funding were 1,598,964 million yen, an increase of 108,844 million yen from the previous quarter, Cash outflows related to other contractual funding obligations were 973,870 million yen, a decrease of 170,052 million yen, and Cash outflows related to other contingent funding obligations were 222,006 million yen, an increase of 34,419 million yen, thus total net cash outflows were 1,772,313 million yen, a decrease of 25,516 million yen.

As a result of the above-mentioned conditions, the Group’s consolidated Liquidity Coverage Ratio was 149.0%, an increase of 3.6 percent. For the past two years, changes in the ratio have been relatively stable.

B) Evaluation of the Group’s consolidated Liquidity Coverage Ratio

The Group defines “The Rule of Regulatory Liquidity Management,” and not only manages to keep the Liquidity Coverage Ratio above the regulatory limit, but also sets an internal alert level, and periodically reviews whether the ratio is above the internal alert level.

The Group’s consolidated Liquidity Coverage Ratio is sufficiently above the minimum requirement.

C) Composition of HQLA

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

D) Other issues related to the consolidated Liquidity Coverage Ratio

There is no significant item for disclosure.

2. Qualitative disclosure of consolidated Net Stable Funding Ratio

A) Changes in consolidated Net Stable Funding

Ratio over previous quarter

The Group’s total Available Stable Funding (ASF) was 8,480,413 million yen, an increase of 213,009 million yen from the previous quarter. Capital before the application of capital deductions was 1,554,359 million yen, an increase of 3,500 million yen. Funding from retail and small business customers was 1,845,694 million yen, a decrease of 19,409 million yen. And wholesale funding was 4,589,973 million yen, an increase of 185,949 million yen.

Total Required Stable Funding (RSF) was 5,713,587 million yen, an increase of 256,448 million yen. Loans, repo transactions-related assets, securities and other similar assets were 2,898,848 million yen, an increase

of 188,355 million yen. And other assets were 2,327,257 million yen, an increase of 103,938 million yen.

As a result of the above-mentioned conditions, the Group’s consolidated Net Stable Funding Ratio was 148.4%, a decrease of 3.0 percent. The ratio is sufficiently above the minimum requirement.

B) Application of Exception for Interdependent Asset and Liability

Not applicable.

C) Other issues related to the consolidated Net Stable Funding Ratio

There is no significant item for disclosure.

Items	Fourth Quarter in Fiscal Year 2021		Third Quarter in Fiscal Year 2021	
High Quality Liquid Assets (1)				
1 Total high quality liquid assets		¥2,642,117		¥2,615,330
Cash Outflows (2)	Unweighted Value	Weighted Value	Unweighted Value	Weighted Value
2 Retail deposits and deposits from small business customers	¥2,048,566	204,856	¥1,974,079	203,908
3 Stable deposits	—	—	—	—
4 Less stable deposits	2,048,566	204,856	1,974,079	203,908
5 Unsecured wholesale funding	2,959,234	1,598,964	2,783,694	1,490,120
6 Operational deposits	—	—	—	—
7 Unsecured wholesale funding other than operational deposits and unsecured debt	2,875,435	1,515,165	2,678,388	1,382,535
8 Unsecured debt	83,799	83,799	105,306	107,584
9 Secured funding	9,355,219	246,124	8,159,139	249,511
10 Outflows related to derivative exposures, loss of funding on debt products, committed credit and liquidity facilities	276,720	276,720	253,067	260,754
11 Outflows related to derivative exposures	254,869	254,869	238,202	245,416
12 Outflows related to loss of funding on debt products	—	—	—	—
13 Outflows related to credit and liquidity facilities	21,851	21,851	14,865	15,338
14 Other contractual funding obligations	5,241,067	973,870	4,995,738	1,143,922
15 Other contingent funding obligations	233,337	222,006	198,633	187,587
16 Total cash outflows		3,522,543		3,535,805
Cash Inflows (3)	Unweighted Value	Weighted Value	Unweighted Value	Weighted Value
17 Secured lending	7,916,617	150,603	6,955,265	120,067
18 Inflows from fully performing exposures	603,911	531,743	559,606	516,332
19 Other cash inflows	5,022,507	1,067,883	4,356,250	1,101,575
20 Total cash inflows		1,750,230		1,737,976
Consolidated Liquidity Coverage Ratio (4)				
21 Total high quality liquid assets		2,642,117		2,615,330
22 Total net cash outflows		1,772,313		1,797,829
23 Consolidated liquidity coverage ratio		149.0%		145.4%
24 Number of data used for calculation of average value		59		63

[illegible]

Unit: 1 Million Yen, %

Items	Fourth Quarter in Fiscal Year 2021					Third Quarter in Fiscal Year 2021				
	Unweighted Value					Unweighted Value				
	Indeterminate	< 6 months	≥ 6 months < 1 year	≥ 1 year	Weighted Value	Indeterminate	< 6 months	≥ 6 months < 1 year	≥ 1 year	Weighted Value
26 Other assets	46,317	462,901	—	2,358,868	2,327,257	36,317	416,771	—	2,258,117	2,223,319
27 Physical traded commodities including gold	—				—	—				—
28 Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs (including those that are not recorded on consolidated balance sheet)				290,804	247,184				248,416	211,153
29 Derivative assets				297,629	297,629				250,217	250,217
30 Derivative liabilities (before deduction of variation margin posted)				25,048	25,048				16,646	16,646
31 All other assets not included in the above categories	46,317	462,901	—	1,745,387	1,757,396	36,317	416,771	—	1,742,838	1,745,303
32 Off-balance sheet items				137,033	104,574				134,286	107,311
33 Total required stable funding					5,713,587					5,457,139
34 Consolidated net stable funding ratio (NSFR)					148.4%					151.4%

Balance Sheets

DAIWA SECURITIES Co. Ltd.
As of March 31, 2022 and 2021

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Cash and cash deposits:			
Cash and cash equivalents (Note 7)	¥ 1,543,967	¥ 1,494,682	\$ 12,655,467
Cash segregated as deposits for regulatory purposes (Note 7)	466,584	426,580	3,824,459
Time deposits (Note 7)	—	1,000	—
	2,010,551	1,922,262	16,479,926
Receivables:			
Loans receivable from customers (Note 7)	302,950	252,352	2,483,197
Loans receivable from other than customers (Notes 7 and 21)	265,668	216,929	2,177,606
Receivables related to margin transactions (Notes 5 and 7)	172,807	156,605	1,416,451
Short-term guarantee deposits (Note 7)	701,715	549,259	5,751,762
Other (Note 21)	66,043	55,465	541,336
Less: Allowance for doubtful accounts	(94)	(83)	(770)
	1,509,089	1,230,527	12,369,582
Collateralized short-term financing agreements (Notes 6, 7 and 21)			
	5,481,999	4,692,990	44,934,418
Trading assets (Notes 7, 8 ,10 and 21)			
	5,450,688	5,073,677	44,677,770
Trading account receivables, net (Note 7)			
	—	6,513	—
Other assets:			
Property and equipment, at cost	117,997	118,501	967,189
Less: Accumulated depreciation	(71,828)	(71,204)	(588,755)
	46,169	47,297	378,434
Intangible fixed assets	69,305	74,472	568,075
Lease deposits	14,987	15,783	122,844
Investment securities (Notes 7 and 9)	9,967	8,747	81,697
Deferred tax assets (Note 15)	10,638	12,191	87,197
Other (Note 21)	44,704	15,822	366,426
Less: Allowance for doubtful accounts	(2,820)	(2,836)	(23,115)
	192,950	171,476	1,581,558
	¥14,645,277	¥13,097,445	\$120,043,254

See accompanying notes.

Statements of Income

DAIWA SECURITIES Co. Ltd.
Years ended March 31, 2022 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
LIABILITIES AND NET ASSETS			
Debt:			
Short-term borrowings (Notes 7, 10 and 21)	¥ 1,525,100	¥ 1,255,100	\$ 12,500,820
Commercial paper (Note 7)	116,000	265,000	950,820
Long-term debt (Notes 7, 13 and 21)	2,098,764	1,580,335	17,202,983
	3,739,864	3,100,435	30,654,623
Payables:			
Payables to customers and counterparties (Notes 7 and 12)	662,708	652,558	5,432,033
Payables related to margin transactions (Notes 5 and 7)	68,556	63,118	561,934
	731,264	715,676	5,993,967
Collateralized short-term financing agreements			
(Notes 6, 7 and 21)	5,919,073	4,843,328	48,516,992
Trading liabilities (Notes 7, 8 and 21)			
	3,437,090	3,464,270	28,172,868
Trading account payables, net (Note 7)			
	140,111	—	1,148,451
Accrued and other liabilities:			
Income taxes payable	3,541	5,049	29,025
Accrued bonuses	13,437	13,934	110,139
Retirement benefits (Note 14)	32,151	32,634	263,533
Other (Note 21)	114,304	124,016	936,918
	163,433	175,633	1,339,615
Statutory reserves (Note 16)			
Total liabilities	14,134,534	12,303,030	115,856,836
Contingent liabilities (Note 17)			
Net assets:			
Owners' equity (Note 18):			
Common stock, no par value;			
Authorized—810,200 shares			
Issued—810,200 shares	100,000	100,000	819,672
Capital surplus	52,359	352,359	429,172
Retained earnings	356,177	340,170	2,919,484
	508,536	792,529	4,168,328
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	2,207	1,886	18,090
Total net assets	510,743	794,415	4,186,418
	¥14,645,277	¥13,097,445	\$120,043,254

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Operating revenues:			
Commissions (Note 21)	¥200,851	¥186,198	\$1,646,320
Net gain on trading (Note 23)	100,436	102,596	823,246
Interest and dividend income (Note 21)	24,752	26,386	202,885
	326,039	315,180	2,672,451
Interest expense (Note 21)			
	10,932	13,781	89,607
Net operating revenues (Note 20)			
	315,107	301,399	2,582,844
Selling, general and administrative expenses			
(Notes 14 and 24)	239,698	235,750	1,964,737
Operating income			
	75,409	65,649	618,107
Other income (expenses):			
Provision for statutory reserves, net (Note 16)	(11)	217	(90)
Other, net (Note 25)	4,465	(4,209)	36,598
	4,454	(3,992)	36,508
Income before income taxes			
	79,863	61,657	654,615
Income taxes (Note 15):			
Current	21,026	21,007	172,345
Deferred	1,436	(744)	11,770
	22,462	20,263	184,115
Profit			
	¥ 57,401	¥ 41,394	\$ 470,500

		Yen	U.S. dollars (Note 1)
Per share amounts:			
Net income	¥70,848.22	¥51,091.03	\$ 581
Cash dividends applicable to the year (Note 18)	370,279	51,091	3,035

See accompanying notes.

Statements of Changes in Net Assets

DAIWA SECURITIES Co. Ltd.
Years ended March 31, 2022 and 2021

	Number of shares of common stock	Owners' equity			Millions of yen Accumulated other comprehensive income
		Common stock	Capital surplus	Retained earnings	Valuation difference on available-for-sale securities
Balance at March 31, 2020	810,200	¥100,000	¥ 349,920	¥293,461	¥1,546
Profit				41,394	
Cash dividends paid				(11,646)	
Net changes of items other than owners' equity					340
Increase due to business combinations			2,439	16,961	
Balance at March 31, 2021	810,200	¥100,000	¥ 352,359	¥340,170	¥1,886
Profit				57,401	
Cash dividends paid			(300,000)	(41,394)	
Net changes of items other than owners' equity					321
Balance at March 31, 2022	810,200	¥100,000	¥ 52,359	¥356,177	¥2,207

	Thousands of U.S. dollars (Note 1)			
	Owners' equity			Accumulated other comprehensive income
	Common stock	Capital surplus	Retained earnings	
Balance at April 1, 2021	\$819,672	\$ 2,888,189	\$2,788,279	\$15,459
Profit			470,500	
Cash dividends paid		(2,459,017)	(339,295)	
Net changes of items other than owners' equity				2,631
Balance at March 31, 2022	\$819,672	\$ 429,172	\$2,919,484	\$18,090

See accompanying notes.

Statements of Cash Flows

DAIWA SECURITIES Co. Ltd.
Years ended March 31, 2022 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Cash flows from operating activities:			
Profit	¥ 57,401	¥ 41,394	\$ 470,500
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	24,593	23,581	201,582
Allowance for doubtful accounts, net	(6)	(69)	(49)
Provision for retirement benefits, net	(430)	479	(3,525)
Statutory reserves, net	11	—	90
Losses (gains) related to investment securities	(4)	(88)	(33)
Impairment loss	—	2,232	—
Structural reform cost	44	2,378	361
Deferred income taxes	1,436	(744)	11,770
Changes in operating assets and liabilities:			
Receivables and payables related to margin transactions	(10,764)	(40,058)	(88,230)
Short-term guarantee deposits	(152,455)	46,877	(1,249,631)
Other receivables and other payables	(152,206)	52,715	(1,247,590)
Collateralized short-term financing agreements	286,735	320,091	2,350,287
Trading assets and liabilities	(257,568)	(179,554)	(2,111,213)
Other, net	29,106	(21,290)	238,574
Total adjustments	(231,508)	206,550	(1,897,607)
Net cash flows provided by (used in) operating activities	(174,107)	247,944	(1,427,107)
Cash flows from investing activities:			
Increase in time deposits	—	(8,000)	—
Decrease in time deposits	1,000	7,000	8,197
Payments for purchases of property and equipment	(3,487)	(2,125)	(28,582)
Payments for purchases of intangible fixed assets	(16,249)	(19,499)	(133,189)
Payments for purchases of investment securities	(5)	(8)	(41)
Proceeds from sales and redemption of investment securities	104	755	852
Payments for guarantee deposits	(668)	(514)	(5,475)
Proceeds from collection of guarantee deposits	1,572	998	12,885
Payments of loans receivable	(30,000)	—	(245,902)
Other, net	(776)	(672)	(6,360)
Net cash flows provided by (used in) investing activities	(48,509)	(22,065)	(397,615)
Cash flows from financing activities:			
Increase or Decrease in short-term borrowings and commercial paper	121,000	279,450	991,803
Increase in long-term debt	1,103,508	664,497	9,045,148
Decrease in long-term debt	(611,213)	(645,307)	(5,009,942)
Payments of cash dividends	(341,394)	(11,646)	(2,798,312)
Net cash flows provided by (used in) financing activities	271,901	286,994	2,228,697
Net increase in cash and cash equivalents	49,285	512,873	403,975
Cash and cash equivalents at beginning of year	1,494,682	981,809	12,251,492
Cash and cash equivalents at end of year	¥1,543,967	¥1,494,682	\$12,655,467

See accompanying notes.

Notes to Financial Statements

DAIWA SECURITIES Co. Ltd.
Years ended March 31, 2022 and 2021

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, 2022, which was ¥122 to U.S.\$1. The convenience translations should not be construed as representations that the yen amounts have been, could have been, or could be, converted into U.S. dollars at this or any other rate of exchange.

2. Significant accounting policies

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

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

Securities other than trading assets and trading liabilities—The Company examines the intent of holding investments and classifies those investments as (a) debt securities intended to be held to maturity (“Held-to-maturity debt securities”) which are carried at amortized cost, (b) other marketable securities available for sale (marketable “Available-for-sale securities”) which are stated at their fair values based on quoted market closing prices with unrealized gain or loss reported in a separate component within the net assets on a net-of-tax basis, or (c) other non-marketable investments (non-marketable “Available-for-sale securities”) which are carried at cost. Investment business partnerships (“Toshi jigyo kumiai”) which are regarded as equivalent to securities by Article 2(2) of the Financial Instruments and Exchange Act are reported as “Investment securities” in the

financial statements in proportion to the Company’s share of the investment business partnership and designated as “Available-for-sale-securities.” The cost of those investments is determined by the moving average method.

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

Collateralized short-term financing agreements—

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

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

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

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

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

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

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

The Company also has a defined contribution plan for which an annual contribution is charged to expense.

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

Income taxes—Income taxes consist of corporation, enterprise and inhabitant’s 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 lawsuits, 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.

Accounting standard for recognition of significant revenues and expenses—The Company recognizes revenues at the amount expected to be received in exchange for promised goods or services at the time when control of the relevant goods or services is transferred to the customers. In relation to recognition of revenue from contracts with customers, the nature of principal performance obligations for major businesses of the Company and typical timing for the satisfaction of those performance obligations (i.e., typical timing of revenue recognition) are described in Note 19 “Revenue recognition.”

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 tax sharing system
The Company will transition from the consolidated taxation system to the group tax sharing system from the fiscal year ending March 31, 2023. Due to the provisions of

“Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (PITF No. 39, March 31, 2020) paragraph 3, the Company does not apply Paragraph 44 of “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28, February 16, 2018), but applies the provisions of the pre-amended tax laws, when calculating the amounts of deferred tax assets and liabilities regarding the transition to the group tax sharing system which was established by the “Act for Partial Revision of the Income Tax Act etc.” and amendments of the single tax payment system.

“Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System” (PITF No. 42, August 12, 2021), which sets out accounting and disclosure of corporation and local taxes and tax effect accounting under the group tax sharing system, will be applied from the beginning of the fiscal year ending March 31, 2023.

3. Change in accounting policy

The Company applies the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29 revised on March 31, 2020, hereinafter referred to as the “Revenue Recognition Standard”) from the beginning of the fiscal year ended March 31, 2022, under which revenues are recognized at the amount expected to be received in exchange for promised goods or services at the time when control of the relevant

4. 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 98.9 billion yen and 17 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

Unapplied accounting standard

- “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, June 17, 2021)

(a) Overview

The treatment of measurement of Fair value for investment funds was determined. Also, the treatment of the note on Fair value for investment funds and partnerships (the net amount equivalent to the equity interest in the balance sheets is recognized), etc., was determined.

(b) Application date

The Company applies the standards from the beginning of the fiscal year ending March 31, 2023.

(c) Impact of application

There is no impact for the financial statements due to this application.

goods or services has been transferred to the customer.

There is no significant impact for the current fiscal year.

The information on disaggregation of revenue from contracts with customers relevant to the year ended March 31, 2021 is not provided in accordance with the transitional provision set out in paragraph 89-3 of ASBJ Guidance No. 29.

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.

5. Margin transactions

Margin transactions at March 31, 2022 and 2021 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Assets:			
Loans on margin transactions	¥165,976	¥146,648	\$1,360,459
Cash collateral pledged for securities borrowing on margin transactions	6,831	9,957	55,992
	¥172,807	¥156,605	\$1,416,451
Liabilities:			
Borrowings on margin transactions	¥ 3,595	¥ 3,293	\$ 29,467
Cash received for securities lending on margin transactions	64,961	59,825	532,467
	¥ 68,556	¥ 63,118	\$ 561,934

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.

6. Collateralized short-term financing agreements

Collateralized short-term financing agreements at March 31, 2022 and 2021 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Assets:			
Securities purchased under agreements to resell	¥3,198,807	¥2,433,269	\$26,219,729
Securities borrowed	2,283,192	2,259,721	18,714,689
	¥5,481,999	¥4,692,990	\$44,934,418
Liabilities:			
Securities sold under agreements to repurchase	¥5,500,712	¥3,990,280	\$45,087,803
Securities loaned	418,361	853,048	3,429,189
	¥5,919,073	¥4,843,328	\$48,516,992

7. 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 riskThe 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, 2022 (fiscal year-end) was ¥1.7 billion (\$13.9 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

The fair value evaluation models for trading products are used under the model risk management system, after undergoing the verification/approval process. In addition, in line with changes in market conditions, the Company regularly conducts reviews for fair value evaluation models to match 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, 2022, if the index, such as TOPIX, were to change by 10%, market prices of the listed equities in “Investment securities” would fluctuate by ¥0.4 billion (\$3.3 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, 2022, 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 ¥0.06 billion (\$0.5 million) and ¥3.2 billion (\$26.2 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

Since certain assumptions are used in the calculation of the fair value of financial instruments, the prices may fluctuate if different assumptions are used.

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, July 4, 2019, 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				
2022				
Fair Value				
	Level 1	Level 2	Level 3	Total
Assets				
(1) Trading products				
[1] Trading securities and other				
Equities	¥ 112,435	¥ 15	¥ 73	¥ 112,523
Government bonds, corporate bonds, etc.	2,255,260	189,524	—	2,444,784
General business bonds	691	445,250	20	445,961
Foreign bonds	29,626	201,001	48,064	278,691
Other	—	—	995	995
[2] Derivative transactions				
Equity	64,139	168,681	82,180	315,000
Interest rate	1,099	1,142,124	5,008	1,148,231
Currency	—	544,876	3,568	548,444
Credit / other	12	32,664	8,179	40,855
(2) Securities and investment securities				
Other securities				
Equities	3,544	—	—	3,544
Total assets	¥2,466,806	¥2,724,135	¥148,087	¥5,339,028
Liabilities				
(1) Trading products				
[1] Trading securities and other				
Equities	¥ 145,974	¥ —	¥ —	¥ 145,974
Government bonds, corporate bonds, etc.	1,221,603	159	—	1,221,762
Foreign bonds	88,561	58	—	88,619
[2] Derivative transactions				
Equity	137,611	184,789	5,843	328,243
Interest rate	352	1,112,400	4,677	1,117,429
Currency	—	481,733	444	482,177
Credit / other	—	39,610	6,061	45,671
Total liabilities	¥1,594,101	¥1,818,749	¥17,025	¥3,429,875

Thousands of U.S. dollars				
2022				
Fair Value				
	Level 1	Level 2	Level 3	Total
Assets				
(1) Trading products				
[1] Trading securities and other				
Equities	\$ 921,598	\$ 123	\$ 598	\$ 922,319
Government bonds, corporate bonds, etc.	18,485,738	1,553,475	—	20,039,213
General business bonds	5,664	3,649,590	164	3,655,418
Foreign bonds	242,836	1,647,549	393,967	2,284,352
Other	—	—	8,156	8,156
[2] Derivative transactions				
Equity	525,730	1,382,631	673,607	2,581,968
Interest rate	9,008	9,361,672	41,049	9,411,729
Currency	—	4,466,197	29,246	4,495,443
Credit / other	98	267,738	67,041	334,877
(2) Securities and investment securities				
Other securities				
Equities	29,049	—	—	29,049
Total assets	\$20,219,721	\$22,328,975	\$1,213,828	\$43,762,524

Liabilities

(1) Trading products				
[1] Trading securities and other				
Equities	\$ 1,196,508	\$ —	\$ —	\$ 1,196,508
Government bonds, corporate bonds, etc.	10,013,139	1,304	—	10,014,443
Foreign bonds	725,910	475	—	726,385
[2] Derivative transactions				
Equity	1,127,959	1,514,664	47,894	2,690,517
Interest rate	2,885	9,118,033	38,336	9,159,254
Currency	—	3,948,631	3,639	3,952,270
Credit / other	—	324,672	49,680	374,352
Total liabilities	\$13,066,401	\$14,907,779	\$ 139,549	\$28,113,729

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 ¥115,204 million (\$944,295 thousand) in assets and ¥7,215 million in liabilities (\$59,139 thousand) booked in “Trading securities and other.”

Millions of yen				
2021				
Fair Value				
	Level 1	Level 2	Level 3	Total
Assets				
(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

Liabilities

(1) Trading products				
[1] Trading securities and other				
Equities	¥ 153,025	¥ 2,076	¥ —	¥ 1 55,101
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

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 in assets and ¥4 million in liabilities booked in “Trading securities and other.”

(2) Financial instruments other than those booked on the balance sheet at fair value

Millions of yen						
2022						
Fair Value						
	Level 1	Level 2	Level 3	Total	Amounts on balance sheet	Difference total
Liabilities						
Long-term debt	¥—	¥2,100,120	¥—	¥2,100,120	¥2,098,764	¥(1,356)
Total liabilities	¥—	¥2,100,120	¥—	¥2,100,120	¥2,098,764	¥(1,356)

Thousands of U.S. dollars						
2022						
Fair Value						
	Level 1	Level 2	Level 3	Total	Amounts on balance sheet	Difference total
Liabilities						
Long-term debt	\$—	\$17,214,098	\$—	\$17,214,098	\$17,202,983	\$(11,115)
Total liabilities	\$—	\$17,214,098	\$—	\$17,214,098	\$17,202,983	\$(11,115)

	Millions of yen					
	2021					
	Fair Value			Amounts on balance sheet	Difference total	
	Level 1	Level 2	Level 3			
Liabilities						
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)

“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

2022			
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	0.08-2.8%
		Currency basis	(0.8)-0.3%
Equity		Stock price volatility	18.4-20.6%
Credit / other		Credit spread	0.03-4.2%
		Correlation coefficient	(0.08)-0.95

2021			
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 gain/loss recognized in gain/loss for the current fiscal year (the previous 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		
	2022		
	Trading securities and other (Asset)	Derivative transactions (Net amount)	Total
Balance at the beginning of the period	¥ 6,141	¥27,116	¥ 33,257
Gain / loss for the current fiscal year			
Recorded in gain and loss ²	1,318	30,025	31,343
Purchase, sale, issuance and settlement			
Purchase	125,913	4,776	130,689
Sale	(93,870)	(15)	(93,885)
Issuance	—	—	—
Settlement	—	22,428	22,428
Transfer to Level 3 fair value ^{1, 4}	13,542	27	13,569
Transfer from Level 3 fair value ^{1, 5}	(3,892)	(2,446)	(6,338)
Balance at the end of the period	49,152	81,911	131,063
Unrealized gain / loss on financial instruments held on the balance sheet which is booked in gain / loss for the current fiscal year ³	316	52,453	52,769

	Thousands of U.S. dollars		
	2022		
	Trading securities and other (Asset)	Derivative transactions (Net amount)	Total
Balance at the beginning of the period	\$ 50,336	\$222,262	\$ 272,598
Gain / loss for the current fiscal year			
Recorded in gain and loss ²	10,803	246,107	256,910
Purchase, sale, issuance and settlement			
Purchase	1,032,074	39,148	1,071,222
Sale	(769,426)	(123)	(769,549)
Issuance	—	—	—
Settlement	—	183,836	183,836
Transfer to Level 3 fair value ^{1, 4}	111,000	221	111,221
Transfer from Level 3 fair value ^{1, 5}	(31,902)	(20,049)	(51,951)
Balance at the end of the period	402,885	671,402	1,074,287
Unrealized gain / loss on financial instruments held on the balance sheet which is booked in gain / loss for the current fiscal year ³	2,590	429,943	432,533

1 Transfers between levels are recognized at the beginning of the period.
2 Gain and loss related to “Trading securities and other (Assets),” and “Derivative transactions (Net amount)” are included in “Net gain on trading.”
3 Unrealized gain / loss 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 gain and loss 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.

	Millions of yen		
	2021		
	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 previous fiscal year			
Recorded in gain and loss ²	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 ^{1, 4}	8,118	(1,111)	7,007
Transfer from Level 3 fair value ^{1, 5}	(10,770)	(14,246)	(25,016)
Balance at the end of the period	6,141	27,116	33,257
Unrealized gain / loss on financial instruments held on the balance sheet which is booked in gain / loss for the previous fiscal year ³	16	(27,166)	(27,150)

1 Transfers between levels are recognized at the beginning of the period.
2 Gain and loss related to “Trading securities and other (Assets),” and “Derivative transactions (Net amount)” are included in “Net gain on trading.”
3 Unrealized gain / loss 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 gain and loss 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 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		
	2022		
	Fair value	Positive fair value fluctuations	Negative fair value fluctuations
Derivatives	¥81,911	¥2,097	¥2,097

	Thousands of U.S. dollars		
	2022		
	Fair value	Positive fair value fluctuations	Negative fair value fluctuations
Derivatives	\$671,402	\$17,189	\$17,189

	Millions of yen		
	2021		
	Fair value	Positive fair value fluctuations	Negative fair value fluctuations
Derivatives	¥27,116	¥1,444	¥1,444

(Note 3) In the previous 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
	2021
Subsidiaries’ stocks and related companies’ stocks	
Unlisted stocks ¹	¥1,110
Other securities	
Unlisted stocks ¹	2,985
Partnership investments, etc. ²	1,337

1 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 Disclosures about Fair Value of Financial Instruments” (ASBJ Guideline No. 19, March 31, 2020).

2 Partnership investment, etc., are not subject to fair value disclosure in accordance with Article 27 of the Fair Value Measurement Implementation Guidance.

(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
	2022	2022
Subsidiaries’ stocks and related companies’ stocks		
Unlisted stocks ¹	¥1,110	\$ 9,099
Other securities		
Unlisted stocks ¹	3,001	24,598
Partnership investments, etc. ²	2,312	18,951

1 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 Disclosures about Fair Value of Financial Instruments” (ASBJ Guideline No. 19, March 31, 2020).

2 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, 2022
There is no applicable matter.

(Note 6) Scheduled redemption amount of long-term debt after March 31, 2022:

	Millions of yen			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Long-term debt	¥365,984	¥841,479	¥589,962	¥301,339
Total	¥365,984	¥841,479	¥589,962	¥301,339

	Thousands of U.S. dollars			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Long-term debt	\$2,999,869	\$6,897,369	\$4,835,754	\$2,469,991
Total	\$2,999,869	\$6,897,369	\$4,835,754	\$2,469,991

8. Trading assets and trading liabilities

Trading assets and trading liabilities at March 31, 2022 and 2021 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Trading assets:			
Trading securities:			
Equities	¥ 112,523	¥ 93,085	\$ 922,320
Government, corporate and other bonds	3,169,437	2,354,928	25,978,990
Investment trusts	115,204	215,383	944,295
Commercial paper, certificates of deposits and others	995	2,261	8,157
Derivatives:			
Equity transactions	314,999	208,515	2,581,959
Interest transactions	1,148,231	1,672,325	9,411,729
Currency transactions	548,444	506,213	4,495,443
Credit and others	40,855	20,967	334,877
	¥5,450,688	¥5,073,677	\$44,677,770

Trading liabilities:

Trading securities:			
Equities	¥ 145,974	¥ 155,101	\$ 1,196,508
Government, corporate and other bonds	1,310,382	1,009,893	10,740,836
Investment trusts	7,214	5	59,131
Derivatives:			
Equity transactions	328,243	219,588	2,690,516
Interest transactions	1,117,429	1,607,882	9,159,255
Currency transactions	482,177	440,940	3,952,270
Credit and others	45,671	30,861	374,352
	¥3,437,090	¥3,464,270	\$28,172,868

Government, corporate and other bonds include convertible bonds.

9. Securities other than trading assets

Cost and fair value of marketable securities as of March 31, 2022 and 2021 consisted of the following:

	Millions of yen		
	Cost	Fair value	Difference
March 31, 2022:			
Equities	¥1,019	¥3,544	¥2,525
Bonds	—	—	—
	¥1,019	¥3,544	¥2,525

March 31, 2021:			
Equities	¥1,019	¥3,315	¥2,296
Bonds	—	—	—
	¥1,019	¥3,315	¥2,296

	Thousands of U.S. dollars		
	Cost	Fair value	Difference
March 31, 2022:			
Equities	\$8,352	\$29,049	\$20,697
Bonds	—	—	—
	\$8,352	\$29,049	\$20,697

Cost/amortized cost of non-marketable securities as of March 31, 2022 and 2021 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2022	2021
Other securities:		
Unlisted equities	¥4,111	¥4,095
Investments in limited partnership and other similar partnerships	232	216
Other	2,080	1,121
	¥6,423	¥5,432

10. Pledged assets

Secured obligations at March 31, 2022 and 2021 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2022	2021
Short-term borrowings	¥135,100	¥100,100
	¥135,100	¥100,100

The above obligations at March 31, 2022 and 2021 were secured by the following assets:

	Millions of yen	Thousands of U.S. dollars
	2022	2021
Trading assets	¥551,102	¥417,560
	¥551,102	¥417,560

In addition to the above, securities borrowed amounting to ¥29,066 million (\$238,246 thousand) and ¥28,967 million were pledged as guarantees at March 31, 2022 and 2021, respectively.

Total fair value of the securities pledged as collateral at March 31, 2022 and 2021 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2022	2021
Securities loaned	¥ 418,014	¥ 851,631
Securities sold under agreements to repurchase	5,240,839	3,524,973
Other	404,627	365,365
	¥6,063,480	¥4,741,969

Total fair value of the securities received as collateral at March 31, 2022 and 2021 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2022	2021
Securities borrowed	¥2,299,255	¥2,250,216
Securities purchased under agreements to resell	2,925,212	1,954,354
Other	278,809	259,203
	¥5,503,276	¥4,463,773

11. Lease transactions

The information concerning operating leases at March 31, 2022 and 2021 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2022	2021
Operating leases:		
Future lease payments in respect of operating leases	¥46,023	¥53,136
Due within one year	9,004	8,845

12. Payables to customers and counterparties

Payables to customers and counterparties at March 31, 2022 and 2021 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2022	2021
Deposits from customers	¥331,558	¥288,278
Guarantee deposits received	328,250	359,538
Other	2,900	4,742
	¥662,708	¥652,558

13. Long-term debt

Long-term debt as of March 31, 2022 and 2021 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2022	2021
Bond payable in yen: 2.16% due CY2025	¥ 7,800	¥ 7,800
Bond payable in yen: 2.41% due CY2026	3,000	3,000
Bond payable in yen: 2.24% due CY2026	5,000	5,000
Bond payable in yen: 0.24% due CY2038	2,000	2,000
Medium-term notes maturing through CY2052	1,053,605	813,813
Subordinated borrowings in yen maturing through CY2032	350,000	50,000
Long-term borrowings in yen maturing through CY2049	677,359	698,722
	¥2,098,764	¥1,580,335

The amount for medium-term notes as of March 31, 2022 includes U.S.\$741,086 thousand of foreign-currency notes.

14. Retirement benefits

Retirement benefits for employees

(1) Defined benefit plans

Retirement benefits in the balance sheets as of March 31, 2022 and 2021 are ¥32,146 million (\$263,492 thousand)

and ¥32,576 million, respectively. Benefit expenses stated in the statements of income for the years ended March 31, 2022 and 2021 were ¥2,618 million (\$21,459 thousand) and ¥2,677 million, respectively.

Movement in retirement benefit obligations consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2022	2021
At beginning of period	¥32,576	¥32,097
Service cost	2,618	2,677
Benefits paid	(3,294)	(2,475)
Other	246	277
At end of period	¥32,146	¥32,576

(2) Defined contribution plan

Benefit expenses to “Defined contribution” for the years ended March 31, 2022 and 2021 were ¥2,438 million (\$19,984 thousand) and ¥2,408 million, respectively.

Retirement benefits for directors

Directors’ and corporate auditors’ retirement benefits of ¥5 million (\$41 thousand) and ¥58 million are included in “Retirement benefits” in the accompanying balance sheets as of March 31, 2022 and 2021. Benefit expenses (incomes) stated in the statements of income for the years ended March 31, 2022 and 2021 were ¥(30) million (\$(246) thousand) and ¥9 million, respectively.

15. 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, 2022 and 2021 is as follows:

	2022	2021
Statutory tax rate:	30.6%	30.6%
Valuation allowance	(2.9)	1.5
Permanent difference (expense)	0.6	0.8
Permanent difference (income)	(0.2)	(0.2)
Other	0.0	0.2
Effective tax rate	28.1%	32.9%

Details of deferred tax assets and liabilities as of March 31, 2022 and 2021 are as follows:

	2022	Millions of yen 2021	Thousands of U.S. dollars 2022
Deferred tax assets:			
Impairment losses	¥ 11,549	¥ 12,013	\$ 94,664
Retirement benefits	9,845	9,992	80,697
Compensation and bonuses	3,936	4,068	32,262
Asset retirement obligations	2,257	2,579	18,500
Loss on trading	1,211	2,008	9,926
Statutory reserves	1,133	1,129	9,287
Enterprise tax and Office taxes	883	1,180	7,238
Loss on valuation of investment securities	408	700	3,344
Excess depreciation	295	330	2,418
Other	5,522	6,772	45,262
Gross deferred tax assets	37,039	40,771	303,598
Less: Valuation allowance	(24,682)	(27,050)	(202,311)
Total deferred tax assets	12,357	13,721	101,287
Deferred tax liabilities	1,719	1,530	14,090
Net deferred tax assets	¥ 10,638	¥ 12,191	\$ 87,197

The Company provided a valuation allowance to reflect the estimated unrealized amount of gross deferred tax assets.

16. 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.

17. Contingent liabilities

The outstanding balances of the guarantees obligated by the Company arising as guarantors of employees’ borrowings were ¥5 million (\$41 thousand) and ¥15 million at March 31, 2022 and 2021, respectively. The outstanding balances of the

guarantees obligated by the Company arising as guarantors of derivative transactions of fellow subsidiaries were ¥88 million (\$721 thousand) and ¥376 million at March 31, 2022 and 2021, respectively.

18. 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.

Extra cash dividends of ¥370,279 (\$3,035) per share amounting to ¥300,000 million (\$2,459,017 thousand) were approved by the extraordinary shareholders’ meeting on March 18, 2022. Payment of the dividends has already been completed on March 25, 2022.

19. Revenue recognition

1. Disaggregation of revenue from contracts with customers

	2022	Millions of yen 2021	Thousands of U.S. dollars 2022
Commission received:	¥200,851	¥186,198	\$1,646,320
Brokerage commission	57,631	58,322	472,385
Commission for underwriting, secondary distribution and solicitation for selling and others for professional investors	32,946	33,830	270,049
Fees for offering, secondary distribution and solicitation for selling and others for professional investors	21,122	19,005	173,131
Other fees received	89,152	75,041	730,755

Disaggregation of revenue from contracts with customers is presented in Note 20 “Segment information.”

2. Basic information for understanding revenue

The Company provides a wide range of services and recognizes its main sources of revenue as follows. Contracts including significant financing components are not included below.

Brokerage commission—The Company has obligations to provide trade execution services, etc., based on the stipulations and provisions of the transactions agreements entered into with customers. As these performance obligations are satisfied when the Company executes an order, revenues are recognized at the point of execution (at a point in time).

Regarding the typical payment term, payment is received within several days of the execution date, which is the date the performance obligations has been satisfied.

Commission for underwriting, secondary distribution and exclusive offer to sell, etc. to professional investors—The Company has obligations to provide underwriting and secondary distribution services, etc., based on contracts with securities issuing companies. As these performance obligations are satisfied when underwriting conditions for underwriting contracts have been determined and when requirements for the measurement of market risk by

underwriters have been set, revenues are recognized when the relevant business is complete (at a point in time), such as the date the conditions are determined. Regarding the typical payment term, payment is received between the determination date of underwriting contracts and the payment date or delivery date to the issuing company, etc., when the performance obligation has been satisfied.

Fees for offering, secondary distribution and exclusive offer to sell, etc. to professional investors, etc.—The Company has obligations to provide offering and secondary distribution services, etc. based on contracts with securities underwriting companies. As these performance obligations are satisfied when the application to the offerings, etc., is completed, revenues are recognized when the relevant business is complete (at a point in time), such as the date of the registration offering, etc. Regarding the typical payment term, payment is received between the date of the registration offering, etc. and the date of payment or delivery, which is the date the performance obligations have been satisfied.

Other fees received includes commission received from a range of services, with the main sources of revenue coming from agency fees, M&A-related fees, and investment advisory and trade management fees.

Agency fees—The Company has obligations to provide agency services for the handling of offering and sale, etc., based on mainly contracts entered into with investment trust companies. Transaction prices are calculated based on the net assets, etc., of the investment trust. As these performance obligations are satisfied when the benefit is consumed by customers as the company provides services on a daily basis, revenues are recognized over time. Regarding the typical payment term, in most cases, payment is received within several days of the fiscal year end of the investment trust, etc.

M&A-related fees—The Company has obligations to provide advisory services including proposals, advice, price calculations, and document preparation support. For transaction prices, there are cases where contingency fees are set in addition to fixed fees, and the amount of consideration may be variable. Regarding the amount of consideration when setting contingency fees, normally, as

the amount is highly influenced by various factors beyond the control of the Company, and as the Company cannot be certain that it is highly possible that a significant decline in revenue will not occur, only the fees that have been fixed by the end of the current fiscal year are recognized in the transaction price. For such fees, revenues are recognized upon completion of the service (at a point in time). Regarding the typical payment term, payment is received by the end of the month after the month in which the service is completed. In these contracts, when non-repayable prepaid payments for future services have been received, revenues are recognized when the Company provides the service.

Investment advisory and trade management fees—The Company has obligations to provide asset management services based on discretionary investment contracts. Transaction prices are calculated based on the fair value of the contract asset balances, the net assets of funds, and excessive performance, etc. As these performance obligations are satisfied when the benefit is consumed by customers as the company provides services on a daily basis, revenues are recognized over time. Regarding the typical payment term, payment is received between the reference date of fee calculation and the end of the following month.

3. Information on the Amount of Revenue from the Current Fiscal Year and After the Current Fiscal Year End Date
(1) Contract balances

The breakdown of contract balance is as follows.

Receivables from contracts with customers and contract liabilities are recorded under “Receivables—Other” and “Accrued and other liabilities—Other,” respectively, on the balance sheet.

In the transactions for which the Company has received consideration from a customer (or the payment of consideration is due), there are no significant transactions to fulfill its obligation to transfer a good or service to a customer exceeds one year, and balance of the contract liabilities at beginning of the period is recognized as revenue for the current fiscal year. In addition, there are no material revenue amounts recognized from the performance obligations which were satisfied (or partially satisfied) in the prior periods.

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Receivables from contracts with customers	¥11,235	¥10,692	\$92,090
Contract liabilities	3,136	2,785	25,705

(2) Transaction price allocated to the remaining performance obligations

Since there are no significant transactions with an initial expected contract period of more than one year, the

Company has omitted disclosure of remaining performance obligations. In addition, there are no material amounts of consideration in the contract with the customers that are not included in the transaction price.

20. Segment information

The Company defines reportable segments as a group of operating segments whose discrete financial information is available and reviewed by the Company’s management regularly in order to make decisions about resources to be allocated and assess their performance. The Company decides operating segments by business market and business category based on organization structure and aggregates to two reporting segments: “Retail sales” and “Domestic wholesale.”

“Retail sales” provides broad types of products and

services mainly to individual and unlisted corporate customers. “Domestic wholesale” consists of “Global markets” and “Global investment banking.” “Global markets” sells and trades stock, bonds, foreign exchange and the other derivatives mainly to institutional investors and investors of business, financial and public-interest corporations both at home and abroad. “Global investment banking” provides various investment banking services such as underwriting of securities and advisory of M&A, etc., at home and abroad.

(Net operating revenues by reportable segment)

	Millions of yen				
	Retail sales	Domestic wholesale	Reportable segment total	Others	Total
Year ended March 31, 2022:					
Revenue from customer contracts	¥144,680	¥ 56,171	¥200,851	¥ —	¥200,851
Commission received	144,680	56,171	200,851	—	200,851
Net trading income and other	39,908	72,464	112,372	—	112,372
Other	(103)	(62)	(165)	(5,725)	(5,890)
Net operating revenues:					
Sales to customers	184,485	128,573	313,058	(5,725)	307,333
Intersegment sales and transfers	—	—	—	—	—
Total	¥184,485	¥128,573	¥313,058	¥(5,725)	¥307,333

	Millions of yen				
	Retail sales	Domestic wholesale	Reportable segment total	Others	Total
Year ended March 31, 2021:					
Net operating revenues:					
Sales to customers	¥165,145	¥135,996	¥301,141	¥(6,857)	¥294,284
Intersegment sales and transfers	—	—	—	—	—
Total	¥165,145	¥135,996	¥301,141	¥(6,857)	¥294,284

	Thousands of U.S. dollars				
	Retail sales	Domestic wholesale	Reportable segment total	Others	Total
Year ended March 31, 2022:					
Revenue from customer contracts	\$1,185,902	\$ 460,418	\$1,646,320	\$ —	\$1,646,320
Commission received	1,185,902	460,418	1,646,320	—	1,646,320
Net trading income and other	327,115	593,967	921,082	—	921,082
Other	(844)	(508)	(1,352)	(46,926)	(48,278)
Net operating revenues:					
Sales to customers	1,512,172	1,053,877	2,566,049	(46,926)	2,519,123
Intersegment sales and transfers	—	—	—	—	—
Total	\$1,512,172	\$1,053,877	\$2,566,049	\$(46,926)	\$2,519,123

* “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
	2022	2021	2022
Net operating revenues	¥313,058	¥301,141	\$2,566,049
Reportable segment total	¥313,058	¥301,141	\$2,566,049
Net operating revenues from “Others”	(5,725)	(6,857)	(46,926)
Commission fee deducted from net operating revenues	10,029	8,838	82,205
Other adjustments	(2,255)	(1,723)	(18,484)
Net operating revenues of financial statements	¥315,107	¥301,399	\$2,582,844

(Impairment losses on fixed assets by reportable segment)

- Fiscal year ended March 31, 2022
Not applicable.
- Fiscal year ended March 31, 2021
The impairment losses recognized on fixed assets in “Others” are ¥2,232 million.

(Gains on negative goodwill by reportable segment)

Not applicable.

21. Transactions with related parties

The information on the Company's material transactions with its related parties and individuals for the years ended March 31, 2022 and 2021, and the resulting account balances with those related parties at the balance sheet dates are as follows:

		Description of transactions		Account balances	
				Millions of yen	
Name of related company	Paid-in Capital			2022	
Daiwa Securities Group Inc.	¥247,397 million	Recurring transactions of loans		Loans receivable from other than customers	
		Interest income (Note 4)	¥ 4		¥ 30,000
		Proceeds from Borrowings		Short-term borrowings	
		Interest expense (Note 1)	¥ 5,918	Long-term debt	
				Accrued and other liabilities—Other	
		Acceptance of rent, etc. (Note 2)	¥ 3,003	Other assets—Other	
Daiwa Capital Markets Europe Limited	£732 million	Recurring transactions of collateralized short-term financial agreements		Collateralized short-term financing agreements (Assets)	
		Interest income (Note 4)	¥ 38	Collateralized short-term financing agreements (Liabilities)	
		Interest expense (Note 4)	(545)		
		Recurring transactions of loans		Loans receivable from other than customers	
		Interest income (Note 4)	¥ 581	Receivables—Other	
		Recurring transactions of purchase and sale of securities (Notes 3, 4)			
		Recurring transactions of derivatives (Notes 3, 4)		Trading assets	
Daiwa Capital Markets America Inc.	\$100 million			Trading liabilities	
		Recurring transactions of collateralized short-term financial agreements		Collateralized short-term financing agreements (Assets)	
		Interest income (Note 4)	¥ (145)	Collateralized short-term financing agreements (Liabilities)	
		Interest expense (Note 4)	2,214		
		Recurring transactions of loans		Loans receivable from other than customers	
		Interest income (Note 4)	¥ 405	Receivables—Other	
		Recurring transactions of purchase and sale of securities (Notes 3, 4)			
Daiwa Asset Management Co. Ltd.	¥15,174 million	Recurring transactions of derivatives (Notes 3, 4)		Trading assets	
				Trading liabilities	
		Agency service agreement for investment trust funds		Receivables—Other	
Daiwa Next Bank, Ltd.	¥50,000 million	Commissions (Note 4)		¥15,348	
		Recurring transactions of collateralized short-term financial agreements		Collateralized short-term financing agreements (Assets)	
		Interest income (Note 4)	¥ 3		
		Interest expense (Note 4)			
		Recurring transactions of purchase and sale of securities (Notes 3, 4)			
		Recurring transactions of derivatives (Notes 3, 4)		Trading assets	
		Trading liabilities			

* “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
				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
Daiwa Capital Markets Europe Limited	£732 million			¥ 1,501
		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
			Receivables—Other	180
		Interest income (Note 4)		¥ 1,368
		Recurring transactions of purchase and sale of securities (Notes 3, 4)		—
		Recurring transactions of derivatives (Notes 3, 4)	Trading assets	¥ 41,659
			Trading liabilities	48,769
Daiwa Capital Markets America Inc.	\$100 million	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)		974
		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

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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) 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
				Thousands of U.S. dollars
				2022
Daiwa Securities Group Inc.	¥247,397 million	Recurring transactions of loans	Loans receivable from other than customers	\$ 245,902
		Interest income (Note 4)		\$ 33
		Proceeds from Borrowings	Short-term borrowings	\$ —
		Interest expense (Note 1)	Long-term debt	\$ 5,516,877
Daiwa Capital Markets Europe Limited	£732 million		Accrued and other liabilities—Other	17,443
		Acceptance of rent, etc. (Note 2)	Other assets—Other	\$ 37,393
				\$ 24,615
		Recurring transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	\$ 23,770
		Interest income (Note 4)	Collateralized short-term financing agreements (Liabilities)	2,085,779
		Interest expense (Note 4)		(4,467)
		Recurring transactions of loans	Loans receivable from other than customers	\$ 910,902
			Receivables—Other	648
		Interest income (Note 4)		\$ 4,762
		Recurring transactions of purchase and sale of securities (Notes 3,4)		—
Daiwa Capital Markets America Inc.	\$100 million	Recurring transactions of derivatives (Notes 3,4)	Trading assets	\$ 273,730
			Trading liabilities	311,787
		Recurring transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	\$1,692,057
		Interest income (Note 4)	Collateralized short-term financing agreements (Liabilities)	3,979,180
Daiwa Asset Management Co. Ltd.	¥15,174 million	Interest expense (Note 4)		18,148
		Recurring transactions of loans	Loans receivable from other than customers	\$1,122,369
			Receivables—Other	287
		Interest income (Note 4)		\$ 3,320
Daiwa Next Bank, Ltd.	¥50,000 million	Recurring transactions of purchase and sale of securities (Notes 3,4)		—
		Recurring transactions of derivatives (Notes 3,4)	Trading assets	\$ 21,557
			Trading liabilities	8
		Agency service agreement for investment trust funds	Receivables—Other	\$ 24,844
		Commissions (Note 4)		\$125,803
		Recurring transactions of collateralized short-term financial agreements	Collateralized short-term financing agreements (Assets)	\$ 47,041
Daiwa Next Bank, Ltd.	¥50,000 million	Interest income (Note 4)		\$ 25
		Interest expense (Note 4)		—
		Recurring transactions of purchase and sale of securities (Notes 3,4)		—
		Recurring transactions of derivatives (Notes 3,4)	Trading assets	\$ 180
Daiwa Asset Management Co. Ltd.	¥15,174 million		Trading liabilities	11,975
				—

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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) 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.

22. Special purpose entities subject to disclosure

The Company utilized six special purpose entities for the year ended March 31, 2022 (six for the year ended March 31, 2021) 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, 2022 and 2021 are ¥731,417 million (\$5,995,221 thousand) and ¥748,788 million, respectively.

23. Net gain on trading

Net gain on trading for the years ended March 31, 2022 and 2021 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Equities and others	¥ 67,750	¥ 57,590	\$555,328
Bonds, forex and others	32,686	45,006	267,918
	¥100,436	¥102,596	\$823,246

24. Selling, general and administrative expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2022 and 2021 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Employees' compensation and benefits	¥ 98,499	¥ 96,845	\$ 807,369
Commissions and brokerage	21,747	20,249	178,254
Communications	10,384	10,225	85,115
Occupancy and rental	21,596	24,194	177,016
Data processing and office supplies	49,702	47,190	407,393
Taxes other than income taxes	4,392	4,583	36,000
Depreciation	23,594	23,081	193,393
Other	9,784	9,383	80,197
	¥239,698	¥235,750	\$1,964,737

25. Other income (expenses)

Details of "Other, net" in the accompanying statements of income for the years ended March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Rental income from real estate	¥ 6,287	¥ 3,203	\$ 51,533
Rental costs on real estate	(5,465)	(2,844)	(44,795)
Gains on sales of investment securities	4	88	33
Reversal of provision for loss on litigation	710	—	5,820
Structural reform cost	(44)	(2,378)	(361)
Impairment loss	—	(2,232)	—
Other	2,973	(46)	24,368
	¥ 4,465	¥(4,209)	\$ 36,598

Impairment loss

(Fiscal year ended March 31, 2022)

Not applicable.

(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
Assets to be disposed	Low operating assets	Tohoku, Kanto, Chubu, Kinki, Chugoku, Shikoku region	¥2,232
Total			¥2,232

Assets are grouped in accordance with classifications used for management accounting. Assets to be disposed 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 value and recoverable amount were recorded as an impairment loss of

¥2,232 million 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.

26. 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, 2022 and 2021, 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, 2022 and 2021, 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. In our audit of the financial statements of the current period, we continued to include the key audit matter for the prior period audit, “Reasonableness of the valuation of Level 3 derivative instruments held as part of trading products” as the key audit matter for the current period.

Reasonableness of the valuation of Level 3 derivative instruments held as part of trading products

The key audit matter

As described in Note 7, “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 ¥2,052 billion in assets and ¥1,974 billion in liabilities. 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 ¥99 billion and ¥17 billion, respectively. As described in Note 2, “Significant accounting policies, Trading assets and trading liabilities” to the financial statements, derivative instruments held as part of trading products 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. The valuation gains recognized in the income statement for the Level 3 derivatives instruments that were recognized in the balance sheet were ¥52.4 billion. The information

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 in which inputs used in the pricing models and the marked-to-market valuation are validated by a department independent of the trading department; and
- controls in which the appropriateness 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.

regarding Level 3 fair value is provided in Note 7, “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 fair 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 appropriateness 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.”

Other Information

The other information comprises the information included in the Integrated Report but does not include the financial statements, and our auditor's report thereon. The other information is expected to be made available to us after the date of this auditor's report. Management is responsible for the other information. 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 reporting process for the other information. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audits of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

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 executive officers and 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 Audits 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 audits in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audits. 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 audits in order to design audit procedures that are appropriate in the circumstances, while the objective of the audits 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 audits, significant audit findings, including any significant deficiencies in internal control that we identify during our audits. From the matters communicated with corporate auditors and the board of corporate auditor, we determine those matters that were of most significance in the audits of the 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 financial statements with respect to the year ended March 31, 2022 are presented solely for convenience. Our audits 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
June 29, 2022

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.

Officers

(As of September 1, 2022)

Daiwa Securities Group Inc.

Directors

(Members of the Board)

Chairperson of the Board
Takashi Hibino

Directors

Seiji Nakata
Toshihiro Matsui
Keiko Tashiro
Akihiko Ogino
Sachiko Hanaoka
Hiromasa Kawashima

Outside Directors

Michiaki Ogasawara
Hirotaka Takeuchi
Ikuo Nishikawa
Eriko Kawai
Katsuyuki Nishikawa
Toshio Iwamoto
Yumiko Murakami

Committee Members

Nominating Committee
Michiaki Ogasawara (Chair)
Takashi Hibino

Seiji Nakata
Hirotaka Takeuchi
Eriko Kawai
Katsuyuki Nishikawa
Toshio Iwamoto

Audit Committee
Ikuo Nishikawa (Chair)
Sachiko Hanaoka
Hiromasa Kawashima
Michiaki Ogasawara

Eriko Kawai
Katsuyuki Nishikawa
Yumiko Murakami

Compensation Committee
Hirotaka Takeuchi (Chair)
Takashi Hibino
Seiji Nakata
Ikuo Nishikawa
Toshio Iwamoto
Yumiko Murakami

Corporate Executive Officers

President and CEO
Seiji Nakata*¹

Deputy Presidents
Toshihiro Matsui*¹ (COO)
Keiko Tashiro
Akihiko Ogino
Shinsuke Niizuma

Senior Executive Managing Directors
Atsushi Mochizuki
Junichi Arihara (CRO and CDO)
Tomoyuki Murase (CIO)

Executive Managing Directors
Kana Shirakawa (CHO)
Shiko Yanagisawa
Eiji Sato (CFO)

Corporate Executive Officer
Takashi Hibino

*¹ Representative Corporate Executive Officers

Executive Officers

Deputy Presidents
Mikita Komatsu
Masahisa Nakagawa
Masahiro Kobayashi
Hironori Oka

Executive Managing Directors
Hideki Araki
Akira Yamanouchi
Hidenobu Shiota
Tsutomu Kobayashi
Naoki Suzuki
Takashi Yamada

Senior Managing Directors
Atsushi Itaya
Yuki Hayakawa
Kosuke Mizuno
Keiji Machida
Toyo Abe

Daiwa Securities Co. Ltd.

Directors

(Members of the Board)

Chairperson of the Board
Takashi Hibino

President
Seiji Nakata*²

Deputy Presidents
Toshihiro Matsui*²
Keiko Tashiro*²
Masahiro Kobayashi*²
Shinsuke Niizuma*²
Akihiko Ogino*²

Senior Executive Managing Directors

Naoto Shimomura
Atsushi Mochizuki*²
Junichi Arihara
Tomoo Fujioka
Tomoyuki Murase
Isao Tsujioka

Audit & Supervisory Board Members

Kenichi Shiratori
Sachiko Hanaoka
Hiromasa Kawashima
Hiroshi Obayashi
Kimito Nakae

Executive Officers

Executive Managing Directors
Tsutomu Takahashi
Takaaki Narieda
Tomohide Wakayama
Takashi Yamada
Isao Niwa
Yusuke Morimoto

Senior Managing Directors
Atsushi Itaya
Yoshinori Nakazawa
Masahiro Fujisawa
Katsuyasu Murata
Yoshinori Ohashi
Kotaro Yoshida
Toyobumi Naruge
Kenichi Tazawa
Takemichi Kobayashi
Takashi Fujikura
Takashi Kanno

*² Representative Directors

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, 2022)

Number of Shareholders

148,268 (as of March 31, 2022)

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.

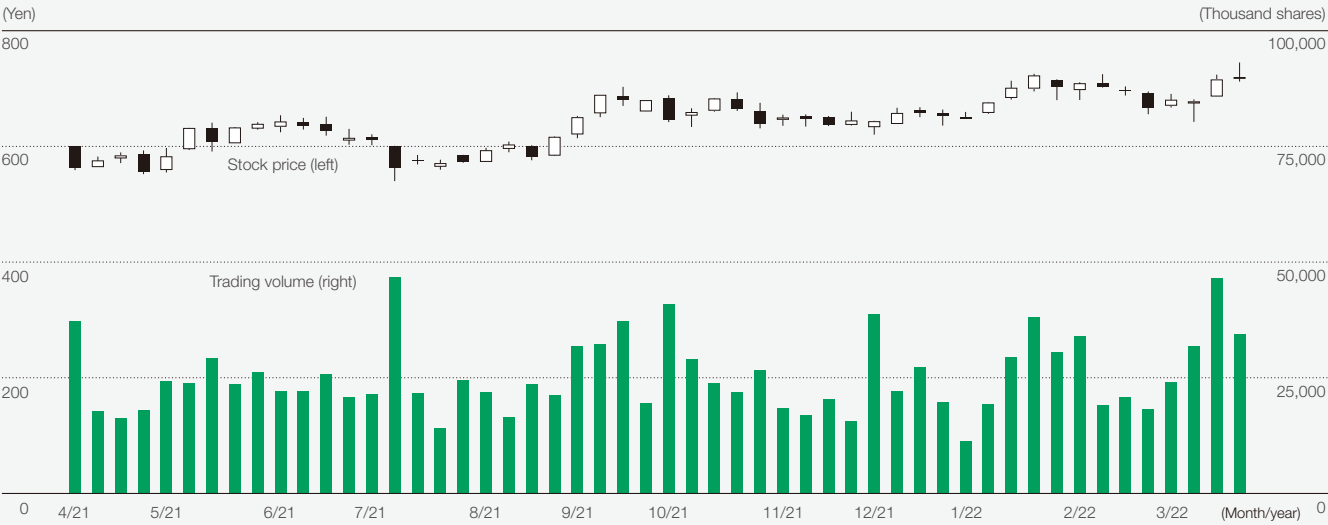
Investor Relations Office

Email: ir-section@daiwa.co.jp

URL: <https://www.daiwa-grp.jp/english/ir/>

Stock Information

1. Stock Price and Trading Volume on the Tokyo Stock Exchange (April 1, 2021– March 31, 2022)



2. Major Shareholders (As of March 31, 2022)

Name	Number of shares held (Thousands)	% of total outstanding shares
The Master Trust Bank of Japan, Ltd. Trust Account	238,102	16.05%
Custody Bank of Japan, Ltd. Trust Account	74,814	5.04%
Taiyo Life Insurance Company	41,140	2.77%
Barclays Securities Japan, Ltd.	34,391	2.31%
NORTHERN TRUST CO. (AVFC) RE SILCHESTER INTERNATIONAL INVESTORS INTERNATIONAL VALUE EQUITY TRUST	31,662	2.13%
Nippon Life Insurance Company	31,164	2.10%
JAPAN POST HOLDINGS Co., Ltd.	30,000	2.02%
STATE STREET BANK WEST CLIENT - TREATY 505234	24,262	1.63%
Daiwa's Employee Stock Ownership Association	22,083	1.48%
NORTHERN TRUST CO. (AVFC) RE U.S. TAX EXEMPTED PENSION FUNDS	20,297	1.36%

Note: Treasury stock of 216,066,485 shares is excluded for calculating the percentage of the above list of major shareholders.

3. Stock Price on the Tokyo Stock Exchange

(April 1, 2021–March 31, 2022)

Open	High	Low	Close	Average daily trading volume
¥575.3	¥745.0	¥540.0	¥692.7	5,388 thousand shares

4. Breakdown of Shareholders (As of March 31, 2022)

