



# Management Systems

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# Corporate Governance

## Corporate Governance System

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

## Basic Stance on Corporate Governance

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

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

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

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

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

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

## Corporate Governance System at Daiwa Securities Group



## Major Initiatives in Corporate Governance

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

## History of Daiwa's Corporate Governance

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

## Meetings of Three Committees and Board of Directors in FY2016

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

The Audit Committee met 12 times. The committee evaluated the activities of directors and corporate executive officers, audited documentation, including financial statements and business reports, and prepared an audit report for the period under review.

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

The Board of Directors met 10 times, and outside directors had a 98% record of attendance.

### Committee Members

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

## Executive Compensation That Is Closely Linked to Performance

Compensation for directors and corporate executive officers is determined by the Compensation Committee. Executive compensation has three components: basic compensation; performance-based compensation; and share price-linked compensation.

Comprehensive criteria used in calculating performance-based compensation include ROE and consolidated ordinary income, as well as other factors such as results of management targets as outlined in the Medium-Term Management Plan.

### Compensation Paid to Directors and Corporate Executive Officers of Daiwa Securities Group Inc. in FY2016

	Directors		Corporate Executive Officers		Total	
	Recipients	Amount	Recipients	Amount	Recipients	Amount
Amounts based on resolution of the Compensation Committee	9 persons	¥132 million	14 persons	¥1,219 million	<b>23 persons</b>	<b>¥1,351 million</b>

Notes: 1. The above amounts include performance-based compensation paid in this fiscal year.

2. The above compensation amounts include a total of ¥90 million in stock acquisition rights granted as stock options to directors and corporate executive officers.

3. Compensation paid to the six outside directors totaled ¥105 million.

4. Seven directors also served as corporate executive officers; their total compensation is included in the "Corporate Executive Officers" category.

## Internal Control System and Internal Audit

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

The Internal Audit Department verifies the internal control system. This department sits independently from all other departments, reports to a dedicated corporate executive officer, and ensures internal audits to act as an important function of raising Group value through the creation of a sound and efficient internal control system. The authorization of internal audit plans and reporting of audit results are undertaken by the Group Internal Audit Committee. Internal audit plans are authorized by the Audit Committee or a designated member of the Audit Committee who has received the prerequisite authority from the Audit Committee. The results of audits are also reported to the Audit Committee.

Daiwa Securities Group seeks to raise its corporate value by effectively conducting internal audits, and implements risk-based internal audits primarily through its Internal Audit Department.

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

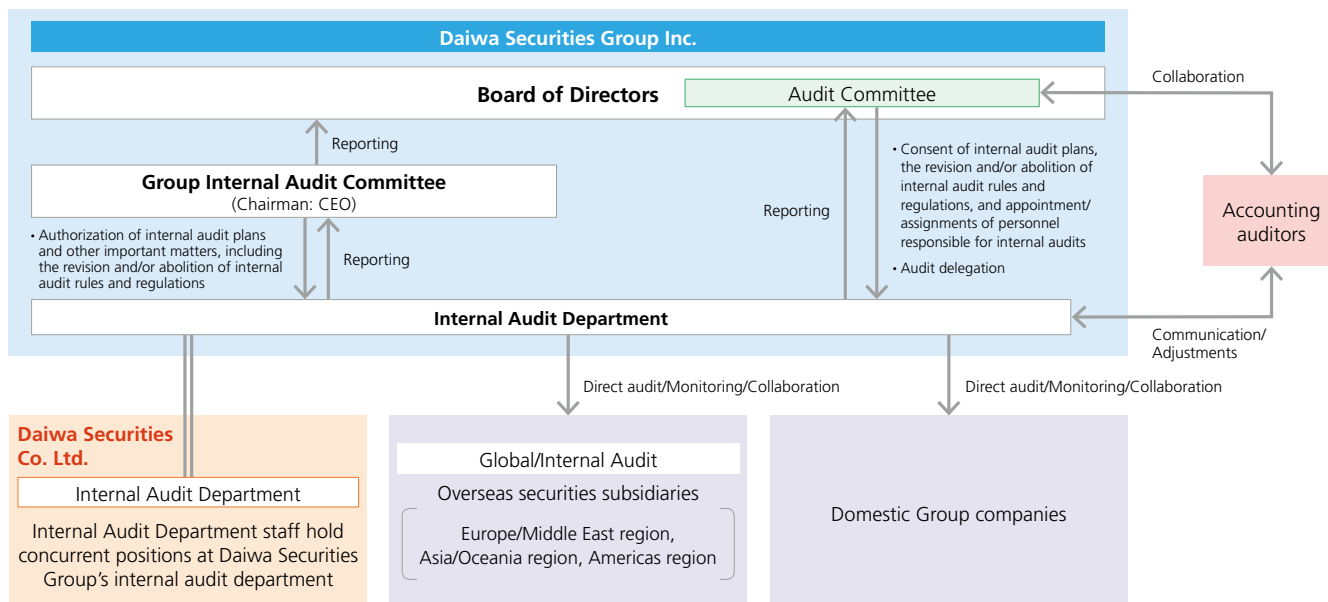
Reports to the Group Internal Audit Committee are not limited to the audit results conducted at Daiwa Securities Group Inc. and Daiwa Securities Co. Ltd., but also include highly important findings made during audits conducted on companies in Japan and overseas.

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

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

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

Internal Auditing System Diagram of Daiwa Securities Group





## Directors (Members of the Board)

### Chairman of the Board

Takashi Hibino



**Takashi Hibino**  
Chairman of the Board

#### Chairman of the Board

- 1979 Joined Daiwa Securities Co. Ltd.
- 2002 Head of Corporate Planning Dept., Daiwa Securities Group Inc. Senior Managing Director, Daiwa Securities SMBC Co. Ltd.
- 2004 Member of the Board and Executive Managing Director, Daiwa Securities Group Inc.
- 2007 Member of the Board and Senior Executive Managing Director
- 2008 Senior Executive Managing Director, Daiwa Securities SMBC Co. Ltd.
- 2009 Member of the Board and Deputy President, Daiwa Securities Group Inc. Deputy President, Daiwa Securities SMBC Co. Ltd.
- 2011 Member of the Board, President and CEO, Daiwa Securities Group Inc. President, Daiwa Securities Co. Ltd. President, Daiwa Securities Capital Markets Co. Ltd.
- 2012 Member of the Board, President and CEO, Daiwa Securities Group Inc. President, Daiwa Securities Co. Ltd.
- 2017 Chairman of the Board, Daiwa Securities Group Inc. Chairman of the Board, Daiwa Securities Co. Ltd.

### Directors

Seiji Nakata  
Shinya Nishio  
Kazuo Takahashi



**Seiji Nakata**  
Member of the Board

#### President and CEO Head of Retail

- 1983 Joined Daiwa Securities Co. Ltd.
- 2005 Head of Structured Products Dept., Daiwa Securities SMBC Co. Ltd.
- 2006 Senior Managing Director
- 2007 Senior Managing Director, Daiwa Securities Group Inc.
- 2009 Member of the Board and Executive Managing Director
- 2010 Member of the Board and Executive Managing Director, Daiwa Securities Capital Markets Co. Ltd.
- 2012 Member of the Board and Senior Executive Managing Director, Daiwa Securities Co. Ltd.
- 2015 Senior Executive Managing Director, Daiwa Securities Group Inc. Member of the Board and Senior Executive Managing Director, Daiwa Securities Co. Ltd.
- 2016 Member of the Board and Deputy President, Daiwa Securities Group Inc. Deputy President, Daiwa Securities Co. Ltd.
- 2017 Member of the Board, President and CEO, Daiwa Securities Group Inc. President, Daiwa Securities Co. Ltd.

Toshihiro Matsui  
Keiko Tashiro  
Mikita Komatsu  
Morimasa Matsuda



**Shinya Nishio**  
Member of the Board

#### Deputy President and COO Head of Wholesale Deputy Head of Retail

- 1981 Joined Daiwa Securities Co. Ltd.
- 2004 Head of Corporate Clients Banking Dept. (III), Daiwa Securities SMBC Co. Ltd.
- 2005 Senior Managing Director
- 2009 Executive Managing Director
- 2010 Member of the Board and Executive Managing Director
- 2012 Member of the Board and Senior Executive Managing Director, Daiwa Securities Co. Ltd.
- 2016 Member of the Board and Deputy President, Daiwa Securities Group Inc. Deputy President, Daiwa Securities Co. Ltd.
- 2017 Member of the Board and Deputy President, Daiwa Securities Group Inc. Deputy President, Daiwa Securities Co. Ltd.

Nobuko Matsubara  
Keiichi Tadaki  
Tadashi Onodera



**Kazuo Takahashi**  
Member of the Board

#### Deputy President Deputy Head of Wholesale

- 1982 Joined Daiwa Securities Co. Ltd.
- 2005 Head of Financial Institutions Dept., Daiwa Securities SMBC Co. Ltd.
- 2007 Senior Managing Director
- 2010 Executive Managing Director, Daiwa Securities Capital Markets Co. Ltd.
- 2012 Member of the Board and Executive Managing Director, Daiwa Securities Co. Ltd.
- 2013 Member of the Board and Senior Executive Managing Director, Daiwa Securities Co. Ltd.
- 2017 Member of the Board and Deputy President, Daiwa Securities Group Inc. Deputy President, Daiwa Securities Co. Ltd.



**Toshihiro Matsui**  
Member of the Board

#### Senior Executive Managing Director Head of Corporate Planning Deputy Head of Wholesale

- 1985 Joined Daiwa Securities Co. Ltd.
- 2008 Head of Corporate Planning Dept., Daiwa Securities Group Inc.
- 2009 Senior Managing Director
- 2011 Executive Managing Director Senior Managing Director, Daiwa Securities Co. Ltd.
- 2012 Executive Managing Director, Daiwa Securities Group Inc. Executive Managing Director, Daiwa Securities Co. Ltd.
- 2014 Senior Executive Managing Director, Daiwa Securities Group Inc. Member of the Board and Senior Executive Managing Director, Daiwa Securities Co. Ltd.
- 2016 Member of the Board and Senior Executive Managing Director, Daiwa Securities Group Inc. Member of the Board and Senior Executive Managing Director, Daiwa Securities Co. Ltd.



**Keiko Tashiro**  
Member of the Board

#### Senior Executive Managing Director Head of Overseas Operations

- 1986 Joined Daiwa Securities Co. Ltd.
- 2005 Head of Daiwa Direct Planning Dept.
- 2009 Senior Managing Director
- 2011 Daiwa Securities Capital Markets Co. Ltd. Senior Managing Director, Daiwa Securities Co. Ltd.
- 2012 Executive Managing Director, Daiwa Securities Group Inc. Chairwoman of the Board, Daiwa Capital Markets America Holdings Inc.
- 2014 Member of the Board and Executive Managing Director, Daiwa Securities Group Inc. Chairwoman of the Board, Daiwa Capital Markets America Holdings Inc.
- 2016 Member of the Board and Senior Executive Managing Director, Daiwa Securities Group Inc. Member of the Board and Senior Executive Managing Director, Daiwa Securities Co. Ltd.



**Mikita Komatsu**  
Member of the Board

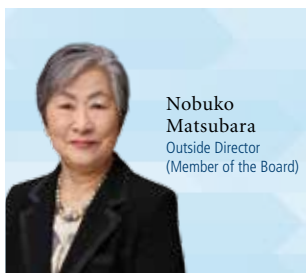
#### Senior Executive Managing Director and CFO Deputy Head of Overseas Operations

- 1985 Joined Daiwa Securities Co. Ltd.
- 2008 President, Daiwa Securities SMBC Europe Limited
- 2010 Senior Managing Director, Daiwa Securities Capital Markets Co. Ltd.
- 2011 Senior Managing Director, Daiwa Securities Group Inc. Senior Managing Director, Daiwa Securities Co. Ltd. Senior Managing Director, Daiwa Securities Capital Markets Co. Ltd.
- 2012 Senior Managing Director, Daiwa Securities Group Inc. Senior Managing Director, Daiwa Securities Co. Ltd.
- 2013 Executive Managing Director, Daiwa Securities Group Inc. Executive Managing Director, Daiwa Securities Co. Ltd.
- 2016 Member of the Board and Senior Executive Managing Director, Daiwa Securities Group Inc. Member of the Board and Senior Executive Managing Director, Daiwa Securities Co. Ltd.



**Morimasa Matsuda**  
Member of the Board

- 1989 Joined Daiwa Securities Co. Ltd.
- 2013 Head of Internal Audit Dept., Daiwa Securities Group Inc. Head of Internal Audit Dept., Daiwa Securities Co. Ltd.
- 2016 Member of the Board, Daiwa Securities Group Inc.



**Nobuko Matsubara**  
Outside Director  
(Member of the Board)

- 1964 Entered Ministry of Labour
- 1987 Director of International Labour Division
- 1991 Director-General of Women's Bureau
- 1997 Vice-Minister of the above Ministry
- 1999 President of Japan Association for Employment of Persons with Disabilities
- 2002 Ambassador of Japan to Italy
- Ambassador of Japan to Albania
- Ambassador of Japan to San Marino
- Ambassador of Japan to Malta
- 2006 Chairwoman, Japan Institute of Workers' Evolution
- 2008 Outside Director (Member of the Board), Daiwa Securities Group Inc.
- 2012 Honorary Chairwoman, Japan Institute of Workers' Evolution



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

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



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

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



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

- 1976 Entered Ministry of Posts and Telecommunications
- 2003 Director-General of Tohoku Bureau of Comprehensive Communication, Ministry of Internal Affairs and Communications
- 2004 Director-General of Kantou Bureau of Telecommunication, the above Ministry
- 2005 Deputy Director-General of the above Ministry
- Director-General of Local Public Service Personnel Department, Local Administration Bureau, the above Ministry
- 2006 Director-General of Civil Protection and Disaster Management Department, Fire and Disaster Management Agency, the above Ministry
- 2007 Director-General of the Information and Communications Policy, the above Ministry
- 2008 Director-General of the Global ICT Strategy Bureau, the above Ministry
- 2010 Assistant Vice-Minister of the above Ministry
- 2012 Vice-Minister of the above Ministry
- 2013 Advisor of Daiwa Institute of Research Ltd.
- 2015 Resigned as Advisor of Daiwa Institute of Research Ltd.
- Outside Director (Member of the Board), Daiwa Securities Group Inc.



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

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



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

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

## Messages from Outside Directors

In 1999, Daiwa Securities Group Inc. became the first listed company in Japan to adopt a holding company structure. In 2004, the Group introduced a Committee System\* that included three committees reporting to the Board—the Nominating Committee, the Audit Committee,

\* A Company with Committees since May 2006; a Company with Three Committees since May 2015



**Nobuko Matsubara**  
Outside Director

Daiwa Securities Group is placing the utmost emphasis on ensuring customer-oriented business practices in FY2017, the final year of its Medium-Term Management Plan. This builds on and reflects a policy of further development from the customer-first mindset that the Group has continued to instill in each and every employee. In addressing employees, Mr. Nakata, the Company's newly appointed CEO, has commented that enjoying one's work is the only way through which to lead a rich and valuable life. I believe this reflects the role work plays in garnering the satisfaction of all stakeholders, including customers and the acclaim of society. As a member of the Board of Directors, I would like to contribute to efforts aimed at ensuring customer-oriented business practices and realizing the Group's aspiration to become the most excellent firm.

Nobuko Matsubara is currently the Chairwoman of the Japan Institute of Workers' Evolution. Before that, she was the Vice-Minister of Labour, and served as the Ambassador of Japan to Italy, among other posts. The Company has drawn on Ms. Matsubara's expertise and broad experience nurtured throughout her career in providing management advice. Ms. Matsubara has been a director for nine years.



**Keiichi Tadaki**  
Outside Director

In advocating to always place the needs of customers first, and striving to develop the advanced, specialized skills to offer them the most attractive products and services of any securities group, Daiwa Securities Group has historically positioned "building trust" as its top corporate principles priority. On March 30, 2017, Japan's Financial Services Agency put in place and announced details of its Principles concerning the Operation of Fiduciary Duty. Covering financial institutions, including securities companies, the aim of these principles is to promote the stable accumulation of individual assets.

As a key corporate governance issue for the year, it is vital that Daiwa Securities Group identify how to best ensure the Highest Quality customer-oriented business practices. It is equally important that all employees and executives of the Group understand this management issue and form a robust uniform resolve to uncover a solution.

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



**Tadashi Onodera**  
Outside Director

In highlighting the importance of the fixed cost coverage ratio, Daiwa Securities Group is making steady progress in putting in place a robust business structure that is capable of supporting stable revenues. I would like to especially mention the success achieved in substantially improving earnings from overseas operations and putting in place a structure that is capable of contributing to profits in FY2016. For a financial institution, a robust business structure is imperative to progress going forward.

Without a doubt, the acceleration of the shift "from savings to investment" is critical to the further development of Daiwa Securities Group. Accordingly, I will constantly keep the Corporate Principles of building trust uppermost in my mind and endeavor to contribute to making Daiwa Securities Group the customer's first choice securities group.

Tadashi Onodera is currently Chairman of KDDI Corporation. The Company has drawn on Mr. Onodera's wealth of management experience and insight nurtured throughout his career at KDDI. Mr. Onodera has been a director for three years.



and the Compensation Committee. The Group has also established a clear separation between the oversight functions of the Board and the execution functions of corporate executive officers.

Furthermore, in October 2015 we established the Outside Directors Council, whose main objective is to facilitate the sharing of information among the outside directors.



**Michiaki Ogasawara**  
Outside Director

For a company to develop and continue as a going concern, it must first address how to meet the requirements of society. Under the significant and simultaneous burdens of a declining population and aging society, Japan's wealth and the standards of living enjoyed by our children and grandchildren depend on how to ensure a robust and vital economy. With this in mind, society is calling on Daiwa Securities Group to ramp up initiatives that help individuals effectively manage their accumulated assets for the future and contribute to the development of new businesses.

Against the backdrop of rapid advances in technology and competition with increasingly diverse players, I am committed to helping enhance the governance function so that the new CEO can realize the goal of achieving the Highest Quality in the industry.

Michiaki Ogasawara has held positions as the Director-General of the 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 Mr. Ogasawara's expertise and experience nurtured throughout his career in providing management advice. Mr. Ogasawara has been a director for two years.



**Hirotaka Takeuchi**  
Outside Director

Effective from the current fiscal year, Mr. Hibino has assumed the position of Chairman of the Board. Taking on the position of president, Mr. Nakata has identified the efforts to achieve the Highest Quality in the industry as a key component of the Company's basic management policy. In an era in which AI and Big Data are attracting widespread attention, there is considerable significance in this decision by the new management to showcase a strategy that focuses on quality from a perspective of "knowledge-based strategy." This focus by Daiwa Securities Group as a true global retailer reflects the basic stance toward taking the next major leap forward on the world stage.

Drawing on my experience in developing employees at a number of companies, I hope to play a role in accelerating efforts aimed at enhancing the quality of employees and contribute to the Group's future growth.

Hirotaka Takeuchi 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 Mr. Takeuchi's expertise and experience nurtured throughout his career in providing management advice. Mr. Takeuchi has been a director for one year.



**Ikuo Nishikawa**  
Outside Director

Two core components of Daiwa Securities Group's four corporate principles are building trust and maintaining healthy earnings results. In line with these corporate principles, ensuring customer-oriented business practices provides the means through which to continue generating sound profits and securing sustainable growth, which are in turn positioned as key performance targets. Moreover, Daiwa Securities Group is recognized as a leading company in advancing work style reform. This reflects the Company's emphasis on establishing a working environment that matches placing importance on personnel.

Amid recent calls for increased compliance and governance, I am convinced that the integrity of corporate disclosure is key. Making the most of my experience in developing accounting standards, I hope to contribute to the Group mainly in this field.

Ikuo Nishikawa has served as Representative Partner of Century Audit Corporation and Chairman of the Accounting Standards Board of Japan. The Company has drawn on Mr. Nishikawa's expertise and experience nurtured throughout his career in providing management advice. Mr. Nishikawa has been a director for one year.

## Corporate Executive Officers

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



Seiji Nakata

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



Shinya Nishio

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



Nobuyuki  
 Iwamoto

**Deputy President**  
**Head of Think Tank**  
 President, Daiwa Institute of Research  
 Holdings Ltd.  
 President, Daiwa Institute of Research Ltd.  
 President, Daiwa Institute of Research  
 Business Innovation Ltd.



Yoriyuki  
 Kusaki

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



Kazuo  
 Takahashi

1980 Joined Daiwa Securities Co. Ltd.  
 2001 Head of International Finance Dept.,  
 Daiwa Securities SMBC Co. Ltd.  
 2005 Senior Managing Director, Daiwa Securities Group Inc.  
 2006 Member of the Board and Senior Managing Director  
 2008 Member of the Board and Executive Managing Director  
 2009 Member of the Board and  
 Senior Executive Managing Director  
 2011 Deputy President, Daiwa Securities Group Inc.  
 Deputy President,  
 Daiwa Securities Capital Markets Co. Ltd.  
 2012 Member of the Board and Deputy President,  
 Daiwa Securities Group Inc.  
 Deputy President, Daiwa Securities Co. Ltd.  
 2016 Deputy President, Daiwa Securities Group Inc.  
 President, Daiwa Asset Management Co. Ltd.

1980 Joined Daiwa Securities Co. Ltd.  
 2002 Head of Corporate Clients Banking Dept. (III),  
 Daiwa Securities SMBC Co. Ltd.  
 2004 Senior Managing Director  
 2007 Executive Managing Director  
 2009 Member of the Board and  
 Senior Executive Managing Director,  
 Daiwa Securities Co. Ltd.  
 2012 Member of the Board and Deputy President,  
 Daiwa Securities Group Inc.  
 Deputy President, Daiwa Securities Co. Ltd.  
 2016 Deputy President, Daiwa Securities Group Inc.  
 President, Daiwa Institute of Research Holdings Ltd.  
 President, Daiwa Institute of Research Ltd.  
 President, Daiwa Institute of Research Business  
 Innovation Ltd.

**Senior Executive Managing Director**  
**Head of Corporate Planning**  
 Deputy Head of Wholesale  
 Senior Executive Managing Director,  
 Daiwa Securities Co. Ltd.



Toshihiro  
 Matsui

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



Mikita  
 Komatsu

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



Masahisa  
 Nakagawa

**Executive Managing Director and CRO**  
**Executive Managing Director**  
 Daiwa Securities Co. Ltd.



Hiroyuki  
 Inose

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



Keiko Tashiro

1987 Joined Daiwa Securities Co. Ltd.  
 2009 Head of Omiya Branch  
 2010 Senior Managing Director  
 2011 Senior Managing Director, Daiwa Securities Group Inc.  
 Senior Managing Director, Daiwa Securities Co. Ltd.  
 Senior Managing Director,  
 Daiwa Securities Capital Markets Co. Ltd.  
 2013 Executive Managing Director, Daiwa Securities Group Inc.  
 Executive Managing Director, Daiwa Securities Co. Ltd.  
 2016 Executive Managing Director, Daiwa Securities Group Inc.  
 Member of the Board and Executive Managing Director,  
 Daiwa Securities Co. Ltd.  
 2017 Senior Executive Managing Director,  
 Daiwa Securities Group Inc.  
 Member of the Board and Senior Executive Managing  
 Director, Daiwa Securities Co. Ltd.

1984 Joined Daiwa Securities Co. Ltd.  
 2010 Head of Group Risk Management Dept.,  
 Daiwa Securities Group Inc.  
 2011 Senior Managing Director, Daiwa Securities Group Inc.  
 Senior Managing Director, Daiwa Securities Co. Ltd.  
 Senior Managing Director,  
 Daiwa Securities Capital Markets Co. Ltd.  
 2012 Senior Managing Director,  
 Daiwa Securities Group Inc.  
 Senior Managing Director, Daiwa Securities Co. Ltd.  
 2014 Senior Managing Director, Daiwa Securities Group Inc.  
 Member of the Board and Senior Managing Director,  
 Daiwa Securities Co. Ltd.  
 2015 Executive Managing Director, Daiwa Securities Group Inc.  
 Member of the Board and Executive Managing Director,  
 Daiwa Securities Co. Ltd.

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



Masaru  
 Shirataki

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



Atsushi  
 Mochizuki

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



Akihiko  
 Ogino

**Chairman of the Board**



Takashi  
 Hibino

1985 Joined Daiwa Securities Co. Ltd.  
 2011 Head of Group Internal Audit Dept.,  
 Daiwa Securities Group Inc.  
 Head of Internal Audit Dept.,  
 Daiwa Securities Co. Ltd.  
 Head of Internal Audit Dept.,  
 Daiwa Securities Capital Markets Co. Ltd.  
 2013 Member of the Board, Daiwa Securities Group Inc.  
 2016 Executive Managing Director,  
 Daiwa Securities Group Inc.  
 Executive Managing Director, Daiwa Securities Co. Ltd.

1988 Joined Daiwa Securities Co. Ltd.  
 2011 Head of Yokohama Branch  
 2013 Senior Managing Director, Daiwa Securities Group Inc.  
 Senior Managing Director, Daiwa Securities Co. Ltd.  
 2016 Executive Managing Director, Daiwa Securities Group Inc.  
 Executive Managing Director, Daiwa Securities Co. Ltd.

1989 Joined Daiwa Securities Co. Ltd.  
 2010 Head of Corporate Planning Dept.,  
 Daiwa Securities Group Inc.  
 2014 Senior Managing Director, Daiwa Securities Group Inc.  
 Senior Managing Director, Daiwa Securities Co. Ltd.  
 2017 Executive Managing Director, Daiwa Securities Group Inc.  
 Executive Managing Director, Daiwa Securities Co. Ltd.

Note: Please also refer to details of directors on page 62 of this report for information on corporate executive officers whose career histories are not presented on this page.

## Compliance

Daiwa Securities Group has four corporate principles. They are “building trust,” “placing importance on personnel,” “contributing to society,” and “maintaining healthy earnings results.” The Group believes that compliance is a significant element for achieving these principles. The goal of the Group’s compliance activities is not merely to “comply with laws and regulations,” but to earn the trust of customers, markets, society, and stakeholders.

### Raising Compliance Awareness

Daiwa Securities Group rigorously observes regulations and exercises self-discipline so that it can contribute to the sustainable growth of society while maintaining high ethical standards. We conduct training programs for new graduates when they join the Group, and continue through regularly scheduled training sessions throughout their careers, thus ensuring that every employee is aware of, and thoroughly understands, compliance issues.

The Group trains its employees so that even when the Group pursues new business ventures in areas where the regulatory structure is incomplete, they can return to the basic approach of laws and regulations, act sincerely in light of socially accepted ideas and common sense, and maintain strong self-discipline and legal awareness.

As basic standards that should be fulfilled at a bare minimum, the Group has formulated Group Minimum Standards for securing information, preventing insider trading, and eliminating relationships with anti-social forces. Based on these standards, the Group aims to further improve awareness of compliance.

### Compliance Initiatives for FY2017

To support the building out of internal management systems at each Group company, Daiwa Securities Group will continue to enhance information security, strengthen Group efforts to eliminate connections with anti-social forces, and reinforce measures to prevent insider trading.

From FY2016, the Group holds Group Compliance Liaison Meetings as a venue for periodically sharing information among compliance departments of Group companies. We aim to further improve internal management as a Group by strengthening collaboration among Group companies.

### Compliance Training

In addition to raising compliance awareness and spreading corporate ethics, Group companies routinely conduct verification and training while encouraging employees to exercise self-discipline under any and all circumstances. The Group conducts a wide range of compliance training on a variety of topics, including information security, the prevention of insider trading and the elimination of relations with anti-social forces. The methods used encompass group training and e-learning systems.

As a part of our education and training programs on cybersecurity, the Group conducts drills in targeted attack emails in a bid to raise awareness of cybersecurity among managers and employees.

Daiwa Securities conducts a broad range of training with a practical emphasis starting with Compliance Training for all employees, as well as compliance education, instruction and group training for new graduates and newly appointed managers, group training, and training on firewall regulations.

## Disclosure

Daiwa Securities Group works to communicate proactively and provide fair and appropriate information in a timely manner so that customers, stakeholders, investors, local communities, employees and executives clearly understand and properly evaluate the Group’s activities.

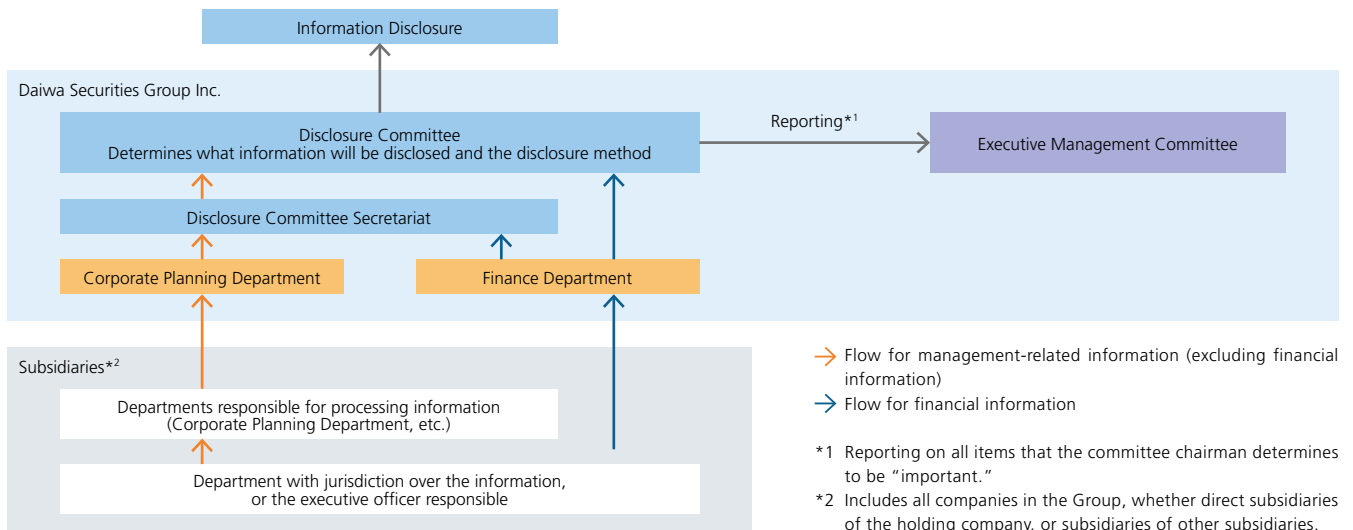
### Disclosure System

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

In order to realize the policy’s spirit, Daiwa Securities Group Inc. has established the Disclosure Committee—a sub-committee of the Executive Management Committee—based on the Group’s Disclosure Regulations, which makes final decisions regarding the disclosure of information. Main Group companies have also established their own regulations on management-related information, which govern the appropriate collection of information and presentation of reports to Daiwa Securities Group Inc.

The Group clearly allocates responsibilities for disclosure, depending on the intended recipient of the information. The Group’s Investor Relations Office handles disclosure to shareholders, investors, and analysts. The Corporate Communication Department is responsible for communications with the mass media and local communities. Information is released through a variety of media, including via the Internet and in print. In addition, representatives from disclosure-related divisions of Group companies take part in the Group PR/IR Meeting, which convenes once a month, to share disclosure-related information across the Group.

### Flowchart of the Daiwa Securities Group’s Disclosure Activities



### Daiwa Securities Group Disclosure Policy

- The Daiwa Securities Group will disclose important financial, social, and environmental information about the Group (“Management-related Information”) in a prompt, fair, and appropriate manner, so that our stakeholders (including shareholders, investors, and the communities we operate in) may understand and maintain realistic expectations of the Daiwa Securities Group.
- The Group will comply with the Financial Instruments and Exchange Act and other laws and ordinances related to securities transactions and the various rules of the financial instruments exchanges on which our stock is listed.
- The Group will strive to disclose information fairly, in terms of both content and timing.
- The Group will utilize various communication channels, including presentations, telephone conferences, the Internet, and printed materials to disclose information in a manner that is easy for investors to comprehend.
- The Group will keep in mind its responsibility to set an example for other listed corporations, in terms of disclosure, and will strive to promote healthy markets.
- To ensure that these policies are implemented properly, the Group has established “Disclosure Regulations” which include guidelines for disclosing Management-related Information and standards for establishing a “Disclosure Committee.”

## IT Strategy and the Management of Systemic Risk

Under its Medium-Term Management Plan, “Passion for the Best” 2017, Daiwa Securities Group will promote two IT strategies (basic IT policies), namely, “strategic IT investment” and “strengthening IT governance” in order to achieve the management vision of “leading the capital markets in Japan and Asia, and becoming the customer’s first choice securities group.”

### IT Governance Structure

Daiwa Securities Group has established the Group IT Strategy Committee as a sub-committee of the Executive Management Committee and in September 2015, created the IT Strategy Committee at Daiwa Securities, the core company of the Group, as a subcommittee of the Management Committee. These committees deliberate and decide medium- and long-term IT investment policies and budgets for IT investment after taking into account business needs and trends in the business environment, such as systems and regulations. The Group has also established the Group IT Management Committee (the prior consultation organization of the Group IT Strategy Committee), headed by the Chief Information Officer (CIO), putting in place a system for deliberation at the director level to address common issues and the medium-term IT strategies of each Group company.

Against a backdrop of globally tightening financial regulations, increasingly serious and sophisticated cyberattacks, and the spread of advanced services combining finance and IT (FinTech), the CIO has been placed in charge of overseeing all IT-related operations across the Group, including overseas bases, through the aforementioned committees, and is tasked with strengthening collaboration within the Group and managing risk on a global basis.

### Strategic IT Investment

Aware of the importance of unifying management and IT strategies, Daiwa Securities Group prioritizes the allocation of resources in IT investments that contribute to the achievement of Group performance targets and business strategies. By aiming to coordinate strategic IT investments with changes in tax systems and infrastructure platforms that are essential for business continuity, the Group strives to enhance the value added of its businesses. In addition to undertaking investments for a variety of purposes, including the upgrade and expansion of the fund wrap lineup as well as online services, steps were taken to push forward initiatives in such areas as artificial intelligence (AI), Big Data, voice recognition, blockchain and other new technologies in FY2016. Moreover, Daiwa Securities Group strengthened management systems to ensure the safe and secure submitting of My Number, the government’s identification system, from customers and further bolstered cyber security measures across the Group as a whole, including overseas bases.

In line with continued advancements in technological innovation, technologies with the latent capability to significantly alter the way in which business is conducted are close to commercial application. With this in mind, Daiwa Securities Group is setting up forums to facilitate discussions regarding financial innovation that utilizes cutting-edge technologies across the Group organization, headed by the CIO. As far as promising technologies and initiatives are concerned, energies are directed toward swiftly conducting verification tests and trials while also promoting alliances and collaboration with external partners. At the same time, Daiwa Securities Group is working diligently to put in place a mechanism that will allow it to flexibly and efficiently provide products and services that place the needs of customers first. Moreover, every effort is being made to employ advanced technologies to address Group-wide management issues, including the need to dramatically improve productivity while taking into consideration work style reform.

### Systemic Risk Management

Daiwa Securities Group has worked to maintain and enhance the management of systemic risk in order to reliably provide high-quality services to customers while protecting information assets from various threats and risks. The Group monitors the status of its networks and information systems and makes qualitative improvements to its systems based on periodic risk assessments, in order to prevent risks from occurring.

Against this backdrop, Daiwa Securities Group has positioned the need to ensure cyber security as an important issue in the context of managing risks. This reflects the recent and growing threat of cyberattacks. As a result, the Group has established the Daiwa-CSIRT\*, a Group-wide cross-sectional specialist organization that collects and analyzes the latest information on cyberattack methods and vulnerability while coordinating with external institutions. Drawing on this information and analyses, ongoing steps are being taken to strengthen cyber security measures encompassing the Group as a whole, including overseas bases. These steps include building multilayered initiatives that combine a number of technological countermeasures, continuously monitoring networks and equipment, detecting and analyzing attacks, and putting in place the Security Operation Center (SOC), which is charged with the responsibility of formulating countermeasures.

\* Computer Security Incident Response Team: the organization that manages cyber security across departments



## Risk Appetite Framework

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

### Risk Appetite Framework

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

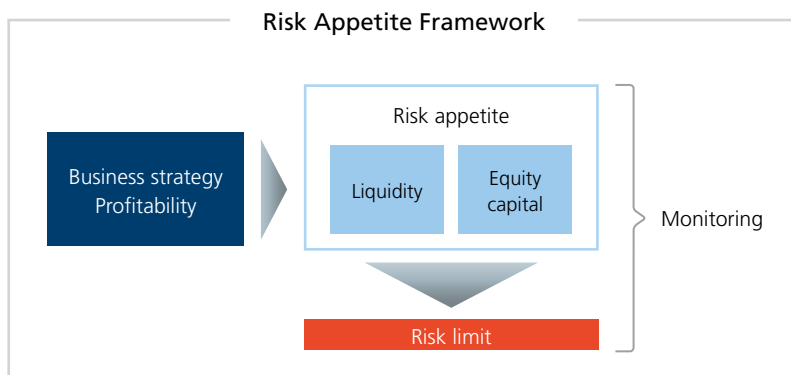
In addition, the Group must appropriately evaluate risks outside the ordinary, and ensure it has sufficient liquidity and equity capital commensurate with these risks in order to be adequately prepared during times of stress.

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

This risk appetite framework defines risk appetite as the type and total amount of risk that should be assumed in order to achieve business strategies. It is a common phrase used internally to discuss risk-taking policies within the context of business management.

Risk appetite is the level of risk to be taken based on a risk appetite index that refers to liquidity and equity capital, among other factors. Risk limits that restrict risk appetite are logically set based on the risk appetite index, and then managed and monitored.

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



### Risk Appetite Framework Management Structure

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

The Board of Directors has deliberated and decided on a Risk Appetite Statement that quantifiably sets the risk appetite index within the context of liquidity and equity capital.

The Audit Committee conducts audits of the Board of Directors and management with regard to the risk appetite framework.

## Risk Management

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

### Risk Management

#### Risk management policy

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

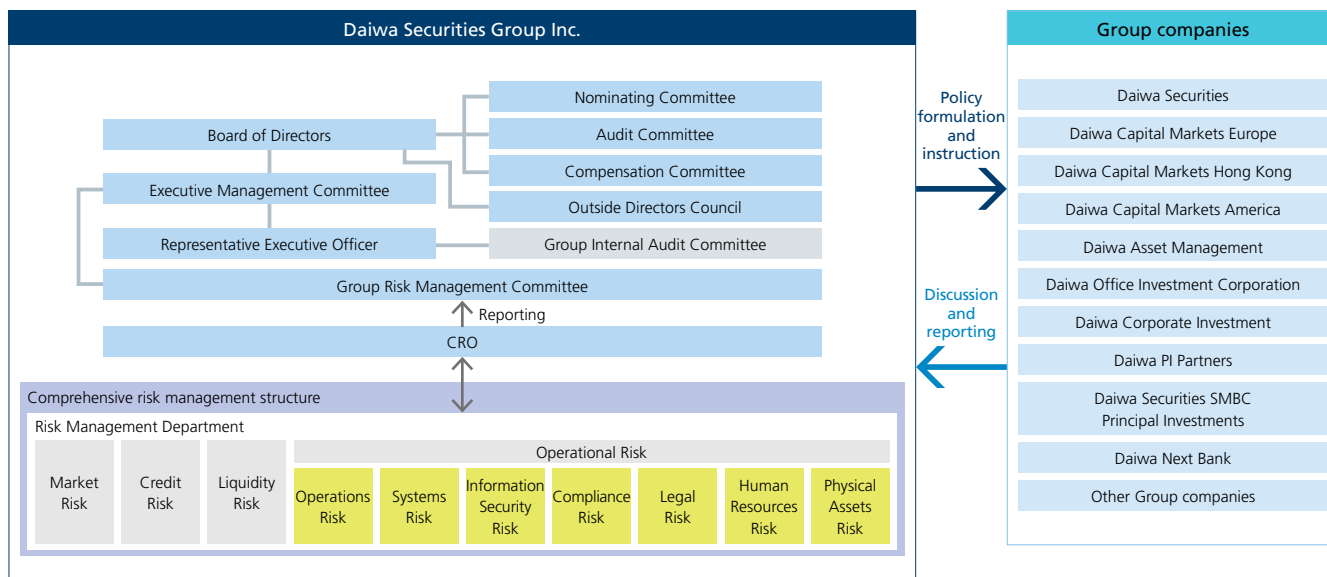
- 1 Management's proactive involvement in risk management.
- 2 The structure of a risk management system that responds to features of the risks held by the Group.
- 3 Understand overall risk based on integrated risk management, secure strong capital and the soundness of liquidity.
- 4 Clarify the risk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

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

#### Types of risks

Daiwa Securities Group faces various risks in the course of its business activities. The Group therefore believes that it is important to identify and appropriately evaluate and manage those risks in order to maintain a sound financial base and earnings structure. Daiwa Securities Group Inc. determines the risks that need to be managed, and conducts risk management based on the respective Group company's business characteristics and risk profile. The types of risks that have been deemed important to manage include: market risk, credit risk, liquidity risk, operational risk, and reputational risk.

### Risk Management System



### Risk management system

Based on its risk appetite framework, the Board of Directors of Daiwa Securities Group Inc. has approved the Rules of Risk Management. The rules define basic policies related to risk management, the types of risks that need to be managed, and the responsible executive and department for each major risk. Each of the Group's subsidiaries conducts risk management that responds to the risk profile and size of each business in accordance with the abovementioned basic policies. Daiwa Securities Group Inc. monitors its subsidiaries, and reports the risk exposures and issues concerning the risk management system to the Group Risk Management Committee. This is a sub-committee of the Executive Management Committee of Daiwa Securities Group Inc., and it discusses and resolves any issues that are reported. In addition, major Group companies regularly hold risk management meetings in order to strengthen their risk management systems.

## Major Risks and Methods of Management

### Market risk management

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

facets as position and sensitivity. Risk management departments of Daiwa Securities Group Inc. monitor market risk across the Group, and report the status of market risk to management on a daily basis.

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

### Credit risk management

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

For counterparty risks, the Group assigns an upper allowable credit amount for each counterparty group and monitors risk on a regular basis. In addition, the Group sets a limit for the total counterparty risk amount.

Issuer risk for financial instruments held through market-making activities is also monitored.

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

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

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

	6/15	9/15	12/15	3/16	6/16	9/16	12/16	3/17
<b>VaR (Month-end)</b>	<b>1.74</b>	<b>1.53</b>	<b>1.25</b>	<b>1.55</b>	<b>1.01</b>	<b>1.00</b>	<b>1.74</b>	<b>2.32</b>
Quarterly								
High	2.43	2.59	1.71	3.14	2.26	2.53	2.97	3.16
Low	1.68	1.34	1.13	1.17	0.99	0.98	1.02	1.56
Average	2.04	1.65	1.47	1.67	1.53	1.40	2.02	2.17
By Risk Factor (Month-end)								
Equity	0.56	0.83	0.39	0.28	0.27	0.44	0.40	0.54
Interest	1.98	1.42	1.13	1.64	1.00	1.00	1.38	2.42
Currency	0.25	0.33	0.59	0.33	0.19	0.17	0.26	0.29
Commodities	0.00	0.00	0.00	0.00	0.00	0.00	0.03	0.00

(Billions of yen)

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

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

### Liquidity risk management

Liquidity risk refers to the risk of suffering losses due to cash management difficulties or having to finance at markedly higher costs than usual as a result of a change in market conditions or a deterioration of Group companies' finance. The Group uses a variety of financial assets and liabilities to conduct its business with a focus on securities-related operations as its core business. Accordingly, it procures funds based on the policy of efficiently and stably ensuring ample liquidity necessary to continue its business. In order to prevent market fluctuations from affecting the continuation of our business activities, the Group is constantly striving to secure the stability of fund procurement. Particularly in recent years, the Group has been accumulating liquidity through such means as fund procurement through the market as well as loans from financial institutions, in preparation for unforeseen events such as those caused by global financial crises or credit crunches. Additionally, with the anticipation that such crises may make it difficult to procure new funds and reacquire existing funds, the Group diversifies repayment periods and fund sources.

Daiwa Securities Group has established a liquidity management system that consists of the regulatory consolidated liquidity coverage ratio (long term and short term) as well as its own liquidity management indicators. As a part of

efforts to manage short-term liquidity risks, the Group performs daily checks to ascertain that the liquidity portfolios in place are sufficient to cover the repayment of unsecured short-term funds due within a certain time period as well as the estimated outflow of funds under stress in an appropriate time frame—here a number of stress scenarios are adopted. From a long-term liquidity risk management perspective, if stressful conditions are expected to continue for a long period of one year or more, the Group measures and monitors long-term fundraising conditions so that it can continue its business operations even when it becomes impossible to procure funds without collateral for a whole year.

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

### Operational risk management

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

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

#### Definitions of Principal Operational Risks

<b>Operations Risk</b>	The risk of suffering losses due to the neglect of proper operations by employees and executives or due to accidents or impropriety
<b>Systems Risk</b>	The risk of suffering losses due to computer systems going down, malfunctioning, or experiencing system inadequacies, and the risk of suffering losses due to the inappropriate use of computers
<b>Information Security Risk</b>	The risk that a threat to information assets could materialize, preventing information security (confidentiality, completeness, or continued availability) from being assured
<b>Compliance Risk</b>	The risk of suffering losses due to the failure of employees and executives to comply with corporate ethics or laws and regulations, and the risk of suffering losses due to lawsuits with customers and other parties in Japan
<b>Legal Risk</b>	The risk of suffering losses due to the inappropriate conclusion of contracts, breaches of contract, or lawsuits with customers or other parties in relation to overseas offices
<b>Human Resources Risk</b>	The risk of suffering losses due to problems in labor management or from the standpoint of workplace safety, and the risk of being unable to secure necessary human resources
<b>Physical Assets Risk</b>	The risk of suffering losses due to damage to physical assets as the result of natural disasters or external factors, or to negligence on the part of executives and employees

As the Group's business becomes more sophisticated, diversified, and systemized, the accompanying risks become more varied. As a result, the importance of managing operational risk has grown each year.

Major Group companies control their operational risks appropriately by measures including risk control self-assessments (RCSAs), in accordance with rules on operational risk management set by Daiwa Securities Group Inc. In addition, the Group has taken other necessary measures, including the implementation of rigid rules concerning authority, the automation of office operations for reducing human errors, and the preparation of procedural manuals. Each Group company strives to reduce operational risk according to the nature of its own business.

### Reputational risk management

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

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

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

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

### Accounting and tax risk management

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

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

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

### Tax policy

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

### Daiwa Securities Group Tax Policy

- 1 Daiwa Securities Group complies with laws and ordinances, and contributes to sustainable development of the society through appropriate tax payments with high ethical standards.
- 2 Daiwa Securities Group rewards our shareholders by achieving sound profits based on proper and fair tax planning.
- 3 For cross border intra group transactions, Daiwa Securities Group sets an appropriate price, which can achieve adequate accountability under transfer price tax regulations.
- 4 CFO, executive officer in charge of Finance, and Head of Finance Department of Daiwa Securities Group Inc. from time to time provide guidance and advice to subsidiaries and other departments within the Group as necessary, so that corporate governance over tax matters can be well shared and implemented throughout the Daiwa Securities Group.