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 risks that are likely to manifest over the medium to long term, in addition to short-term risks.

Risk Management System

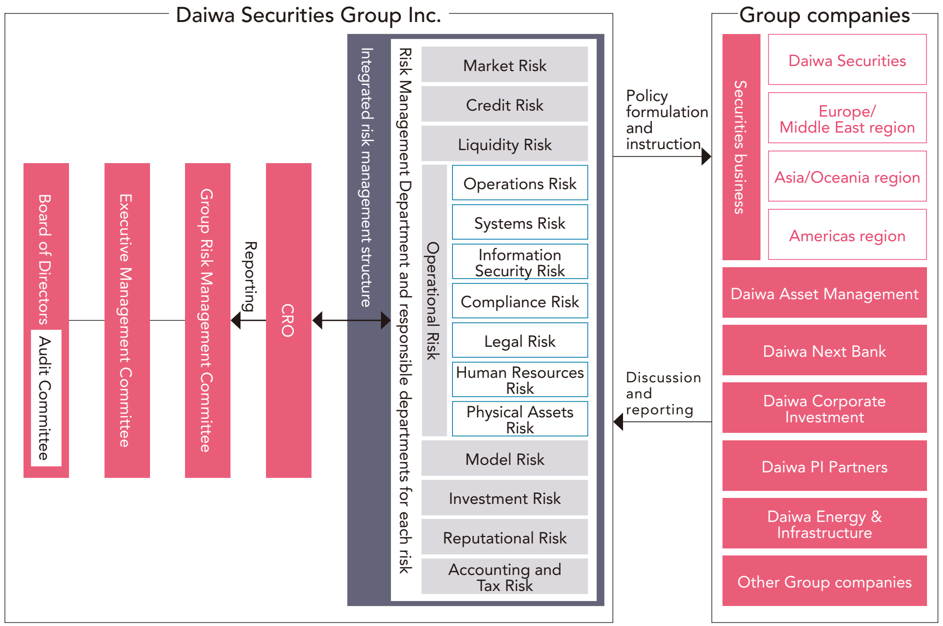
Basic policies as defined by the Rules for Risk Management at Daiwa Securities Group

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 subcommittee 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 System



Risk Appetite Framework

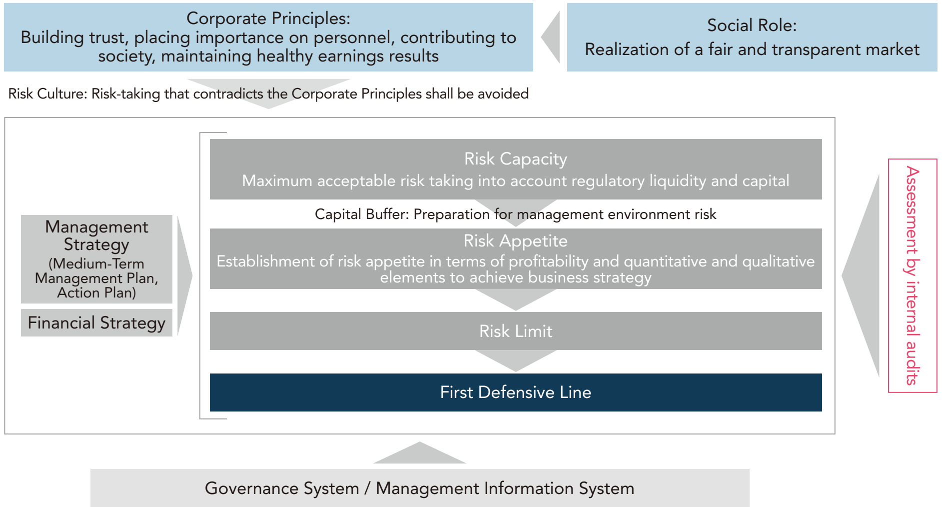
International financial institutions are increasingly required to exhibit sufficient soundness to operate their functions as financial intermediaries during times of economic and market stress. In addition, the Group is required to ensure it has sufficient liquidity and equity capital commensurate with 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.

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.

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

RAF Concept Chart



■Integrated Risk Management

Integrated risk management is a risk management approach that aims to ensure management safety while continually improving corporate value by identifying all risks faced by the Group and comparing them to management strengths. When engaging in integrated risk management, we measure the impact on capital and liquidity within the Group from a forward-looking perspective and utilize RAF-based stress tests*1 as well as top risk management*2 as part of our efforts to ensure a comprehensive understanding of risk.

*1 Stress tests are used for the integrated evaluation of impacts on capital, liquidity, and business systems based on probable stress scenarios that may have a major impact on the Group.
*2 To select and manage risk events that require particular attention in light of the Group's business characteristics.

Please refer to the following website for more information on the Group's risk management.
https://www.daiwa-grp.jp/english/about/governance/risk.html

Compliance

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 retains a deep understanding of compliance issues.

Even when undertaking new business activities where laws and regulations are not yet fully established, we are committed to developing professionals who possess integrity grounded in social norms and common sense, as well as strong self-discipline rooted in a legal mindset, so that they can consistently act and make decisions autonomously while keeping the spirit of laws and regulations in mind.

Compliance system

Daiwa Securities Group established the Group Compliance Committee, which deliberates and decides on such matters as general policies and specific measures on compliance with laws and regulations, the establishment of corporate ethics, and internal controls.

As far as compliance risks are concerned, we identify insider trading risks, inability to prevent money laundering and involvement in terrorist financing, inadequate measures to eliminate anti-social forces, information security risks, and inappropriate conduct by officers and employees as key risk areas, and are working to strengthen our management framework. Based on this identification and understanding of risks, we formulated Group Minimum Standards covering the prevention of insider trading, the elimination of anti-social forces, and information security as the basic requirements that all Group companies must comply with at a bare minimum. In addition to implementing these standards as common compliance guidelines across the Group, we work to ensure that all officers and employees are aware of and adhere to these standards through training and other initiatives.

At the same time, the Compliance Control Department, which is responsible for overall compliance planning and formulation for both Daiwa Securities Group and Daiwa Securities together with Compliance Department (I) and Compliance Department (II), oversees efforts to establish and strengthen compliance frameworks by clarifying and sharing fundamental principles and approaches, monitoring the frameworks and operational status of each company, and providing necessary support. In addition, steps are taken to collaborate with the compliance departments of Group companies and overseas bases to ensure the exchange of a wide range of information, assess the status of compliance and risk, and provide support for addressing specific issues and cases. At Daiwa Securities, every effort is made to collaborate with internal administrators assigned to the head office, branches, and divisions across a broad array of areas, including the prevention of violations of laws and regulations through monitoring as well as guidance and training.