

Message from the CEO

Through the Group's mission of **maximizing customer asset value**, we will help speed up the shift "From savings to investment" in Japan and bring our Medium-Term Management Plan targets and our FY2030 target of ¥350 billion or more in ordinary income within reach

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We are in the same boat as our customers, aiming for the same goals

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Last year, I set **maximizing customer asset value** as the Basic Group Management Policy in the three-year Medium-Term Management Plan starting in FY2024. We positioned the past year as a phase for making sure that employees truly understood the basic thinking and philosophy behind the Plan, and worked in various ways to gain an in-depth understanding of the strategic concept. For example, in various meetings, including the biannual meetings of Group division and branch managers, and whenever I visited our offices in Japan and abroad, I tried to convey in my own words the strategic significance and management intent behind the Policy. A lot of thinking went into the notion of **maximizing customer asset value**: It includes drilling down into the needs and issues of customers—including things they themselves aren't aware of—understanding these needs and issues, and offering the best, most appropriate high-quality solutions taking into consideration their assets, including real estate, and the emerging economic environment. The exact same concept applies to corporate as well as individual customers—we also want to maximize corporate value for our client companies.

When it comes to asset management, risk tolerance is fairly high for some customers and relatively low for others. We always ask a comprehensive range of questions—how much they can tolerate risk, whether they have any experience in investing and how much, which financial products they prefer, how much funds are available to invest, what their thoughts on future life

planning are. Only then do we make a proposal for building an optimal portfolio for the customer, and help with their asset management informed by ongoing feedback. This process is clearly different from simply selling individual financial products. Naturally, we deal with risky products and don't guarantee investment performance. In some cases, **maximizing customer asset value** doesn't always translate right away into maximizing customer assets. The important thing is that our Group consultants are in the same boat as our customers, and I always make sure our people are aware of this. There were periods in August last year and again in April this year when the Nikkei average experienced a significant temporary fall, but it's precisely at such times that we spend a lot of time trying to offer information and other careful follow-up to customers. The upshot is that there may be cases where we see a temporary drop in income, but what I am constantly emphasizing is that always coming alongside the customers who entrust us with their valuable assets ties into **maximizing customer asset value** and also leads to greater trust in the Group's consulting and ultimately to maximizing our corporate value.

◆ P30 Maximizing Asset Value

Psychological safety and a culture of building one another up

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There's been a series of scandals at major financial institutions in Japan over the past couple of years. I'm keenly aware that this isn't just a problem for other companies—scandals can occur in any organization at any time. Although this doesn't only apply to financial

institutions, some may point to excessive quotas and pressure to meet high numerical targets as a breeding ground for corporate scandals or their indirect cause. As far as the Group goes, though, we no longer have sales quotas that are untethered to customer concerns—since 2017, we have shifted to a bottom-up sales framework and discontinued the system where headquarters took the lead in setting sales targets. Also, for fund wraps, investment trusts, and other products, employees with excellent sales performance were previously recognized with in-house awards, but since I became CEO, we have done away with the award system based on individual products. To illustrate, let's imagine that the missing piece in a customer's asset portfolio is a foreign currency deposit. But if sales representatives thought they could get a better evaluation if they sold more fund wraps, that would give them an incentive to push the fund wraps. I don't think we can say that this contributes to **maximizing customer asset value**. To elaborate, the measuring rod for evaluating sales representatives shouldn't be individual financial products, but rather how much customers entrust their assets to us. That's what we are now basing our evaluations on.

While we provide compliance education, training for new hires, and periodic follow-up training to raise awareness and enhance knowledge, it's also vital to have a management framework that can pick up on any signs that wrong-doing might occur, such as whether an employee is under undue pressure to perform. In particular, I always urge our executives and frontline managers, that is, our leadership, to increase psychological safety in the organization. I want to cultivate a climate in

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the organization in which employees can feel free to consult with their superiors whenever an issue comes up. If there is that kind of psychological safety, I believe superiors will be able to pick up on the concerns of their subordinates at an early stage and offer appropriate advice to head any potential scandal off at the pass.

I'm a little biased, but I've noticed that a lot of former colleagues who have retired from Daiwa Securities Group remark that Daiwa is a good company. When I think about why that is, one thing that immediately comes to mind is that we regularly rank among the top companies in Japan in job popularity. We are also a company that has made strides in terms of diversity, with a high ratio of female executives, and boast an environment that is easy to work in. But it seems to me that it's more than just these kinds of external factors—the main reason is that a culture of building one another up is so much a part of Daiwa's DNA. For example, if an employee at a branch handles a really large deal, the people around him or her offer praise, and we have a culture where people who've done good work applaud one another. I think this sense of unity and solidarity is what makes those colleagues who've left the Group feel that it's a good organization.

● P67 Corporate Governance Dialogue

Customer satisfaction and the engagement of talented personnel are two sides of the same coin

Since 2018, we have used NPS** as one indicator for evaluating the Group from a customer perspective. Our NPS score has been steadily rising over the past few years.

This is due largely to the fact that we have worked continuously for more than eight years to shift to a wealth management business model and have been cultivating human resources for that purpose. Because the asset management needs of customers include short-, medium-, and long-term aspects, which depend in part on the funds available to them at the time, offering consultation while fully grasping each customer's investment timeline is crucial. In the wealth management areas that handle such consulting, our focus has been on cultivating human resources and honing skills—so far, our cross-divisional training programs, involving not only the Wealth Management Division but also Global Markets and other divisions, have turned out more than 110 professionals in the realm of corporate solutions. Meanwhile, 1,677 people have obtained Certified Financial Planner (CFP) certification, the highest number in the financial industry in Japan. We are proud of maintaining top-class consulting capabilities backed by these figures.

Hiring such talented people is an extremely critical point in our Group management strategy. Naturally, we also focus on mid-career recruitment, but especially when hiring new graduates, we go by the personal history the applicant writes to gauge and talk together about the influences on their personal values and behavior, and select candidates from multiple perspectives. This process results in fewer poor matches after an employee has joined the Group and helps to support a career path that brings out the employee's potential. As with NPS, which is a measure of satisfaction in customer evaluations, we also carry out engagement surveys of employee satisfaction,

and continue to monitor this score as one of our KPIs. Group-wide, the sustainable engagement survey score has been high, at over 80% for two years running, a level that is on a par with global firms overseas and higher than that of internationally-renowned companies in Japan.

* NPS®: A registered trademark of Bain & Company, Fred Reichheld and NICE Systems, Inc.

● P33 WM Strategy P61 Human Capital

Capitalizing on strong tailwinds, we will forge ahead toward the goals of the Medium-Term Management Plan

We set **maximizing customer asset value** as our Basic Group Management Policy in FY2024, the first year of our three-year Plan. For FY2026, its final year, we are targeting consolidated ordinary income of ¥240 billion or more, ROE of around 10%, and Base Income of ¥150 billion. The first year out saw ordinary income of ¥224.7 billion, ROE of 9.8%, and Base Income of ¥137.5 billion—so I think we're off to a really strong start. Needless to say, all of the indicators for the Plan's targets are important, but Base Income is what I am stressing the most. Base Income represents the combined ordinary income of the Wealth Management Division, Securities Asset Management, and Real Estate Asset Management, businesses where we are seeking to build up results that are resilient to changes in market conditions. We made steady headway in this regard in FY2024, generating growth that puts us within reach of our ¥150 billion target.

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The last time our ROE was above 10% was in FY2014. Given that ROE came in at 9.8% in FY2024, I recognize one of our initial challenges is to create a corporate constitution that can consistently yield ROE of 10% or more. As for the PBR, at the outset of FY2024, we were the only major financial institution in Japan to have a PBR above 1 times. However, I'm sorry to say that, since the summer of that year, the level has fallen back below 1 times. Since we calculate PBR by multiplying ROE and the PER, if we can consistently achieve an ROE of 10%, this should naturally have a positive effect on PBR. The PER level also reflects investors' expectations for our future earnings. In terms of the Group's growth potential, the shift "From savings to investment" on the investor side is gaining momentum in Japan. On the corporate side, meanwhile, we are seeing more corporate actions focusing on capital efficiency than ever before. This has created an extremely supportive environment for firms like ours that operate securities businesses on both the investor and issuer sides.

We will not simply rely on the environment to support stronger performance: We will produce steady results by proactively continuing to pursue M&A activities and other inorganic investments, which are necessary for further growth going forward. However, while some growth investments contribute to profits right away, other projects require a certain amount of time to bear fruit. So, our approach doesn't involve a specific investment framework for determining how much capital we should channel into growth investments. If we did have a specific target amount to invest, there would be an incentive to invest simply to fill it up—the concern would be that investments,

which should be a means of growth, would become an end in themselves. So, we intend to address investments flexibly, carefully examining and considering each project.

Regarding shareholder returns, we pledged to pay a minimum dividend of ¥44 for a three-year period, regardless of performance. Thanks to favorable results in FY2024, we were able to significantly increase the annual dividend to ¥56. In fact, when we decided on the minimum dividend, the dividend amount of ¥44 was the highest we had ever paid out, and there was some internal debate about whether it was really prudent to promise such a high level of dividends for the following three years, regardless of performance. Still, to demonstrate our commitment to our shareholders, we resolved to set the minimum dividend at that level for the three years of the Plan. We are targeting ordinary income of ¥350 billion or more in FY2030, but we will probably need to re-visit the dividend policy when it comes time to formulate the next medium-term management plan.

Looking out over the next 10 or 20 years, for example, the basis of wealth management will be the individual financial assets of households in Japan. As of the end of March 2025, this balance stood at ¥2,195 trillion. Daiwa Institute of Research (DIR) calculates that this balance is likely to more than double in 2045, 20 years down the road. If the number of households continues to shrink during that time due to the falling birthrate and aging population in Japan, average financial assets held by each household will do much more than just double. If financial assets per household increase, the needs and concerns of customers will

grow more complex, driving further demand for consulting in the Wealth Management Division. This is why I'm convinced that the way to lock in growth going forward is to steadily increase assets in this Division, as well as assets under management (AUM) in both Securities Asset Management and Real Estate Asset Management, all of which are resilient to changes in market conditions, continuing to reinforce these three businesses. More to the point, I believe companies that quickly forge a path to reinforcing these businesses will be more likely to survive in the future.

▶ P17 Realizing the Aim of Promoting Japan as a Leading Asset Management Center



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Increasing corporate actions demand highly specialized consulting

As I mentioned earlier, while the shift “From savings to investment” is gaining momentum in Japan, corporate actions will also increase going forward. Every day, I meet in person with numerous CEOs, and my strong sense is that the executives of various companies are keenly aware of their stock price and capital efficiency. We are in an era where moves toward M&A as a matter of survival are likely to suddenly come about at any time. Cross-shareholdings between companies continue to unwind, and even in the case of TOBs, compared to the past, there has been a clear upswell of hostile takeovers and acquisitions that skip the typical advance

consent or consultation process, driven in part by increasing moves by activist investors. There’s no doubt that we will continue to see more such corporate actions going forward.

There have been cases of MBOs as well as TOBs in Japan, causing the number of companies delisting from TSE to reach a record high in 2024, with the number of listed companies declining for the first time. In Europe and the United States, though, the number of listed companies has been declining for more than a decade. Down the road, we expect to see even greater market metabolism in Japan as well, where the number of listed companies had steadily been increasing. And it’s not just an increase in the number of deals—each deal is also becoming highly complex, giving rise to greater demand for advisors who can provide more sophisticated services. In other words, the role we play in this area will become larger every year. There are countless opportunities to help unlisted companies raise funds and provide financial support, and we are continuously reinforcing our highly specialized consulting framework for client companies, listed or unlisted.

Accelerating the business through business alliances

The Group’s M&A advisory team currently includes over 600 people overseas and more than 100 people in Japan alone. DIR also has a consulting team that handles M&A activities, although the scale of DIR deals tends to be smaller. Anticipating the further increase in corporate actions, we announced a business tie-up with

Sumitomo Mitsui Trust Bank in May 2025 in the M&A advisory field. Sumitomo Mitsui Trust Bank will dispatch personnel to DIR, with the aim of further honing its ability to handle M&A deals. In terms of our own inorganic strategy for the Group, including M&As, in 2024, we entered into a capital and business alliance with Aozora Bank (23.9% interest), while JAPAN POST INSURANCE acquired a 20% equity interest in Daiwa Asset Management. It was highly significant that we were able to take these steps in the Wealth Management Division and Asset Management Division, which, as I mentioned, we are in the process of reinforcing in an effort to ramp up Base Income.

For the Aozora Bank deal in particular, the biggest benefit for us will be that, by adding loan and trust functions to the Group, we will be able to offer more robust proposals to customers. For this collaboration, we set up task forces in five areas—corporate finance, support for growing companies from startups to newly listed companies, M&As, real estate businesses, and wealth management—and have nearly finalized the framework for the alliance. In FY2024, in the corporate business overall, Aozora Bank made several dozen investments and loans to customers we introduced to them. In FY2025, we will move into a stage of further accelerating the businesses and accumulating concrete results. We’ve already obtained more than 500 information sharing agreements*, which are a prerequisite for joint proposals with Aozora Bank, and are steadily building up the pipeline. Aozora Bank also plans to start selling the Group’s fund wrap products this fall. In addition, we are considering developing new products that draw on Aozora Bank’s



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loan and trust functions for wealthy customers. We expect the impact of these measures to be a ¥10 billion increase in earnings in FY2027 for both parties—for the Group on an ordinary income basis, and for Aozora Bank on a business profit basis.

* A document that allows individuals or organizations to obtain prior consent to sharing certain information with third parties

● P46 Promote a disruptive growth strategy

Rapid adoption of cutting-edge AI technology

Companies in any industry today cannot avoid addressing the rapid development of AI technology. Early on, in 2023, we also decided to adopt the ChatGPT generative AI platform and, when we measured the platform's effectiveness in improving work productivity, including in translation, summarization, and idea generation, found a saving of around 160,000 hours in 2024, equivalent to the work hours of 80 people. More recently, employees who newly joined the Group in 2024 also proposed an AI-based employee training system, which we are now implementing. On the business front as well, the contact center of Daiwa Securities launched an AI operator service in the fall of 2024. Recognizing that AI is not all-powerful, however, we formulated Daiwa Securities Group AI Governance Mission Statement and set up a Group AI Governance Committee as an oversight function. AI requires governance in both the input and output of information. For example, there is a need to determine whether information is false or accurate, and security monitoring functions are also necessary. While carefully assessing

the extent to which AI can be useful in the future in areas such as asset management advice and consulting, we want to pursue AI-related initiatives with an eye to speed.

● P48 Digital Strategy

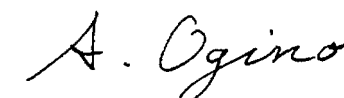
Coming alongside people of all generations in the era of 100 years of life

Daiwa Securities has strengths in serving wealthy individuals, especially older customers. Some might take this to be a cause for concern: Since customers of the younger generation that grew up with digital technology as well as asset-builders are coming up surrounded by major online securities brokers that charge no brokerage commissions, when generational change happens going forward, these online brokers will make inroads with the asset-management demographic as well, including wealthy individuals. But what we are emphasizing is the realm of consulting, in which we provide face-to-face support regardless of what era we are in. I'm confident that the need for such support will not go away in the future.

We also launched Daiwa Connect Securities in 2019, a securities company that is exclusively accessed by smartphone. Even people who started out trading with online brokers will come to have various needs as they build up their assets. When that happens, they will need Daiwa Securities to serve as a concrete point of consultation. So, rather than seeing the existence of major online brokers as a threat, our sense is that they are more like colleagues who can help us grow

the market together. For us to continue to be the securities company of choice, we must further hone our consulting capabilities to a level that is unmatched by any other major financial institution in Japan or abroad. Also, to be called professionals, our employees have to study, to sharpen their knowledge, and to accumulate experience every day.

Of the individual financial assets I mentioned earlier, people aged 60 and over in Japan currently account for 63% of total assets, and estimates suggest this will rise to 65% in 2030 and to 69% in 2040. This is what underlies the expectation that the need for consulting services, including inheritance, business succession, and real estate transactions, will continue to grow. The Group is currently running a TV commercial with the catchphrase "aging with joy." "Age" here refers to people ranging from their 20s into their 90s. In the era of 100 years of life, we will come alongside people of all generations equally, offering financial products and services that bring satisfaction. The TV commercial gives expression to our determination and our aspirations in this regard. I invite you to look forward to the initiatives and proposals of Daiwa Securities Group going forward.



Akihiko Ogino
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