Message from the CFO

Building a virtuous cycle of sustainable growth and enhanced corporate value through the expansion of Base Income and strategic capital allocation

Kotaro Yoshida
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Daiwa Securities Group Inc.

As I enter my third year as CFO, I believe Daiwa Securities Group is facing one of the most significant turning points since I joined the Group. In addition to the intensifying shift "from savings to investment," Japanese financial and capital markets are entering a phase of structural change, driven by the transition to a positive interest-rate environment and continued progress in corporate governance reforms.

In FY2025, I had many opportunities to engage with investors in Japan and overseas. Through these discussions, I felt that investors are showing even greater interest than before in how the Group will achieve sustainable growth amid this turning point. Despite this growing recognition of the Group's revenue stability through the expansion of Base Income and growth potential of the wealth management business, investors are seeking greater transparency and accountability regarding the sustainability of the Group's growth, our approach to capital allocation, and the specific path toward improving capital efficiency.

This growing interest in capital allocation and improved capital efficiency is precisely the fundamental issue the Group must address as it enters its next phase of growth. As a concrete step in this direction, the Group announced the acquisition of ORIX Bank as a subsidiary in April 2026, which represents the largest investment in the Group's history. This acquisition is a strategically significant investment in the wealth management area, one of our core businesses, and is expected to lead to a substantial enhancement of the value we provide to our customers. Because this is the largest investment we have ever made, I am acutely aware of the need to carefully assess its impact on our financial foundation and achieve the optimal balance between growth investments, capital efficiency, and shareholder returns. This is the issue I am most committed to addressing today.

FY2025 in Review

An unprecedented opportunity for growth

Looking back on FY2025, equity markets experienced periods of significant volatility driven by factors, including US reciprocal tariff policies and developments in the Middle East. Nevertheless, supported by solid corporate earnings, the Nikkei Stock Average (Nikkei 225) trended upward overall and reached substantially higher levels. Long-term interest rates also continued to rise, with the yield on 10-year Japanese government bonds exceeding 2%, as Japan moved further into a positive interest rate environment. These changes mark a clear departure from the deflationary environment that persisted for many years. I believe they represent an unprecedented opportunity to further expand our growth.

On track to exceed Medium-Term Management Plan targets

Under this favorable business environment, we made steady progress in achieving the performance KPIs set out in our Medium-Term Management Plan "Passion for the Best" 2026 in FY2025. ROE was 10.3% compared with the Plan target of around 10%, and Base Income was ¥182.7 billion compared with the Plan target of ¥150.0 billion. Both exceeded the final year targets in the second year of the three-year Medium-Term Management Plan. Ordinary income reached ¥234.5 billion, steadily approaching the Plan target of at least

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¥240 billion, putting us within reach of exceeding the target in FY2026. I am increasingly confident that these results are not simply attributable to favorable external conditions, but reflect our steady efforts over the past decade to transform our business model and strengthen the revenue base.

The Group delivered strong results in FY2025, with net operating revenues of ¥720.4 billion (up 11.5% year on year) and net income attributable to owners of the parent of ¥175.2 billion (up 13.5% year on year), both reaching record highs. By division, the Wealth Management (WM) Division achieved a new record for asset-based revenues* and reached its highest ordinary income ever at ¥112.0 billion thanks to progress in portfolio proposals aligned with customer needs against the backdrop of the continued penetration of total asset consulting. In the Asset Management (AM) Division, both Securities and Real Estate Asset Management expanded AUM, and both net operating revenues and ordinary income reached record highs. In the Global Markets & Investment Banking (GM&IB) Division, Global Investment Banking (GIB) effectively captured opportunities arising from changes in global capital markets, with both net operating revenue and ordinary income reaching record highs. I believe these results reflect the fact that each division has consistently provided solutions tailored to client needs, based on the Group's basic management policy of **maximizing customer asset value**.

Among the performance KPIs, we place particular emphasis on Base Income, which grew by more than 30% year on year, demonstrating further progress in building an earnings structure that is resilient to changes in the external environment. Base Income is generated from assets entrusted to us by customers in the WM Division and assets under management in the AM Division, meaning it also serves as an indicator that embodies the trust we have built with our customers. In addition, because Base Income supports earnings during periods of market volatility, I feel that it is becoming increasingly recognized by investors as a foundation for steadily maintaining shareholder returns and growth investments. With FY2026 set as the final year of the Plan, we recognize that a key challenge going forward is continuing to optimize the allocation of management resources under our new business platform that includes ORIX Bank, and thereby drive further growth and enhance corporate value.

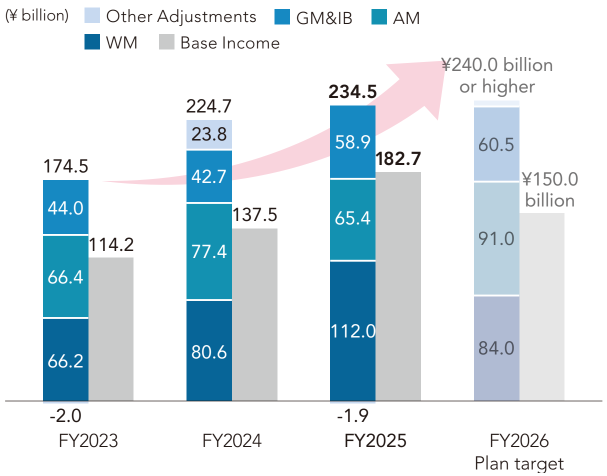
* Asset-based revenues: Agency fees for investment trusts, investment advisory and account managed fees, bank agency fees and other, revenues from asset-based fee plans for investment trusts, etc

Capital Allocation

Financial and capital strategies

Founded on the principle of maintaining financial soundness, the Group's financial and capital strategy is to allocate capital strategically under an optimal balance between growth investments and additional shareholder returns, thereby achieving sustainable corporate value enhancement. In particular, as growth opportunities continue to expand amid changes in the external environment and the stabilization of our earnings base, our policy is to give priority to growth investments in order to capture these opportunities for growth. Our basic capital policy remains unchanged following the acquisition of ORIX Bank as a subsidiary.

Ordinary income / Base Income trends



In executing growth investments, we have identified both the wealth management and asset management businesses as key areas for enhancement. Guided by our three strategic pillars—customer base expansion, capability and product enhancement, and open innovation—we flexibly evaluate investment and alliance opportunities in Japan and overseas.

We will continue to broadly consider investment opportunities that meet our investment criteria*, including the ability to contribute to our performance target of approximately 10% in ROE. During the current Medium-Term Management Plan, we have executed approximately ¥510 billion of growth investments thus far, including announced deals. We also regard investments in human capital and digital technologies as strategic investments aimed at strengthening the foundation for sustainable growth, and continue to implement them selectively while carefully assessing their effectiveness.

* Investment criteria: Applied to all investment projects, the Group has set the hurdle rate at a level where investments are able to contribute to an ROE of 10% based on regulated risk assets. Under the condition of strict monitoring and the establishment of an appropriate governance framework after an investment is made, if the initially expected investment outcome cannot be quantitatively and qualitatively verified, and where capital efficiency is deemed to be low, downsizing, withdrawal, and disposal are considered.

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The acquisition of ORIX Bank as a subsidiary will allow us to incorporate lending and trust capabilities into the Group, making this a strategic move that will further the Group's evolution toward a total asset management business model. Upon completion of the acquisition, the consolidated capital adequacy ratio is expected to temporarily decline to approximately 14%. However, this level remains sufficient from a regulatory perspective and does not impair the financial soundness of the Group. While we are also considering the use of non-dilutive perpetual subordinated debt, we intend to steadily build earnings through both the consolidation of ORIX Bank's earnings and synergies such as expanding investment capabilities by leveraging the deposit base of Daiwa Next Bank. We aim to steadily realize a virtuous cycle in which those earnings become the source of future growth investments and other capital deployment.

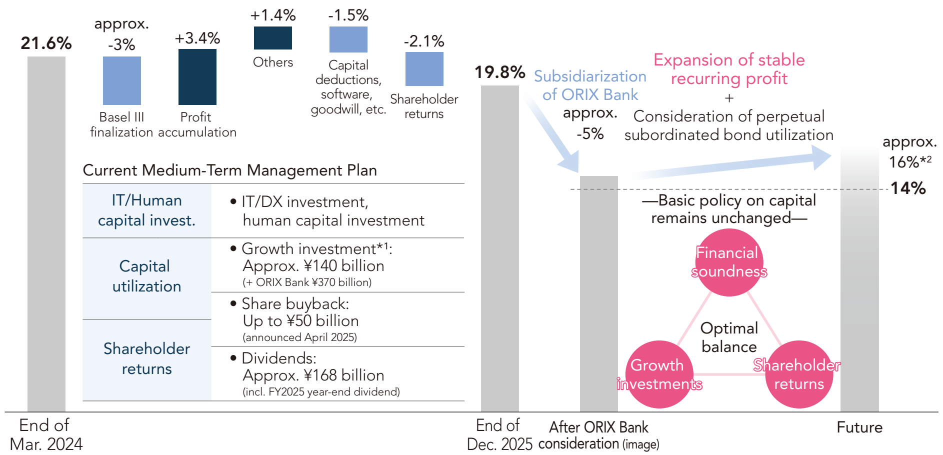
Alongside the promotion of growth investments, we are also working to enhance capital and liquidity management and strengthen expense discipline. In addition to establishing frameworks that enable more flexible utilization of capital and liquidity, we will further refine our monitoring processes and PDCA cycles to ensure disciplined capital allocation. With regard to expenses, we aim to further improve productivity and maintain our capacity for continued growth investment by enhancing operational efficiency through AI and appropriately controlling expenses even as revenues grow.

Growth investments are essential to achieving sustainable growth across the Group. We will continue to capture growth opportunities, realize the returns from our investments, rigorously manage capital profitability by business, and pursue higher ROE and enhanced corporate value.

Shareholder returns

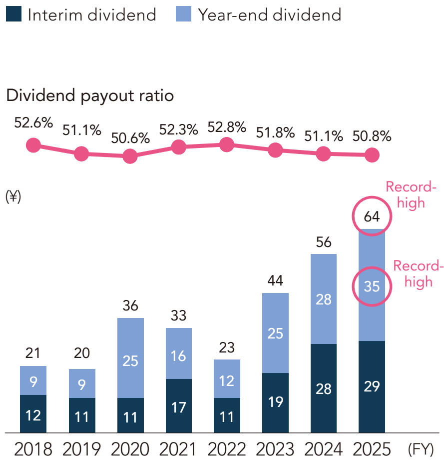
With respect to shareholder returns, we will maintain our current basic policy and maintain a dividend payout of at least 50% on a semiannual basis, reflecting consolidated financial results. In addition, we have committed to a minimum annual dividend of ¥44 per share throughout the current Medium-Term Management Plan period. This policy reflects the stability of our earnings and is intended to meet the expectations of shareholders and investors by enhancing dividend predictability. While the minimum dividend provides a floor, we intend to return the benefits of earnings growth to shareholders through dividends based on a payout ratio of at least 50%. For FY2025, the full-year dividend reached a record high of ¥64 per share, exceeding the previous year's ¥56 .

Trends in the consolidated total capital ratio and investment/capital utilization during the current Plan

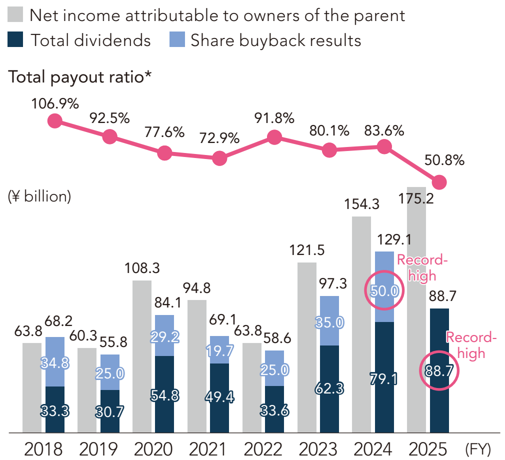


*1 Growth investment figures are net of investment and divestment amounts.
*2 Calculated as: regulatory requirement (11%) + stress-test losses (= 14%), plus a buffer that accounts for restrained OCI volatility.

Trend of dividends per share



Trend in shareholder returns



* Total shareholder return ratio for the fiscal year = (Expected dividends for the year (December of the current year + June of the following year) + Expected share repurchases decided by the date of the full-year earnings announcement) ÷ Expected net income attributable to owners of the parent for the fiscal year.

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The acquisition of ORIX Bank as a subsidiary might appear to have temporarily reduced the capital available for shareholder returns. As noted earlier, however, this acquisition will significantly enhance the Group's earnings-generating capacity through the consolidation of ORIX Bank's earnings and the realization of synergies. Over the medium to long term, we believe it will also contribute to expanding the capital available to support shareholder returns.

Regarding additional shareholder returns, we will not make decisions mechanically based on any single indicator, such as a specific capital level or PBR. Instead, we will make decisions based on a comprehensive assessment of business conditions, the maintenance of financial soundness, growth investment opportunities, capital capacity, and market valuation. We will also closely monitor the path of improvement in the consolidated capital adequacy ratio and consider additional shareholder returns in light of prevailing circumstances.

Initiatives to Enhance Corporate Value

Strengthening the revenue base

The foundation of the Group's corporate value enhancement lies in building a stable earnings structure that is resilient to changes in the external environment. At the core of this effort is further earnings growth driven by the expansion of Base Income. By achieving sustained improvement in ROE through the growth of Base Income, while also reducing the cost of capital through a more stable earnings structure and increasing the expected perpetual growth rate through proactive growth investments, we aim to further enhance corporate value.

The faster than expected growth in Base Income, which we regard as a key indicator of stable earnings, reflects the accumulation of strategic initiatives across the businesses that comprise Base Income. In the WM Division, continued progress in sales reforms through the transition to an asset management-based business model over the past decade has made steady headway in total asset consulting, leading to increasing asset inflows from both corporate and individual customers. In FY2025, asset inflows reached approximately ¥1.6 trillion, while asset-based revenues linked to customer assets under custody continued to accumulate steadily, marking further progress in establishing a stable earnings foundation.

Securities AM saw AUM expand to ¥44 trillion thanks to an ongoing trend of strong net inflows. Moreover, through our capital and business alliance with JAPAN POST INSURANCE and the acquisition of Daiwa JPI Alternative Investments as a subsidiary, we have steadily increased our presence through expansion into the investment advisory business, including alternative investments. Similarly, Real Estate AM steadily grew AUM to nearly ¥1.8 trillion through methods such as the establishment of private funds. We have established a stable earnings base through disciplined investment management focused on rental housing and mid-sized office properties, which offer strong resilience to inflation.

We have also continued to pursue inorganic growth strategies aimed at expanding our customer base and strengthening our capabilities. The alliances and investments we have accumulated over the years have laid the foundation for broader revenue opportunities and further growth for the Group. Through our capital and business alliance with Aozora Bank, cross-divisional collaboration has led to tangible progress in generating synergies. In addition, assets in JAPAN POST BANK Fund Wrap increased to approximately ¥313.8 billion through collaboration with the JAPAN POST Group. Our business alliances with regional financial institutions, including Shikoku Bank and the Bank of Iwate, have also progressed steadily. Through these external partnerships, we continue to expand our customer base. The acquisition of ORIX Bank builds on these efforts. We view it as a strategic investment that will both broaden our customer base and enhance our products and capabilities, while further strengthening the Group's earnings base.

P37 Pursuing Transformative Growth

Underpinning the sustainable expansion of our earnings base are investments in human resources and digital technologies, which are key sources of the Group's competitiveness. To attract, hire, and retain talented employees, we have raised salary levels by more than 25% on a cumulative basis over the past five years. We were also among the first in the industry to establish the infrastructure for AI utilization, and are now advancing to a stage in which many of our employees are already using AI for work. Through these initiatives, we are steadily strengthening our sustainable competitive advantage.

P48 Source of Value Creation

Enhancing capital profitability

During the first two years of the current Medium-Term Management Plan, consolidated ROE improved steadily from 9.8% in FY2024 to 10.3% in FY2025 while maintaining a controlled level of volatility. These results reinforce our confidence in achieving double-digit ROE on a consistent basis. We will continue to drive EPS growth and improve the risk-return profile of each business, while further enhancing ROE through the contribution of growth investments, including ORIX Bank.

As we work toward the sustainable improvement of consolidated ROE, the expansion of Base Income has strengthened the stability of our earnings base. The Group

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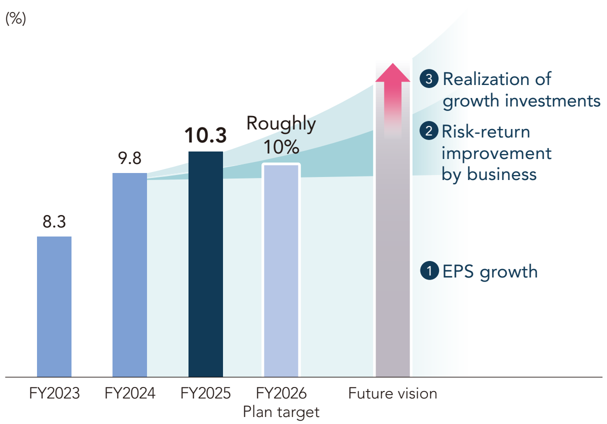
is entering a phase in which we will place even greater emphasis on disciplined capital allocation and capital efficiency. To support this effort, we have enhanced management transparency through the disclosure of segment-level ROE and established a framework under which each segment develops and executes strategies to improve capital efficiency.

In capital-light businesses such as the WM Division, Securities AM, and GIB, we focus on increasing earnings, profitability, and earnings stability. In more capital-intensive businesses, including GM, Alternative AM, and Real Estate AM, we seek to improve capital profitability through a disciplined balance between earnings and capital employed.

Through detailed analyses that reflect the characteristics of each business, we allocate management resources on a prioritized basis to businesses that contribute to higher capital profitability. At the same time, for businesses with lower capital profitability, we pursue improvement initiatives while maintaining the flexibility to make timely and appropriate decisions regarding downsizing and withdrawal when necessary.

P47 ROE by Segment

ROE trend



Enhancing creditworthiness: A foundation for reaching greater heights

As a result of these initiatives, FY2025 saw S&P raise its outlook on our ratings, followed by one-notch rating upgrades from both JCR and Moody's for Daiwa Securities Group Inc. and Daiwa Securities.

We believe these actions reflect the progress we have made in strengthening our credit profile through more stable earnings, a stronger financial foundation, and ongoing efforts to reduce our cost of capital, which we believe has been recognized by third-party institutions.

Following the acquisition of ORIX Bank as a subsidiary, Moody's revised the Group's ratings outlook downward, whereas other agencies maintained their ratings and outlooks. Although this acquisition will result in a temporary decline in the consolidated total capital ratio, we believe that incorporating ORIX Bank's earnings capacity and realizing synergies will enhance the Group's capital generation capability and stable earnings base over the medium to long term, ultimately leading to a stronger credit profile.

Ratings (as of May 21, 2026)

Daiwa Securities Group Inc.		
Rating agency	Long-term rating	Outlook
R&I	A+	Stable
JCR	AA−	Stable
Moody's	A3	Negative
S&P	BBB+	Positive
Fitch	A−	Stable
Daiwa Securities		
Rating agency	Long-term rating	Outlook
R&I	A+	Stable
JCR	AA−	Stable
Moody's	A2	Negative
S&P	A−	Positive
Fitch	A−	Stable

Enhanced creditworthiness contributes to a stronger financial foundation by lowering financing costs. Securities businesses are often perceived as having a high degree of revenue volatility, however, the Group has strengthened earnings stability through the expansion of Base Income. We believe that the combination of more stable earnings and a stronger financial base further enhances our ability to generate ROE above our cost of capital, thereby contributing to sustainable growth in corporate value. Moreover, we believe this robust foundation will support the Group in achieving further growth and reaching even greater heights.

Building a stronger earnings structure

To build a more resilient earnings structure, as CFO I have taken the lead to improve operational efficiency, accelerate the use of AI, and strengthen base cost management.

By embedding AI agents across the Group and fundamentally redesigning business processes, we will aim to free up time for higher-value activities. In tandem, we are strengthening cost discipline through greater

History of Daiwa Securities Group rating/outlook changes

Date	Agency	Change	Entity	Rating
2024 May	R&I	▲Upgrade	Daiwa Securities Group Inc. Daiwa Securities	A+/Stable A+/Stable
2024 Dec.	JCR	▲Outlook Upgrade	Daiwa Securities Group Inc. Daiwa Securities	A+/Positive A+/Positive
2025 Feb.	Moody's	▲Outlook Upgrade	Daiwa Securities Group Inc. Daiwa Securities	Baa1/Positive A3/Positive
2025 Aug.	S&P	▲Outlook Upgrade	Daiwa Securities Group Inc. Daiwa Securities	BBB+/Positive A-/Positive
2025 Dec.	JCR	▲Upgrade	Daiwa Securities Group Inc. Daiwa Securities	AA-/Stable AA-/Stable
2026 Feb.	Moody's	▲Upgrade	Daiwa Securities Group Inc. Daiwa Securities	A3/Stable A2/Stable
2026 Apr.	Moody's	▼Outlook Downgrade	Daiwa Securities Group Inc. Daiwa Securities	A3/Negative A2/Negative

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visibility into and monitoring of Base Costs*, which represent recurring expenses excluding external and one-off factors. Savings generated through these initiatives will be reinvested in growth opportunities.

Through these measures, we will improve productivity, allocate resources more strategically to growth investments, and further strengthen our earnings base to support sustainable profit growth and enhance corporate value.

* Base Costs: Recurring costs that exclude environmental factors (trading related expenses, etc.) and one-off factors (strategic IT investments, etc.)

Reducing Strategic Shareholdings

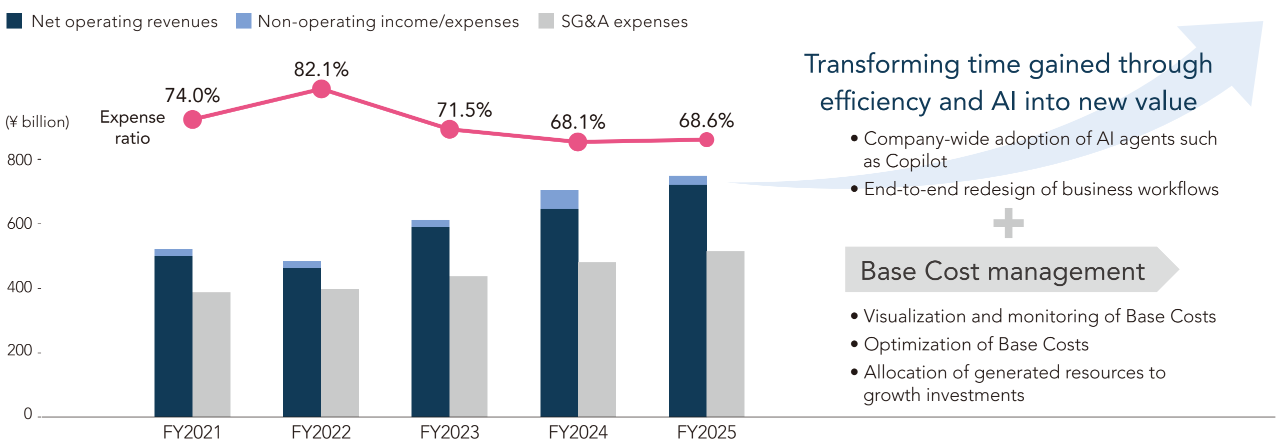
The Group regularly reviews all strategic shareholdings to assess the rationale for continued ownership. In this regard, we have set quantitative and qualitative standards that we use to comprehensively examine whether such holdings contribute to greater corporate value over the medium to long term for the Group, primarily from the perspective of whether returns associated with the holdings exceed the cost of capital.

We retain only those holdings for which a sufficient strategic rationale is recognized and have been steadily reducing our holdings in line with this policy.

Our reviews as of March 31, 2026 found that approximately 30% of our counterparties did not meet the quantitative thresholds. For these holdings, we also assess qualitative factors, including the maintenance and development of business relationships, and seek to improve profitability. Where a holding is determined to have limited strategic value, we will proceed with its sale, while giving due consideration to market conditions and other relevant circumstances.

In FY2025, we sold ¥15.4 billion worth of strategic shareholdings at market value. As of March 31, 2026, the book value of strategic shareholdings stood at ¥86.2 billion, and the percentage of strategic shareholdings (based on the market value of listed and unlisted equities) to consolidated net assets was 9.3%. We will continue to assess the rationale for holding these shares and engage in thorough dialogue with our business partners as we work to further reduce strategic shareholdings from the perspective of efficient capital allocation.

Consolidated revenue and SG&A expenses trends



Note: Group consolidated expense ratio = SG&A / (net operating revenue + non-operating income and expenses)

Dialogue with Stakeholders

Dialogue with shareholders, investors, and analysts represents an invaluable opportunity to enhance the Group's corporate value, and provides valuable insights that support management decision-making. We believe that a timely and accurate understanding of the Group's growth strategy and business activities amid a rapidly changing environment, while reducing information asymmetries with the capital markets, contributes to a more appropriate market valuation and a lower cost of capital.

The insights and perspectives gained through dialogue not only with shareholders and investors, but also with individual and corporate clients, officers, employees, and other stakeholders are regularly shared with the Board of Directors and Executive Management Committee and reflected in the formulation and review of management, financial, and capital strategies. In particular, we intend to incorporate feedback acquired through stakeholder engagement into the next Medium-Term Management Plan, which is currently under development, with the aim of enhancing the specificity and effectiveness of our strategies.

Through continued constructive engagement with the capital markets, we will continue to enhance the transparency and discipline of management, thereby contributing to the sustainable enhancement of the Group's corporate value.

ROE by Segment: Accurately monitor capital profitability by business

The Group analyzes capital usage and its return for each segment, striving for optimal capital efficiency to increase our overall ROE.

In FY2025, the Global Markets & Investment Banking (GM&IB) Division's capital usage stood at 37% of the total. The Division is a capital-intensive business that holds trading positions in financial products, leading to lower ROE. The WM and AM Divisions, which use less capital, have higher ROE.

However, we should not allocate management resources based solely on the ROE level of each segment. The WM and GM&IB Divisions work closely together, essential to maintaining each other's competitive edge, like two wheels of a cart. The equities and bonds managed by the GM&IB Division are key drivers for the WM Division's expansion and growth.

By significantly expanding the WM and AM Divisions, we aim to reduce the relative capital usage of the GM&IB Division and enhance capital efficiency in GM, thereby boosting the Group's overall ROE.

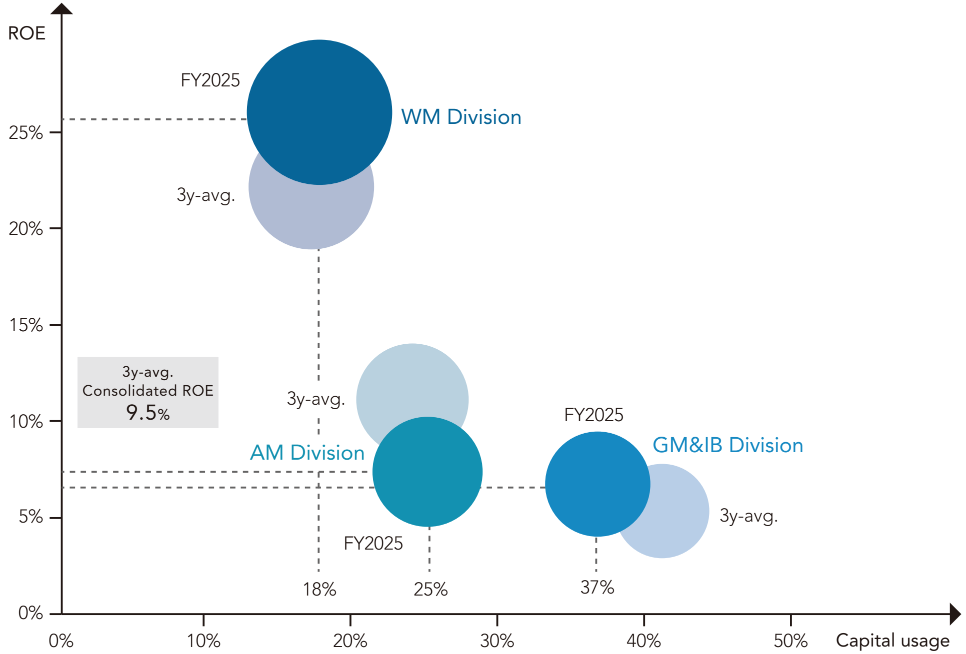
Capital usage (RWA base) and business attributes

Total RWA: ¥7.2 trillion (Avg. of FY2023-FY2025)

Wealth Management	- Capital light - Mainly Daiwa Securities and Daiwa Next Bank - Main risks are associated with HR/IT investments
Asset Management	- Overall capital light - Real Estate AM and Alternative AM account for the majority of RWA
GM&IB	- GM is capital intensive as it holds trading positions - GIB is capital light

ROE by segment*

Figures for ROE, capital usage, and ordinary income are **3y-avg.** of FY2023–FY2025



* 3-year-average of FY2023-FY2025. Circle size = ordinary income. The capital usage sum of the main three segments will not be 100% due to the Other segment (capital usage: 18%).

(Fiscal year)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Group Consolidated ROE	17.0%	12.8%	9.5%	8.4%	8.8%	5.1%	4.9%	8.5%	7.0%	4.6%	8.3%	9.8%	10.3% ↗