Reallocating resources in line with the changing environment to build on our strengths as a global financial services group

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For the past few years, financial institutions have faced a rapidly changing environment. Nomura moved swiftly to adapt to these changes by further enhancing our financial position and reducing our cost base.

As CFO, I see my job as consisting of two main roles. First, to allocate the firm's resources in a way that allows us to best meet regulatory requirements and adapt to the changing market environment. Second, improve communication with shareholders, counterparties, ratings agencies, regulatory authorities, ESG* research organizations, and other stakeholders in order to disclose accurate and timely information about the current status of the firm.

We expect the shift to tighter regulation to continue in the future. However, given that we will be relatively less affected by the reforms than our competitors, we believe this trend will present new opportunities for Nomura. Accordingly, we will continue to solidify our position to ensure sustainable profits under any environment.

* Environmental, social, and governance.

Robust Financial Position

At the end of March 2013, when Japan became one of the first countries to implement Basel 3, Nomura reported total assets of ¥37.9 trillion, shareholders' equity of ¥2.3 trillion, and gross leverage of 16.5 times. Ahead of the introduction of the new regulations, we reallocated resources by selling our stake in Annington, a private equity investee company, in December 2012 and deconsolidating Nomura Real Estate Holdings in March 2013. As a result, our Tier 1 common ratio under Basel 3 was 11.9% at the end of March 2013. Based on a forward simulation using our March 2013 year-end balance sheet, our fully loaded 2019 Tier 1 common ratio is approximately 10%, which places us among the industry leaders.

We also held a high quality liquidity portfolio surplus of ¥5.9 trillion as of the end of March 2013. This allows us to continue operating for one year without the need for additional unsecured funding or asset sales even under stressed market conditions. In addition, the liability side of our balance sheet is dominated by long-term debt, and we have diversified our sources of funding across currencies.

This robust financial position is a competitive advantage that directly benefits our clients by allowing us to deliver the best products and services tailored to their specific requirements.

Adapting to the Changing Environment

The global fee pool in our industry has been shrinking since the start of the European debt crisis. Coupled with this, financial institutions have been forced to rethink their strategies due to the shift to tighter regulations.

To reposition Nomura for this new environment, we have revised our cost base, which was set for the much larger fee pool environment of 2009, and we have been working on a $2 billion cost reduction program since July 2011 aimed at lowering the breakeven point of our Wholesale business. Of this $2 billion, the $1 billion cost reductions announced in September 2012 were 78% complete as of the end of March 2013, with personnel expense reductions running ahead of schedule. Despite the recently improved revenue environment, we remain focused on completing the cost reductions by March 2014. By enhancing the profitability of our international Wholesale operations, we aim to achieve our management target of earnings per share of ¥50 by the year ending March 2016.

Shareholder Returns

Our underlying approach to shareholder returns centers on continually raising shareholder value while also paying dividends. We aim to deliver stable dividends using a full-year consolidated payout ratio of 30% as a key indicator. In determining dividend payments, we take into account a comprehensive range of factors including our consolidated financial performance and global regulatory reforms such as the new Basel regulations. Based on this policy, we paid an annual dividend of ¥8 per share in FY2012/13.

In addition, we seek to efficiently invest retained earnings in business areas with prospects of high profitability and growth, while also taking into account the regulatory environment, in order to increase shareholder value.

Since the Abe administration came to office in December 2012, the world has started to look on Japan in a new light and expectations are rising over the country's future. As the dominant player in Japan's financial and capital markets, Nomura is well placed to connect markets in the East and the West, further stimulating Japan's economy.

To remain a trusted partner for our global clients, we will leverage our access to Japan's deep pool of funds and our geographic advantage in the world's growth region of Asia.