Fundamental Approach
The business activities of Nomura Group are exposed to various risks such as market risk\(^1\), credit risk\(^2\), operational risk\(^3\), model risk\(^4\), and other risks caused by external factors.

We are working to further upgrade and strengthen our risk management systems, and we position the appropriate management of these risks as a management issue with the highest priority.

Risk Management Systems
Nomura Group has prepared its Risk Appetite Statement. This statement sets forth the content of risks that the Group can undertake, and it takes account of the Group’s business strategy and business targets, including the amount of capital and liquidity required under regulations, and the business environment. The Risk Appetite Statement is proposed by the Chief Risk Officer (CRO) and the Chief Financial Officer (CFO), and submitted for final approval to the Executive Management Board. The statement covers all types of risk that the Group is exposed to, including capital adequacy and balance sheet measures, liquidity risk, market and credit risk, operational risk, and model risk. With a basic policy of controlling risks that arise in the course of operations within the limits of the Group’s risk appetite, the Executive Management Board or the Group Integrated Risk Management Committee,\(^5\) which has been delegated responsibility by the Executive Management Board, is responsible for deliberating and determining important matters pertaining to risk management.

Risk Management Structure

- **Internal Controls Committee**
  - **Board of Directors**
  - **Executive Management Board**
  - **Group Integrated Risk Management Committee**
  - **Group COO**
  - **CFO**
  - **CRO**
  - **Risk Management Departments**
    - **Risk Management**
      - Business risk management
      - Credit risk management
      - Operational risk management
      - Other
  - **Group Internal Audit Department**
    - **Audit**
      - **Report**
        - Executive Management Board
      - **Check**
        - Executive Management Board
- **Individual Business Units**

Ensuring Financial Soundness and Transparency

Responding to Increasingly Sophisticated Financial Regulation
To respond to higher-level financial regulations under Basel III, Nomura Group has applied its own internal models for measuring general market risk, specific risk, incremental risk, and comprehensive risk with the aim of more accurately calculating increasingly complex and diverse risks. To measure the amounts corresponding to counterparty transactions, the Group applies the expected exposure method. These sophisticated risk measurement methods apply cutting-edge risk management methodologies and are supported by large-scale computer systems that process the vast volumes of data related to risk management on a daily basis. In addition, in order for Nomura to be in compliance with the strict regulatory governance requirements, independently from the Risk Methodology Group, which is responsible for risk model development, Nomura’s Model Verification Group conducts periodic verifications to ensure that the models are functioning properly.

Risk measurement data, which has been quantified in the exacting processes previously described, is used in computing the Group’s capital adequacy ratio, thus ensuring a high degree of reliability and transparency regarding the soundness of Nomura Group’s financial position.

Enhancing and Strengthening Risk Management Systems
Nomura Group is always working to further enhance and strengthen risk management systems from a full range of perspectives. To give a specific example, in addition to the credit risk management methods applied thus far to counterparties in derivative transactions, Nomura has introduced a “single name limit” approach that sets an overall limit on risks arising from issuers of bonds, equities, and other securities as well as on counterparties, while also identifying groups of bond issuers from a comprehensive perspective. In addition, Nomura is also structuring a system to identify and manage so-called “wrong course risk” which arises when there is a strong correlation between deterioration in the performance of a customer and the size of credit extended to that party.

Stress Tests
Nomura Group periodically conducts stress tests to calculate the size of losses and the volume of risk that may emerge for the Group as a whole under assumptions of extremely difficult economic conditions. The results of these stress tests are reported to the Group Integrated Risk Management Committee. In these tests covering the Group as a whole, risks that cannot be fully calculated by the most-sophisticated and precise risk models are taken into account, and the results are a substantially better measure of the sufficiency of the Group’s capital for maintaining financial soundness.

In addition, among inherent risks of businesses and transactions at the detailed business and trading desk level, there may be risks that are difficult to ascertain with existing risk models. Therefore, stress scenarios are developed to focus on and capture these risks and determine the size of potential losses under these various scenarios. As a result of conducting these tests based on stress scenarios, Nomura is able to supplement information developed by risk models and obtain valuable information on the impact on its income of specific stress scenarios.

Risk Management in New Businesses Transactions
Nomura Group has established a strict approval process for new products and new individual transactions. Decisions on whether to provide these new products and individual transactions are made after a review that covers all perspectives, including reputational risk, legal risk, accounting risk, and financial risk.

Internal Controls
Moreover, to increase the effectiveness of internal controls, including the risk management systems, the Internal Audit Department, which is independent from business lines, conducts audits and makes assessments and then makes recommendations and proposals.

Please refer to Form 20-F. [WEB](http://www.nomuraholdings.com/investor/library/ar/)
Risk Management

Business Resilience*

From the perspective of providing benefits to customers and ensuring the stability of business processes, Nomura takes a wide range of measures. Nomura is working to maintain and strengthen its systems for dealing with emergencies, such as natural disasters, system outages, and attacks.

Crisis Management

Nomura Group has established the Crisis Management Committee, comprised of crisis management officers of each Group company worldwide, to address any crisis that may occur. Chaired by an Executive Officer nominated by the Group CEO, this committee has established a system for managing crises and ensuring business continuity in the event of an emergency.

Under the crisis management system, the Crisis Management Committee reports to the Board of Directors regarding matters related to crisis management. In addition, this committee’s secretariat regularly conducts employee safety verification drills, disaster prevention drills, and business continuity drills, in order to be fully prepared to check the status of all Nomura employees during an emergency. As part of these efforts, the secretariat is also tasked with fostering greater awareness of crisis management as well as maintaining and strengthening our ability to respond to emergencies. This system and these measures are stipulated in Nomura Group Crisis Management Policy. This policy covers a wide range of risks facing the Company, including natural disasters, fires, serious crimes committed against the Company or its Executive Officers and employees, system interruptions, transmittable diseases, and the leakage of information assets. We have delegated significant authority to crisis management officers to ensure they can promptly make decisions on-site should a crisis occur. The above policy dictates that crisis management officers be able to take the most-appropriate actions necessary to ensure people’s safety and minimize the spread of damage.

Strengthening Systems for Dealing with Major Disaster Events

Nomura Group is using the lessons learned at the time of the Great East Japan Earthquake to develop systems toward natural and other disasters. Moreover, in view of the release of studies by Japan’s Central Disaster Prevention Council in 2013, regarding the impact of earthquakes that might occur directly beneath the Tokyo metropolitan area and along the Nankai Trough off the coast of Nagoya, we reviewed our disaster risk scenarios to take account of the impact of such major earthquakes. Key issues identified were how to deal with these disasters and how to secure business continuity, and, as part of addressing these issues, we are working to strengthen and upgrade our collaboration with Nomura Group companies in Japan and overseas.

In FY2014/15, we focused efforts on the following initiatives:

1. Strengthening systems for business continuity
   - Upgraded and strengthened capabilities of backup offices
   - Appointed persons in-charge of evacuation and taking shelter in times of emergencies
   - Improved emergency telecommunication systems

2. Continued to implement practice drills and training sessions
   - Drills to establish an emergency headquarters function
   - Performed drills to verify the safety of employees
   - Performed drills in accordance with the business continuity plan (BCP)
   - Provided training for initial response in the event of a major earthquake such as a direct quake beneath the Tokyo metropolitan area
   - Implemented training sessions for countermeasures for the possible Nankai Trough Earthquake at branch offices

3. Strengthened collaboration between Group companies in Japan and overseas
   - Expanded collaboration among Group companies in Japan
   - Enhanced information sharing with overseas Group companies

4. Business continuity plan
   - Revised the BCP as the capabilities of backup offices were strengthened
   - Prepared a BCP focusing on a possible earthquake directly beneath the Tokyo metropolitan area

5. Other initiatives
   - Maintenance of supplies of water, food, and other items at the head office and branch offices
   - Allocated additional supplies to backup offices
   - Provided additional supplies to branch offices located in areas likely to be damaged by a tsunami following the Nankai Trough Earthquake that experts think may occur

Cyber security

To accommodate the diverse needs of its clients, Nomura Group provides a wide range of its services over the Internet. These services use the latest, most-advanced encryption technologies to ensure that important client information is always safeguarded.

In recent years, cyber attacks have been on the increase, and their methods are more sophisticated and artful to disrupt systems and steal customer data by gaining improper access through the Internet.

To deal with cyber attacks, Nomura is taking further measures to enhance system security, and, by forming a specialized unit, is working to strengthen its organizational response. Nomura is also endeavoring to further improve the capabilities of its management and employees to handle cyber attacks through training and practice drills.

System Security Measures

In addition to previously existing measures, including putting firewalls in place and installing antivirus software, Nomura is strengthening its system surveillance capabilities and introducing security systems to improve detecting and handling capabilities for these incidents.

Formation of the CSIRTs

Nomura Group and its major companies have formed the Computer Security Incident Response Teams (CSIRTs). Nomura shares information through CSIRTs within the Group as well as with external organizations such as the Financial Information Sharing and Analysis Center (ISAC*) to prevent computer-security related damage before it occurs, and, when threats to security arise, to respond quickly.

Social and Environmental Risk Management

We believe that considering the social and environmental risks that may arise from various transactions is key to managing our reputational risk. As such, in executing our business operations, we focus on these risks in the same way we are careful about legal compliance. For example, for equity underwriting businesses, we review and confirm the issuer’s awareness of any associated potential risks to society and the environment and that the issuer has taken appropriate steps to address such risks, including the disclosure of information about those risks. Impact on the environment and society as well as financial condition, operating results, and other aspects are included in the overall guidelines applied by relevant departments during the assessment process as vital items that must be confirmed when taking on underwriting deals.

* Financial ISAC: An organization set up by Japanese financial institutions to share information with regard to cyber security.

Assessment process

1. Assessment of transaction
2. Environmental, Social, Other
3. Decision