Restoring trust

On May 28, 2019, Japan's Financial Services Agency issued a business improvement order against Nomura Holdings and Nomura Securities in connection with the improper communication related to the listing and delisting criteria for the Tokyo Stock Exchange. We take this matter very seriously and we regret the embarrassment brought upon our clients and all other stakeholders.

When I became the Group CEO in 2012, the company was in the midst of dealing with an insider information incident (violations of laws and regulations related to the control of corporate-related information concerning public offerings). My top priority was creating a new Nomura by returning our focus to the basic philosophy of "placing our clients at the heart of everything we do." I have worked to enhance and strengthen the internal control system and raise employee awareness throughout the Group. August 3 has been designated as the Nomura Founding Principles and Corporate Ethics Day since 2015, and we have since renewed our determination to prevent the recurrence of misconduct and to earn and maintain the trust of society. As a result, we have improved our compliance system to a certain degree, including the management of corporate information.

However, those involved in this improper communication incident viewed compliance as limited to legal compliance, and did not observe social common sense or values based on societal expectations. In addition, a survey of employees' attitudes revealed that, for a small minority of our employees, the actions of those involved were viewed as "not an issue," indicating that the true meaning of compliance has not yet permeated to all employees. This shows that we are still in the middle of reforming our mindset to prevent a recurrence. This is a serious issue for us.

On May 24, we announced an improvement plan to address this matter, which consisted of the following three points. It is my responsibility to take the lead in making steady efforts to complete improvement measures and take all possible steps to prevent the recurrence of such incidents. At the same time, we will do our utmost to ensure that each and every employee considers and acts with common sense centered around a code of conduct, which always recognizes that our social mission is to contribute to the development of sound capital markets.

We will continue to strengthen and enhance our legal, compliance and internal control systems to prevent a recurrence and restore trust.

Three pillars of improvement measures which we announced on May 24, 2019

I. Adopt a mindset aligned with the Code of Conduct that fulfills the role the public expects financial institutions to play, and create an environment to maintain and improve self-discipline.
II. Reorganize the Wholesale Equities business to ensure that our people are incentivized to contribute to the development of the capital markets.
III. Establish a framework to tightly control not only corporate confidential information, but also non-public information that could materially affect investment decisions.

Urgent need to respond to uncertainties and structural changes

In the past few years, I have been saying that the business environment surrounding us is an "advent of an age of uncertainty." In the last year, that uncertainty has increased, and structural changes have become more apparent in the environment we operate in.

Although macroeconomic conditions have remained firm, US and China trade frictions, uncertainties surrounding Brexit, and turbulence in the emerging markets in the course of normalizing US monetary policies became apparent in the past year. Those geopolitical issues and monetary policies of central banks have shaken financial markets in a number of ways. In Japan, the economy remains on a moderate growth track, but because of the magnitude of risks associated with overseas economies, the Bank of Japan maintained its ultra-aggressive monetary easing, including a negative interest-rate policy. Against this backdrop, market volatility declined significantly, and market participant activities remained sluggish throughout the year.

In the longer term, financial institutions are facing several structural changes. After the financial crisis, major central banks shifted to ultra-low interest rates and we entered an era of zero interest rates. Moreover, the massive purchases of government bonds under quantitative easing policies have significantly reduced market liquidity and weakened the role of financial institutions as liquidity providers.

With the Federal Reserve Board (FRB) starting to raise interest rates at the end of 2015, the market expectation is that these non-traditional monetary policies may finally head for an exit. However, the US and China trade frictions intensified in 2018, and concerns over an economic slowdown, and a plunge in stock prices emerged in autumn. These factors forced the FRB to change the monetary policy. Other central banks such as European Central Bank stopped tightening monetary policy, and the path to the normalization has become distant.

It goes without saying that as digital innovation advances and the proportion of electronic transactions increases, financial institutions are facing margin pressures.

Against the backdrop of such market uncertainties and structural changes surrounding financial institutions, in the third quarter of the fiscal year ended March 2019, we took a goodwill impairment charge (approx. ¥81 billion) relating to the past acquisitions of Wholesale related businesses. We took these actions to clear our financial uncertainties with an eye on the future. But, at the same time, we had to face up to the fact that we had not done enough to reorganize ourselves and move swiftly to address those changes. It also attests to the fact that we understand that we could not continue on the same path as the past if we want to get out of the current situation.

We reported a net loss of more than ¥100 billion in the fiscal year ended March 31, 2019, as we booked one-off costs of around ¥120 billion to liquidate the negative legacies collectively, including the goodwill impairment as well as legal expenses related to past transactions around the time of financial crisis. As part of the management team, I take it very seriously.

Even in the absence of these one-time costs, profit levels are by no means satisfactory. Earnings were down 25% year-on-year, but pre-tax income declined by 75%. If profitability remains as challenged as last year, there is clearly a problem with the cost structure, and we have to take immediate measures to reduce the break-even point. Based on these difficult financial results, we must concentrate our management resources on growth areas, recognizing various structural changes as new opportunities for us, rather than as a troublesome fait accompli.

Focus on growth

In light of these structural changes, Nomura Group aims to strategically strengthen three growth areas; i.e. (1) Our HNW business mainly in Japan, (2) Our approach to asset builders, and (3) Our China business opportunities.

Three growth areas

Focus area 1 HNW business mainly in Japan

One of our strengths is our relationships with corporate owners and HNW clients who have been supported through face-to-face services. Many of them are elderly and interested in efficiently passing on their total assets - financial assets, real estate, company stock, etc. – to the next generation. Since 2012, we have been developing a comprehensive services platform including real estate, insurance, inheritance and tax planning in addition to asset management, in order to enhance our services to these clients. Although the HNW market is very competitive where megabanks and trust banks are also strengthening, we are able to offer our SME owners a range of solutions such as transfer and sale of own stocks, IPOs, MBOs and the effective use of their real estate assets. If regional business owners have needs to make alliances because there is no successor, we can leverage our nation-wide network in Japan as well as our global business platform.

In 2018, we launched the Principal Business (Merchant Banking), which primarily provides equity to clients as a solution for business reorganizations and revitalization, business succession and management buyouts, and we currently receive many requests for consultation. We will continue adding functionality and flexibility to the platform to quickly meet client needs.

Focus area 2 Approach to asset builders

Our challenge is growing our non face-to-face business. Our target clients are asset builders in their 20s-40s, who have the advantage of a long investment horizon and a high affinity to accumulated investments through NISA and iDeCo. However, we have not done enough to attract customers from this group until now. This layer is characterized by its large population and high IT literacy, including digital natives. Therefore, the provision of services that utilize digital interfaces rather than human interaction is required.

In April 2019, we launched a new cross-functional Future Innovation Company to unify resources scattered across the Group and expand our core services by leveraging digital innovation. We are hiring external talent from various backgrounds to build a platform that is easy to use with different ideas and values from conventional face-to-face services.

Focus area 3 Full-scale entry into the Chinese business

We are also working to develop new markets.

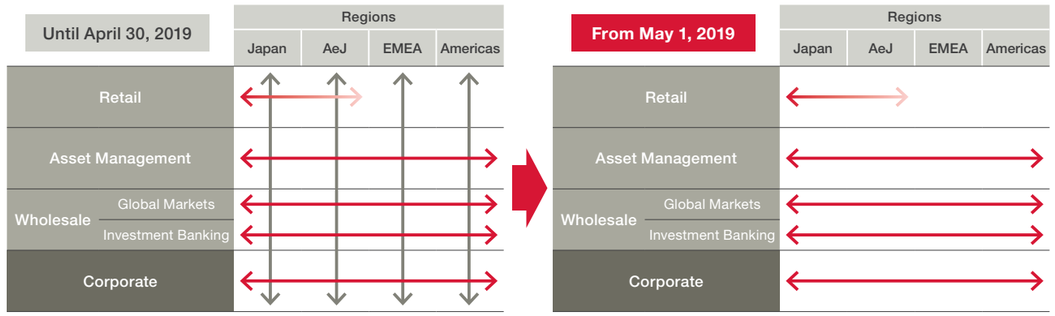
In 2018, the Chinese government eased restrictions on foreign ownership, and in May 2018, we submitted an application to the China Securities Regulatory Commission (CSRC) for the establishment of Nomura Orient International Securities as a joint venture with a leading local company. In March 2019, we became the first Japanese securities company to be approved for establishment, and we are now preparing to launch operations later this year.

China is by no means an easy market, but we will initially focus on the HNW business by leveraging the services and client base we have developed for the HNW clients in Japan. Thereafter, we will seek to expand into Wholesale business.

Management's responsibility is to lower the break-even point and return to a growth trajectory as soon as possible

In order to restart as a new Nomura, in April 2019, we announced a plan to rebuild our business platform so we can swiftly move to a leaner structure capable of responding to the new environment. The essence of our rebuilding plan is to simplify and eliminate inefficiency. This covers three areas; (1) our management structure, (2) Corporate functions, and (3) the core businesses.

First is our management structure. We adopted a matrix structure covering regions on the vertical axis and businesses as a horizontal axis from various historical reasons. However, as our businesses are becoming increasingly borderless and risk management has become more sophisticated, so there is less reason to continue with the matrix structure which has shortcomings such as the duplication of functions and higher costs. In May 2019, we abolished the concept of regions, and reorganized our structure to only have global reporting lines for the businesses and other functions. Of course, legal entities in each country will remain and be responsible for working with local regulators and ensuring compliance.



Secondly, the same rationale applies to Corporate functions. We had 11 functions, or 10 excluding Internal Audit. These will be folded into five. While control functions should never be neglected, such as compliance, we are eliminating the buffers that other functions have at each layer and eliminating duplication.

*1 excl. Internal Audit *2 Indirect cost ratio is ratio of Corporate costs to total cost base for Wholesale Division

And for the third focus, the core businesses, we decided to rebuild our platform so that we could more accurately and effectively address client needs. This applies to both Wholesale and Retail.

Wholesale has streamlined costs several times over the years, but these reductions were primarily in certain products and services on the front office side, in order to focus on our core strengths. This time, we will downsize businesses with low growth potential and profitability while maintaining our global franchise. At the same time, we will drastically review the supporting functions, i.e. Corporate.

Actually, we received many questions including, “Why don't you cut more?” or “Why do you keep your loss-making international business?” In fact, we have had candid internal discussions, and finally decided on this option to minimize the impact on our domestic and international client base.

In 2008, we took over ex-Lehman Brothers operations in Asia and Europe, and acquired a client base, which we never had access to prior to the acquisition. Since then, we have been able to hire talented people from our global peers at reasonable costs and significantly strengthen our international business platform. When we compare our platform to other domestic financial institutions, we can say that one of Nomura's competitive advantages is our international client base. We cannot provide optimal solutions and products to our Japanese clients without having a global platform. Our businesses are built upon our clients, and that's why our decision was made around supporting our clients.

In terms of regions, we will focus our management resources on large single markets such as Japan and the US, and over the medium term, China. Also, in addition to institutional investors, who are the main revenue contributors, we will focus on corporate clients by enhancing our origination businesses (Advisory, Primary, and Solution). In the secondary trading business, we will utilize AI and data science to analyze large sets of high-frequency historical and real-time data to provide more efficient quotes and recommendations, alongside reducing execution costs as well as front office optimization.

Through those initiatives, Wholesale aims to reduce costs by $1 billion (approx. ¥110 billion) from the levels at the fiscal year ended March 2018, while shifting its focus to the client business and growth areas, thereby increasing revenues.

In Japan, structural changes and certain trends such as lower birthrates, an aging population, and the shift of money and population from rural areas to urban areas, will continue. As digital innovation advances, the way consumer behavior changes drastically, and the ways in which financial institutions deliver services to their customers become much more diverse.

When I became Group CEO in 2012, there were 178 branch offices in Japan, but in light of these structural changes, we have already reduced the number of branches by about 20. With technological advances allowing clients to easily withdraw cash without having to go to a bank, cashless transactions are becoming increasingly common. Moreover, services from securities companies like ours are not essential regular functions for most users, so there are branches in urban areas where the number of visits per day is minimal. There is no need to maintain the traditional branch network anymore as many of our clients are not visiting physical locations. Therefore, we decided to consolidate 25 more branches, mainly small ones with overlapping areas in Tokyo, Nagoya, and Osaka in August and September 2019.

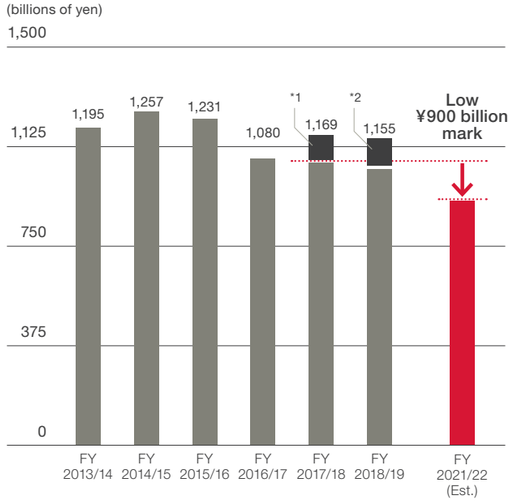
In addition to properly provide added value that meets the needs of each client, Retail will simplify its business platform. The needs of corporate clients, business owners, HNW clients, and clients who can build their assets by utilizing longer investment horizons are all different. That means the services, products, or even the salespersons' skillset should be differentiated. In the past, one salesperson has been responsible for a wide range of clients, but starting this August, we will change the organization and align channels to client needs. This is also the reason behind consolidating small branches. In order to realign channels with client types, it is better to have a larger concentration of salespeople per branch.

Along with rebuilding the platform, Retail will also reduce costs by approximately 10% or ¥30 billion from the cost level at the fiscal year ended March 2018.

Combined with the aforementioned cost reduction measures for Wholesale, we expect to reduce firm-wide costs to about the low ¥900 billion mark by March 2022.

Non-interest expenses

Reduce firm-wide costs to about the low ¥900 billion mark by March 2022

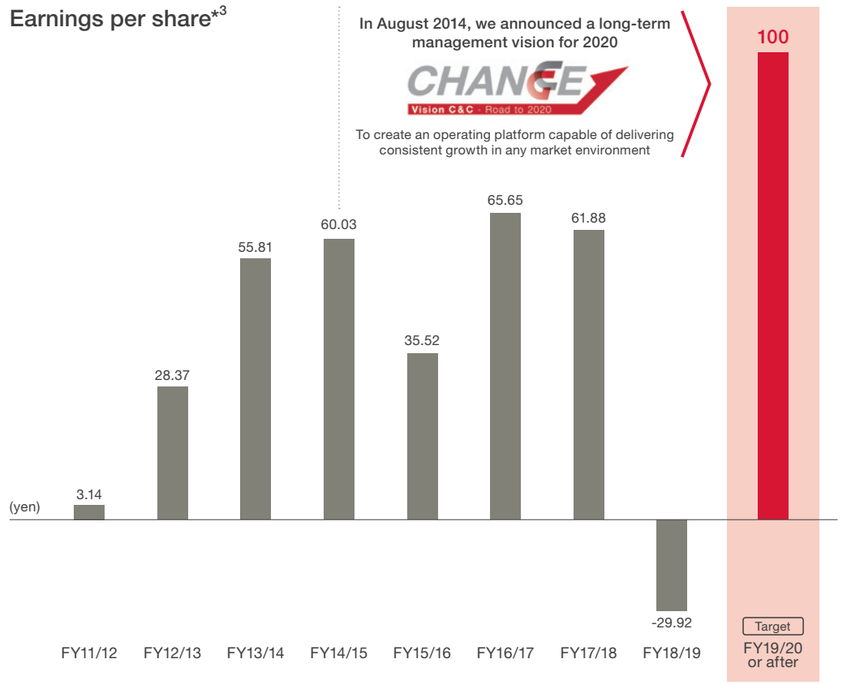


Another important theme is improving capital efficiency. Since 2012, we have sold approximately ¥360 billion of securities and used part of the sale proceeds to deliver shareholder returns through dividends and share buyback. We have also been considering the optimal capital relationship with Nomura Research Institute (NRI), and in June 2019, we agreed to sell a portion of our holding shares by tendering the shares under a self-tender offer by NRI. We plan to use the sale proceeds ([¥160] billion) to enhance our corporate value through shareholder returns and investments to further grow our business. On the same day, we announced we would set up a share buyback program with an upper limit of ¥150 billion or 300 million shares of common stock for the period ending March 31, 2020.

In 2014, we set out to build a business foundation capable of generating sustainable growth in any market environment. Regrettably, for the fiscal year ended March 2019, EPS (net loss attributable to NHI shareholders) fell sharply, and key performance indicators of the businesses were well off target.

Given the market environment and the progress we have made thus far, it is highly likely that we will postpone our goal of ¥100 EPS in 2020. However, rebuilding our platform will be our top priority and we will make every effort to return to an upward growth trajectory as soon as possible.

Earnings per share*3



*1 Legal expenses related to legacy transactions, and expenses of consolidated subsidiary which were not consolidated in FY2018/19 and afterward.
*2 Legal expenses related to legacy transactions and goodwill impairment charge attributable to Wholesale
*3 Diluted net income (loss) attributable to Nomura Holdings shareholders per share.

Building a sustainable business foundation

We cannot rebuild our business platform or focus on growth areas without talent in the firm. In our business, we don't deal with tangible products. Our clients buy financial products based on the values and individual qualities of each of our employees. To this end, we focus on creating a work environment in which employees can make the most of their abilities and individuality.

In April 2020, Nomura Securities will introduce a new personnel system, which will provide more opportunities for talented employees, regardless of age or length of service, and evaluates them based on their performance.

Also, in 2017, we launched the Nomura Work Style Innovation initiative as part of our efforts to reform working styles and promote health and productivity management. The core concept is centered on adding value for clients. Our output is determined by multiplying the amount of time and productivity. As the amount of time is limited, it is necessary to raise the quality of work while paying attention to productivity in order to provide new added value to clients. To this end, Nomura is committed to improving both "human skills" and "productivity".

It is important that communication within the organization does not become fragmented. In the past, Nomura had a corporate culture in which superiors and subordinates worked together to achieve their goals. However, in recent years, there have been cases where managers have not been aware of the actions of their direct reports, and even when others around them notice something is wrong, no one raises their voice and points it out. Over the past year or two, there have been some negative incidents caused by inattentive organizational supervision and low morale among employees, which may have been amplified by a lack of communication. Our management takes this matter very seriously.

We can state that the starting point of our corporate governance is to instill a good corporate culture in which all employees share goals and responsibilities while respecting diversity and the opinions of the minority. There is no end in sight to these efforts, but I intend to take the lead in developing our corporate culture and restoring a disciplined organization.

Toward the true integration of Environmental, Social and Governance (ESG) and business activities

An ESG friendly perspective is also essential for medium- to long-term growth. ESG investment is growing globally, but it is insincere if the only purpose for ESG initiatives is to become an investment option for ESG investors. It is important for ESG values to take root in the organization. As a first step, in the fiscal year ended in March 2019, we reorganized the CSR Committee into the ESG Committee, and I chaired this committee, creating a framework for the Nomura Group to respond strategically to ESG-related issues. We set Sustainable Development Goals (SDGs) as an agenda item for the Nomura Group Executive Meeting, and all the members engaged in group work to discuss the relationship between the long-term management vision and the SDGs. We also invited instructors from within the company and externally to arrange training programs for employees. These efforts are designed to help executives and employees connect ESG / SDGs with their strategies and operations.

The intensification of global issues such as climate change and social disparities is one of the greatest risks to economic growth. At the same time, economic growth that takes the environment and social issues into consideration is more important than ever in order to achieve international goals such as the SDGs and our "2°C target*". Financial markets can create a flow of funds that contributes to creating a favorable environment and society, where Nomura Group plays an important role. Based on this recognition, we established the Nomura Group ESG Statement in January 2019. We hope to further promote the realization of a sustainable society and environment while sharing with our stakeholders how we will respond to environmental and social risks.

As part of our efforts to integrate ESG with our management policies, the ESG Committee has been discussing this issue since last year. We have added management and business perspectives to our existing ESG Materiality and have comprehensively reviewed the issue and reclassified it into Materiality of Nomura Group. Going forward, we will continue to measure the progress of each issue and strive to achieve our corporate philosophy of "helping to enrich society through our expertise in capital markets," while striking the right balance between ESG and management strategy.

Our reforms are still ongoing, but we know what we have to do. We will first focus on rebuilding our platform and return to growth as soon as possible, while also regaining the trust of clients, communities, and society as a necessary partner.

We ask for your continued support of Nomura in creating Enterprise Value.

*A goal set by an international agreement on climate change adopted at the 15th Session of the Conference of the Parties (COP15) to the United Nations Framework Convention on Climate Change in Copenhagen, Denmark in December 2009 and strengthened in the Paris Agreement in 2015. It is a long-term goal shared globally to keep the global average temperature increase sufficiently below 2°C and make further efforts to limit it to 1.5°C compared to pre-industrial levels in the Paris Agreement.