Financial review and analysis of the fiscal year ended March 31, 2020

Business environment

The global economy slowed down in 2019 towards the summer. Concerns around U.S.-China trade friction have destabilized financial markets and forced major central banks to resume monetary easing. In the U.S., the Federal Reserve Board (FRB) introduced a precautionary interest rate cut in July, and in the euro area, the European Central Bank (ECB) decided on an easing program in September, including a deeper rate cut into negative interest rates and the resumption of quantitative easing. In the fall, the expectation of a global economic recovery increased as the U.S. and China moved toward a trade agreement. However, in 2020, the global spread of the coronavirus pandemic weighed on the global economy, and economic growth in the first quarter declined sharply.

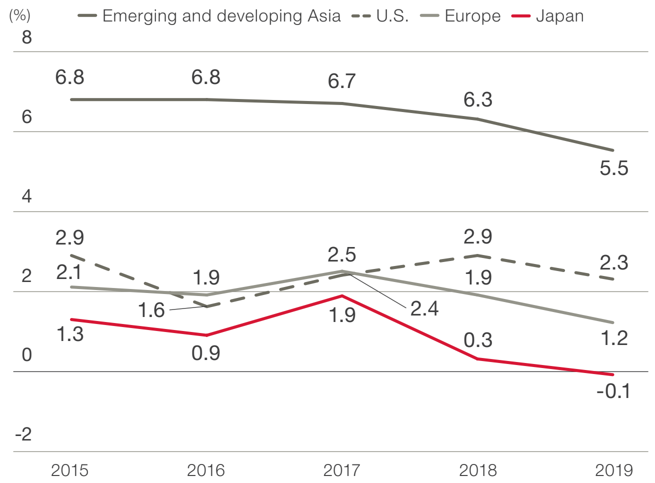
In the U.S., the growth rate of real GDP in 2019 was +2.3% indicating a moderate economic recovery. In the first half of 2019, concerns about an economic slowdown heightened due to an increase in tariffs on Chinese products and the expansion of the tariff eligible items, but in the latter half of 2019, the U.S. and China moving toward a trade agreement, and concerns about trade friction eased. However, starting in early 2020, the coronavirus pandemic has caused a major economic downturn, and in March, the FRB launched a significant monetary easing program. The Dow Jones Industrial Average declined 15% from $25,929 at the end of March 2019 to $21,917 at the end of March 2020. The yield on 10-year U.S. Treasuries also fell by 174bps, from 2.41% at the end of March 2019 to 0.67% at the end of March 2020.

Although the Euro area economy also maintained positive growth, the stronger environmental regulations on newly produced vehicles in the autumn of 2018 negatively affected demand for new vehicles, and manufacturing production in the automobile industry. Responding to the economic downturn, the ECB announced in September 2019, a policy rate cut and resumed quantitative easing. Even after leaving the EU in January 2020, the U.K. decided to maintain their existing economic relationship through the end of 2020. This helped mitigate downside risks in the Eurozone economy. However, due to the coronavirus pandemic in Europe, 2020 first quarter real GDP in the euro area experienced its worst downturn since 1999, and the ECB announced the expansion of its quantitative easing policy in March.

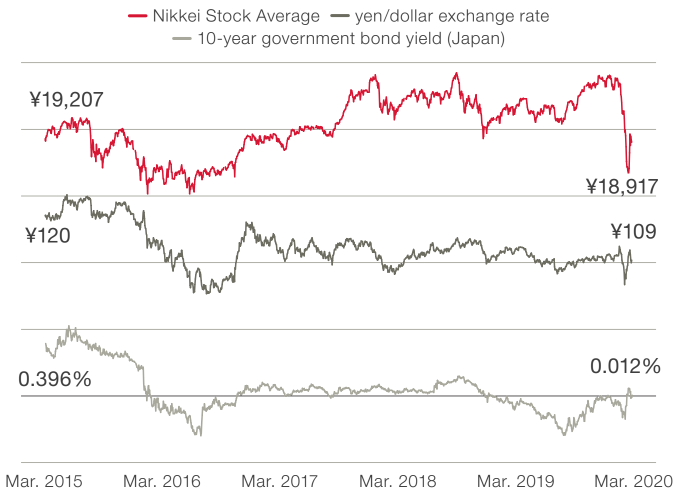
In Asia, the 2019 real GDP growth rate of China was 6.1% greater than the previous year, although the pace of growth was slower in recent years. Although monetary policy easing has remained in place since the end of 2018, private companies' fund-raising activities in the capital markets remained sluggish. On the other hand, the Chinese government had undertaken aggressive economic recovery measures in response to the spread of coronavirus. The rest of Asia had achieved solid economic growth in 2019, but the economy slowed in March 2020 due to the impact of the coronavirus pandemic.

In Japan, domestic demand remained solid in the first half of 2019 on the back of capital investment and last-minute consumption before the consumption tax increase. Following that rate increase in October, domestic consumption and demand declined significantly, only to be made worse by the slow of economic activities caused by the 2020 coronavirus pandemic. The Nikkei Stock Average fell 10.8%, from ¥21,205.81 at the end of March 2019 to ¥18,917.01 at the end of March 2020. In the bond market, the Bank of Japan maintained its quantitative and qualitative monetary easing framework with interest rate controls, and bond yields generally remained around the 0% range.

Real GDP of the United States, Europe, Emerging and Developing Asia, and Japan over the past five years*[1]



Yields on Japanese government bonds over the past 5 years: 10 years, dollar/yen exchange rate, and Nikkei average*[2]



*1 Source: U.S. Department of Commerce; Europe, eurostat; Emerging and Developing Asia, IMF; Japan, Cabinet Office. Fiscal year in Japan and calendar year in the other countries
*2 Source: Bloomberg

Summary of consolidated results

Net revenue for the fiscal year ended March 31, 2020 was ¥1,287.8 billion up 15.3% from the previous fiscal year, and expenses other than financing expenses decreased 10.0% to ¥1,039.6 billion. Income before income taxes was ¥248.3 billion, net income attributable to Nomura Holdings shareholders was ¥217 billion, ROE was 8.2%, and EPS (diluted earnings attributable to Nomura Holdings shareholders per share) was ¥66.20, all of which represented a significant recovery from the previous year.

(billions of yen)		FY2018/19	FY2019/20	Year-on-year	Comments
Revenue	Commission	293.1	308.8	5.4%	Commissions from sales of stocks and investment trusts increased.
	Fees from investment banking	101.5	103.2	1.7%	The solution business related to M&A and financing activity contributed to the improved profitability, but the market shock in the middle of February led to the cancellation or postponement of IPO projects.
	Asset management and portfolio service fees	245.5	238.2	-3.0%	While funds continued to flow into Defined Contribution Pension Plans and ETFs, the sharp market decline in the fiscal fourth quarter resulted in a decline in AUM and management fees.
	Net gain (loss) on trading	343.0	356.6	4.0%	Fixed Income business mainly contributed to the increase in revenues.
	Gain (loss) on private equity and debt investments	1.0	-0.1	-	
	Interest and dividends	✓777.0	✓794.5	2.3%	
	Gain (loss) on investments in equity securities	-7.0	-14.7	-	
	securities Other	81.1	166.0	104.7%	Gain on the sale of shares in Nomura Research Institute contributed to the increase in profitability
Total revenue		1,835.1	1,952.5	6.4%	
Interest expenses		✓718.3	✓664.7	-7.5%	
Net revenue		1,116.8	1,287.8	15.3%	
Non-interest expenses		1,154.5	1,039.6	-10.0%	This decline was mainly due to the absence of a one-time impairment of ¥81.4 billion on goodwill attributable to Wholesale segment that had been recognized in the previous year
Income (loss) before income taxes		-37.7	248.3	-	
Net income (loss) attributable to Nomura Holdings shareholders		-100.4	217.0	-	

✓ Net interest income, calculated as interest income and dividends less interest expenses, depends on the level and composition of total assets and liabilities, including trading assets, repurchase agreements and reverse repurchase agreement transactions, as well as term structures and volatility of interest rates, remains an integral part of trading activities.
For the year ended March 2020, revenue from financing activities, including dividends from American Century Investments, increased 2%, and interest expenses decreased 8%. As a result, net interest income for the year ended March 2020 increased from the year ended March 2019.

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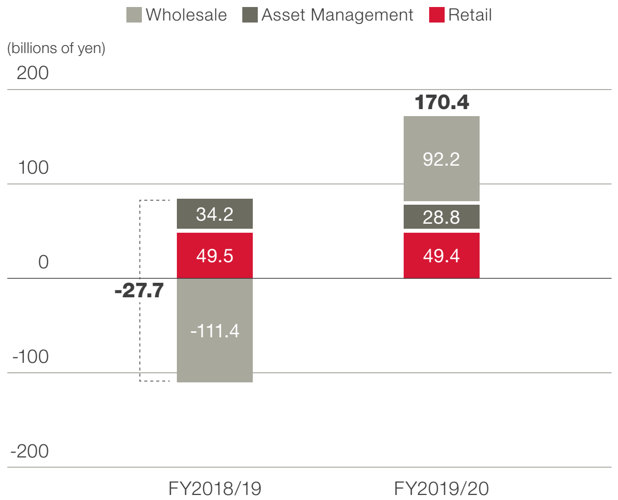
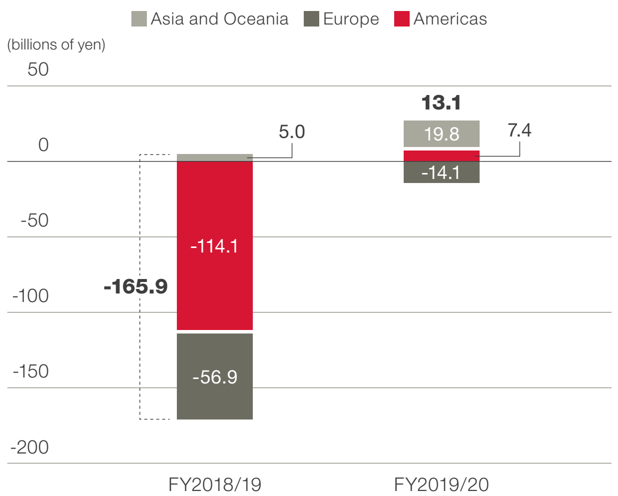
Performance by Business Segment

Retail Division Net revenue for the fiscal year ended March 2020 decreased 0.9% to ¥336.4 billion, and income before income taxes decreased 0.1% to ¥49.4 billion. Based on the purpose of "enriching clients by responding to their concerns about assets," the Retail Division works closely with each and every client to provide consulting services with the aim of becoming "the most trusted partner". In this fiscal year, we were able to maintain the same level of profitability as in the previous fiscal year, with an increase in bond and investment trust sales, despite a decrease in share offerings compared to the previous fiscal year, when there were large-scale primary deals. In the summer of 2019, we reassigned many of our sales partners and consolidated our branches in order to provide the best service to meet the preferences of our clients. We are also enriching our digital capabilities in addition to face-to-face communications to reach more clients.

Income (loss) before income taxes by segment



International income (loss) before income taxes by region



Asset Management Division Net revenue for the fiscal year ended March 2020 were ¥92.6 billion, a decrease of 5.4% from the previous fiscal year, primarily due to a valuation loss on shares of American Century Investments. Income before income taxes decreased 15.8% to ¥28.8 billion. In the investment trust business, inflows continued into products that contribute to the formation of assets for "100 years of life", products provided for Defined Contribution Pension Plans, and ETFs. In the investment advisory business, we continued to see inflows from clients such as public pension funds; in the past year, cash inflows totaled approximately ¥2 trillion. In response to the market downturn in March, the balance of assets under management at the end of March 2020 was ¥49.3 trillion, a decrease of ¥2.1 trillion from the end of March 2019, though the business remains solid.

Wholesale Division Net revenue for the fiscal year ended March 2020 was ¥648.6 billion, a year-on-year increase of 16.8% driven by a significant recovery in Fixed Income revenue. This growth across Rates, FX/EM products was supported by increased client activity and higher volatility. Non-interest expenses decreased 16.6% to ¥556.4 billion primarily due to a $1 billion (Approx. ¥110 billion) cost reduction initiative that has progressed faster than originally planned, the absence of previous year's goodwill impairment losses attributable to Wholesale, and restructuring charges associated with a business portfolio review. As a result, income before income taxes recovered to ¥92.2 billion, a turnaround from the loss in the previous year.

Overseas Business

International income before income taxes for the year ended March 2020 was ¥13.1 billion, a significant improvement from the previous year. The improvements largely were attributable to a recovery in Fixed Income earnings, mainly from Rates, FX/EM in AeJ, the successful implementation of cost reduction measures such as the concentration of management resources in areas with competitive advantage through the review of the business portfolio, and the absence of one-time charges (impairment loss of goodwill attributable to Wholesale, restructuring costs associated with business portfolio review, legal costs related to past transactions, etc.) recorded in the previous year. By geographic segment, the Americas and Asia/Oceania reported profits, while Europe posted a loss of ¥14.1 billion, due to valuation losses on loan related positions caused by significant market movements in March 2020.

Consolidated Capital Adequacy Ratio

The consolidated Common Equity Tier1 ratio as of March 31, 2020 was 15.34%, down from 17.11% as of March 31, 2019. The main factor was an increase in risk-weighted assets, the denominator of the ratio, as primarily market risk increased in response to the rise in volatility and widening of credit spreads in March 2020. Nomura has set a medium-term target of a consolidated Common Equity Tier1 ratio of at least 11% and has maintained a sufficient capital level. The consolidated leverage ratio declined slightly to 4.83% from 5.03% at the end of March 2019.

(billions of yen)	March 2019	March 2020	Year-on-year
Capital			
CET1 capital	2,440	2,405	-35
Tier1 capital	2,606	2,572	-34
Total capital	2,652	2,602	-50
Risk-weighted assets			
Credit risk-weighted assets	7,527	7,635	107
Value obtained by dividing market risk equivalent assets by 8%	4,211	5,549	1,338
Value obtained by dividing the operational risk equivalent assets by 8%	2,513	2,491	-23
Total risk-weighted assets	14,252	15,675	1,423
Consolidated capital adequacy ratio			
CET1 capital ratio	17.11%	15.34%	-1.77%
Tier1 capital ratio	18.28%	16.40%	-1.88%
Consolidated capital adequacy ratio	18.60%	16.60%	-2.00%

Return to shareholders

Our fundamental policy is to return profits to shareholders by continuously increasing shareholder value and paying dividends. Regarding dividends, the consolidated dividend payout ratio of 30%, based on semiannual consolidated results, is one of the important indicators. The dividend amount for each fiscal year will be determined by comprehensively taking into account the trends in the regulatory environment, including the strengthening of the Basel requirements, in Japan and overseas, as well as consolidated business results. Dividends are, in principle, paid twice a year (base dates: September 30, March 31). Total shareholder return policy, including share buybacks, is at least 50%.

Based on the above policy regarding dividends from surplus, we paid a dividend of ¥15 per share with a record date of September 30, 2019 and a dividend of ¥5 per share with a record date of March 31, 2020. As a result, the annual dividend is ¥20 per share. We also decided to repurchase our own shares on June 18, 2019 and repurchased approximately ¥150 billion of our own shares by February 21, 2020.

Annual dividend per share