Dear Shareholders, Clients and all Stakeholders,

Navigating the Changing Environment

The Covid-19 pandemic has upended the way we live and work. It has taught us that we can’t count on tomorrow being the same as today. And there is no guarantee that once things return to normal we will return to the old way of doing things.

As a participant in the financial markets, we must be agile to respond properly to the changing environment and fulfill our role in supporting this key social infrastructure. At the same time, we must live up to the trust placed in us by our clients and other stakeholders.

Nomura Group has approximately 26,000 people around the world with 40 percent based outside Japan. In some locations, nearly 100 percent of our people are still working from home. I am extremely proud of the way our people have worked tirelessly for our clients, keeping our businesses running and preventing the spread of the virus.

Defining Our Vision

When I took over as Group CEO in April 2020, I said our vision was to take Nomura to the next stage. To realize this, we launched a new strategy of expanding into private markets to complement our businesses in the public markets.

This next stage I refer to is the future vision of how we want the firm to be over the next five to ten years. What changes do we need to make to our business model and how do we move away from where we are today? These are the questions we need to ask ourselves.

This is not something we can do on our own. We must find the right answer together with our clients. Indeed, our mission is to stay close to our clients to help them realize their dreams and vision.

To fully support our clients and go beyond their expectations, helping them realize their future vision by managing their personal assets or supporting fundraising and M&A to grow their companies, it is critical that we move forward with an eye on the future.

We must not be constrained by traditional thinking as we explore the future of our business for our clients, shifting the firm to the next stage. That means not just focusing on asset management or fundraising, but thinking beyond financial services. We see this as a process of discrete growth, making a series of leaps over time.
Taking on New Challenges

Our founder, Tokushichi Nomura, set out a list of sayings that we refer to as Our Founder’s Principles. One of these principles states that we should always strive to stay one step ahead and standing still is retrogressive.

Since I was appointed as Group CEO, I have been reiterating that we should take on new challenges as this is part of our DNA. To reflect the importance of this, from last year we included a new goal in the performance management for each employee related to taking on new challenges for the future.

By continuing to do things in the same way, you are not only standing still, but actually losing ground as others around you move forward. If you continue to provide just the same products and services, the added value you can deliver will diminish over time.

Not all new challenges you take on will succeed. In fact, you may fail more than you succeed. But that’s no reason to sit on the sidelines and do nothing for fear of failing. The fact that tomorrow is not a direct reflection of today rings true for the financial services industry as well. As such, it is essential to lay the foundations for the future today in order to achieve sustainable growth, even if it takes time for results to appear.

Promoting Diversity & Inclusion

The key to taking on new challenges is to provide an encouraging environment for your people to do so. Here, one of the most important factors is ensuring diversity. Without diversity, it will be difficult to start new initiatives or take the firm to the next stage.

There is a well-known series of studies on conformity where a group of people are shown a line and asked to choose another line of the same length from a different set of lines. Even when the answer was clear, if others in the group gave the same wrong answer, in many cases people would yield and conform by not saying the right answer. However, if only one person in the group chooses not to conform, then people who had been influenced to conform would give what they thought as the correct answer.

The context for this is that many people define their actions or opinions based on those around them. If you don’t know what’s going to happen, it’s easier to conform. If you do something different, you may be disliked.

Similarly, a homogenous organization does not breed a culture of taking on new challenges and people are hesitant to point out wrongdoing. If people and organizations don’t change, before you know it conformity can become commonplace. While that might be understandable from the standpoint of psychology, a lack of diversity in a company is a critical issue that can affect its very existence. That’s why it is essential to hire and promote people from diverse backgrounds.

When it comes to our people, we adopt a groupwide approach with an emphasis on diversity, taking into account such factors as gender, age and career background. For instance, approximately 40 percent of newly appointed executive officers this year have worked outside Nomura. We are expecting to see new synergies across the Group, allowing us to better respond to changes in society and the increasingly sophisticated needs of our clients.

However, simply employing diverse talent alone is not enough to energize an organization. Nothing will change unless you have the right culture conducive to everyone being able to bring their full selves to work. Creating that environment is the responsibility of me and the rest of the management team.

Expanding into Private Markets

One of the key strategies to realize our vision is to expand our business from public into private markets. It is important to note that at Nomura the word ‘private’ has several meanings. First, there are ‘private’ financial products such as private equity for the shares of unlisted companies. Then there is also ‘private’ in the sense of personal or just for you, such as a private jet or a private beach. We aim to provide each client with bespoke services and solutions made just for them.

We do this through a three-pronged approach: Clients, products and services, and client touchpoints and delivery. Each client is different. And even for the same client, their needs change as they grow older. It is only natural that what they required yesterday will be different from what they need today.

We have to adapt to provide the right products, services and information according to the client’s current situation. We have to deliver all of this in a way the client likes and at the best possible time. Only when these three pillars align with client needs do we achieve the ‘private’ service we are aiming for. That is how we stay close to our clients and is essential for them to choose Nomura as their partner.

Diversifying Our Products and Services

Our advance from public into private is also about expanding the options for our clients in terms of the products and services we offer. It is not just about shifting course from public to private. We will continue to enhance our traditional strengths in public products and services, while expanding and strengthening our businesses in the new area of private markets.
In April 2021, we set up a new Investment Management division with the twin strategy of executing our existing business while laying the foundation for future business opportunities. The backdrop to establishing this new division lies in the changing environment in the capital markets and the evolving needs of our clients.

With the prolonged low interest rate environment globally and depressed earnings yields, investor needs are growing more diverse than ever. Looking at asset allocation by investor type, it is evident that alternative assets are becoming increasingly important.

The remit of Investment Management is to provide our clients with not only traditional asset classes such as listed equities and bonds, but also investment opportunities into alternatives such as private equity.

An example of this is the strategic alliance we announced in January 2021 with SPARX Group to establish a listed investment corporation that will invest in unlisted companies. This is not just about investing in unlisted companies. It is about expanding our business opportunities by providing our clients, including individual investors, with opportunities to invest in private equity, enhancing the market value of pre-IPO startups, and extending opportunities to invest in private equity, enhancing our clients, including individual investors, with expanding our business opportunities by providing products and services.

Forging Alliances

Throughout our history, Nomura has mostly pursued business growth independently. From last year, however, we pivoted with the aim to boost the Group’s corporate value by forging alliances with preeminent partners.

In Japan, in addition to the alliance with SPARX Group, we have been pushing ahead with new alliances with regional financial institutions. In September 2020, we started a new initiative based on a comprehensive business alliance with San-in Godo Bank to provide financial intermediary services. In April 2021, we launched an alliance project with Awa Bank. In May, we announced that we are in discussions with several regional banks to set up a joint venture. This involves collaborating with the regional banks to provide remote financial consulting services for a fee.

We are also forging alliances internationally. In the US, we formed a strategic alliance with Wolfe Research which allows us to provide US equity research to retail clients in Japan. We are also seeing a positive impact on winning mandates in the US equity underwriting business. Further, in May 2021, we entered into a strategic alliance in Australia and New Zealand with Jarden, a leading investment and advisory firm, which brings together our complementary abilities for the benefit of both of our clients.

Digital Initiatives

A major focus for us at the moment is improving efficiency and increasing our digital expertise to enhance the digital experience and drive the digital transformation of our business. As with our business expansion, we are investing resources and striking the right balance between responding to current requirements and adopting new technologies.

Some examples of new initiatives include Komainu and BOOSTRY, both of which operate in the area of blockchain technology. Blockchain is said to have the potential to spur online innovation. We were quick to see the potential and trial its application to business.

The issuance of digital securities leveraging blockchain continues to rise. In July 2020, we supported the issuance of real estate backed digital securities using the blockchain platform of BOOSTRY, a joint venture we have with Nomura Research Institute. The digital securities were sold to investors via a smartphone app.

Komainu provides custody services for digital assets. The company also provides services to manage secure encryption on behalf of clients, which is the most important aspect of using blockchain.

Recruiting and developing the right talent is another key focus of our digital initiatives. Digital knowledge is now a major differentiator in competitiveness for global financial institutions. It is a vital skill set for the future. To extend our digital efforts groupwide, it is important for not only technology related departments, but all our people to improve their digital knowledge and skills.

To promote this, we have launched an internal Digital IQ program to support digital learning online with the aim of lifting the base-level knowledge of digital across the Group. The program has started in English and we are looking to gradually roll our more content in Japanese.

Beyond Digital

The use of digital technologies is happening across the board, but our goal is not just digitalization. We need to consider the benefits for our clients, and the most important factors for that are content and people. We expect competition to heat up with not only financial institutions but also other new businesses such as tech companies. I am confident that the differentiator to be chosen by clients will be content and people.

The key lies in having the best content and delivering it to clients in the best possible way. In July 2020, we set up the Content Company with the aim of bringing together the Group’s tangible and intangible content to create new value from information and experience, rather than just issuing research reports.

By adding our own analysis to information available to anyone, we can create valuable knowledge, and by using our experience and tapping into implicit knowledge, we can join the dots to create new knowledge. By leveraging digital technologies, we will also look to provide private solutions tailored especially for each client.

While the importance of people to our business will never change, the type of qualifications we require will vary over time. We need people who are product experts and can add value through their consulting capabilities, giving advice on how to manage each client’s assets. As such, people will become a key differentiator for us.

We also need to find new ways to access clients. The transformation of our Retail business in Japan has focused on shifting from a transaction-based commission business to prioritizing client assets. To further embed this, we are looking into introducing a new fee structure. We want to create a virtuous cycle whereby the earnings for securities firms increase in line with the growth of their clients’ assets.

Advances in artificial intelligence could lead to everyone having their own personal assistant who knows their likes and dislikes. Asset management advice is also likely to be done by artificial intelligence in the near future. Humans can’t beat artificial intelligence in terms of knowledge or speed. So we need to start thinking about what it is that only humans can do.
Controlling Costs

In the fiscal year ended March 2019, we launched a groupwide cost reduction program of 140 billion yen, which we completed in March 2021, one year ahead of schedule. Our efforts to reduce costs over the past two years have helped bring our cost income ratio to 81 percent. We aim to further cut this metric by growing revenues and maintaining stringent cost control.

At the same time, to expand into private markets and leverage digital technologies, we will continue to invest where needed to grow our business and drive efficiencies.

Enhancing Our Governance

Since I took over as Group CEO, I have had many discussions with our Outside Directors about how to strengthen our governance. In the fiscal year ended March 2021, in addition to the annual self-evaluation conducted by members of the Board of Directors, we did a third-party appraisal of Board of Directors and reviewed our overall corporate governance.

Given the Board of Directors’ role in determining material matters and overseeing management, we have made the Board more diverse and better aligned to our business portfolio by adding three new Outside Directors from outside Japan. As a result, the Nomura Holdings Board of Directors in now comprised of 12 directors in total, eight of whom are Outside Directors, including three women and four non-Japanese directors.

Risk Management

Regrettably, we booked a significant loss arising from last fiscal year’s transactions with a US client. As a result, the Nomura Holdings Board of Directors decided to conduct a thorough review of our risk management framework in our Wholesale business and Risk Management functions.

We have brought in external consultants to conduct a thorough review of our risk management framework in our Wholesale business and Risk Management functions.

We are further enhancing our corporate governance in line with the global nature of our business by appointing a new CEO at our US subsidiary from outside the company who has extensive experience in the US financial services industry and by increasing the number of Outside Directors.

Looking ahead, we will continue to focus on our international business, including in the US, while enhancing our risk management and building a robust franchise.

Code of Conduct

In December 2019, we established the Nomura Group Code of Conduct. We have a set of values handed down since the firm was first established that we continue to respect and uphold today. The Code of Conduct is shared with our diverse workforce and serves as a guide on how to make decisions and act on a daily basis.

As part of our groupwide employee survey last July (24,000 responses for response rate over 90 percent), we measured the level of understanding of the Code of Conduct. The results were favorable in comparison to our peer group.

To build on these results, all senior managing directors held in-depth discussions on how to make Nomura Group an even better company. Through this process, we realized that we need to focus on making further improvements in three areas:

- Aligning our business to our clients’ needs, creating an environment where everyone can speak up, and ensuring transparent and convincing performance reviews of our people.
- We revised the Code of Conduct in March 2021. Our diverse businesses are built on the trust of our clients and all stakeholders. To continue to respond to the demands placed on us by society, we must align our thinking to socially accepted standards and constantly review our actions. In that spirit, we decided to regularly review the details of the Code of Conduct.
- The trust placed in each individual equates to the trust placed in the entire Group. The face of Nomura is our people on the ground who deal directly with our clients, not me or other executives the client hasn’t met. They are the ones who collectively form Nomura’s external image. Clients look closely at the values and views of our people. If just one person loses trust, then the whole Group loses trust. Each member of Nomura Group must go beyond simply following the rules and regulations. We must uphold the highest ethical standards and aim to make Nomura a company we are all proud to work at.

Prioritizing Sustainability

Sustainability initiatives are a key factor to ensure clients choose us as their trusted partner. Unless we pursue sustainability, I believe we will lose business. Sustainability is the only way ahead for strategic growth for us and our clients.

We are committed to strengthening our efforts in this area for our clients and our broad group of stakeholders, leveraging the Group’s capabilities to provide solutions that help resolve social issues.

I chair our Sustainability Committee to ensure a strategic approach by aligning with the members of the Executive Management Board, the highest decision making body at the firm. We also receive a wide range of advice on our sustainability efforts from our Outside Directors.

We recently appointed a new Head of Sustainability Development to raise awareness across the group, step up our sustainability activities and increase communication to external stakeholders.

In the US, we acquired Greentech Capital, a firm with a solid presence in sustainable technology and infrastructure, and launched Nomura Greentech in April 2020. We have won many mandates by combining Greentech’s expertise with Nomura’s global client franchise.

Moving Forward Together

We are targeting ROE of 8 to 10 percent by the fiscal year ending March 2025. Our management vision is to achieve sustainable growth by helping resolve social issues. Our diverse businesses rely on the trust of our clients and all stakeholders. We recognize that raising our corporate value and ensuring sustainable growth of society as a whole are closely linked together.

Some people take a negative view towards the future of financial institutions. I am confident the future holds boundless opportunities for financial services. As we move forward to this new future, everyone at Nomura will work hard to realize sustainable growth for the firm and society.