Message from CFO

Through investment in Digitalization and growth areas, we will promote sustainable growth and contribute to the realization of our management vision

Chief Financial Officer (CFO), Investor Relations
Takumi Kitamura

Review of the fiscal year ended March 2021

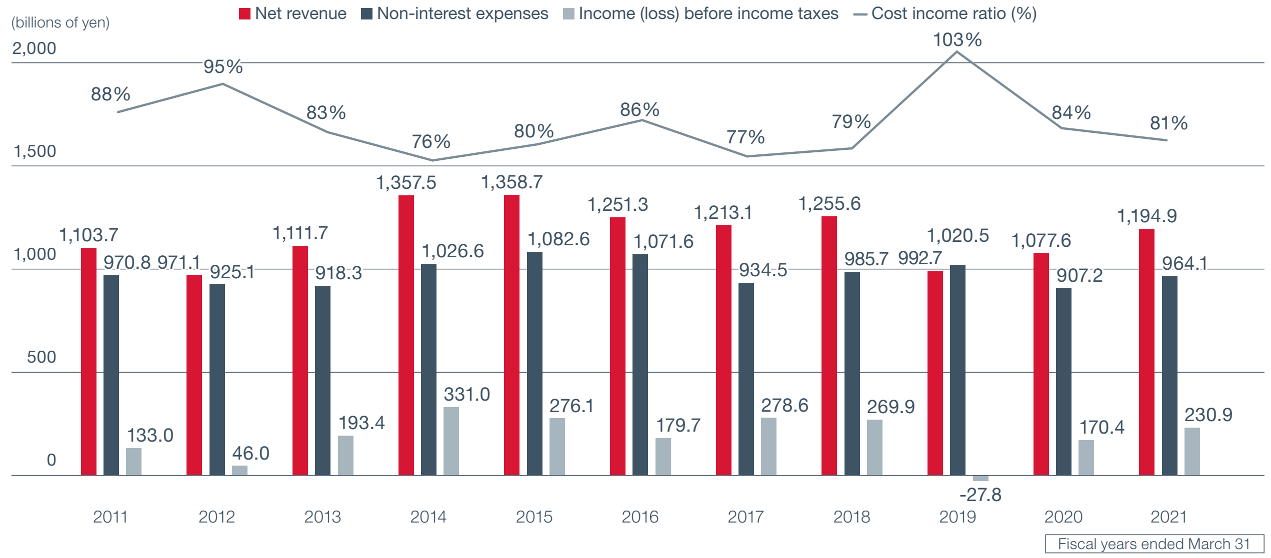
The fiscal year ended March 2021 was a year in which the world was greatly shaken by the rapid spread of the Covid-19 resulting in various travel and workplace restrictions being imposed. At Nomura Group, physical movement was also restricted with most of our employees transitioned to a remote working environment, yet we were able to operate seamlessly without disruption to our service to clients or our ability to provide liquidity in capital markets.

After a sharp decline in March 2020, the public equities markets have been on a recovery track since April, maintaining appropriate volatility against the backdrop of large-scale monetary easing by central banks, vaccine development, and expectations for economic recovery. As a result, individual investor sentiment improved, and the volume of transactions for stocks and investment trusts increased, while institutional investors were active throughout the year. The business environment surrounding us was generally favorable as the financing needs of issuers, industry and business restructuring, and cross-border M&A deals increased in the second half of the year.

Nomura Group has been implementing various structural reforms over the past few years. In the Retail division, the channel formation was drastically realigned, and a structure was established to appropriately meet client needs. As a result of reviewing its business portfolio and concentrating management resources on products with competitive advantages, Wholesale was able to develop core products with top five market shares in certain products in each region. We also achieved a company-wide cost reduction of ¥140 billion, one year ahead of the original schedule, and we were able to lower our break-even point. In the fiscal year ended March 2021, as a result of these structural reforms, income before income taxes for three business segments total increased 35% year on year to ¥230.9 billion, supported by favorable market conditions. As for the loss of ¥245.7 billion*[1] arising from transactions with a US client that occurred in the fourth quarter, our management understand the difficulties it caused our stakeholders and assure you that we have taken this matter very seriously, and we will utilize the lessons learned for the future in order to achieve both the enhancement of our risk management system and the expansion of our business.

*1 ¥204.2 billion booked in Equities revenue as trading loss and ¥41.6 billion as loan loss provision in expenses

Net revenue, non-interest expenses and income (loss) before income taxes for three business segments total

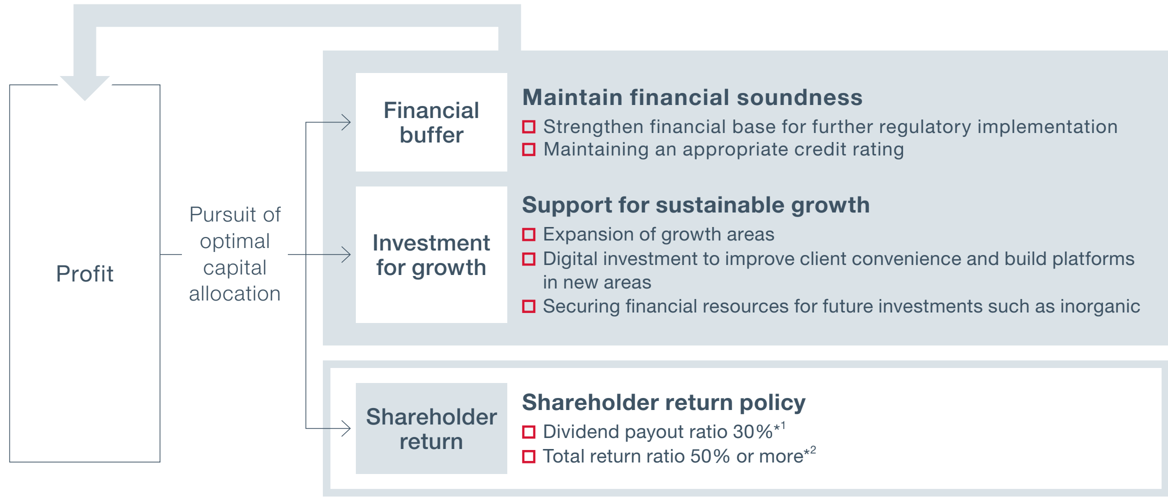


Capital policy and shareholder returns

We believe appropriate financial management means pursing optimal capital allocation to achieve (1) maintaining a sound financial base, (2) supporting sustainable growth from the financial and capital perspectives, and (3) appropriately returning profits to shareholders.

As a global financial institution, Nomura Group is subject to various regulations, including capital and liquidity requirements. In addition, in order to maintain an appropriate credit rating, it is necessary to have a financial base that exceeds a certain standard. In light of future regulatory trends it is also necessary to determine how much financial buffer is to be maintained, by considering the level of investment that should be made to achieve business growth alongside ensuring resource availability. Taking these multiple factors into consideration, we will keep a portion of the profits generated each fiscal year within the company and make effective use of them to ensure future growth.

The company's basic policies regarding shareholder returns are (1) a payout ratio of 30%*[1] and (2) a total return ratio of 50% or more*[2], while the return amount is determined based on a comprehensive judgment considering regulatory trends and the business environment. If you look at the track record over the past five years (P82 Return to shareholders), total return ratio is well over 50% and majority of profits are returned to shareholders in the form of dividends and share buybacks.



*1 We will strive to pay dividends using a consolidated pay-out ratio of 30 percent for each semi-annual consolidated earnings as a key indicator. Dividend payments are determined by taking into account a comprehensive range of factors including the tightening of Basel regulations and other changes to the regulatory environment, as well as the Company's consolidated financial performance.
*2 Aim for total shareholder return ratio including share buybacks of at least 50%

Maintaining financial soundness and responding to various financial regulations

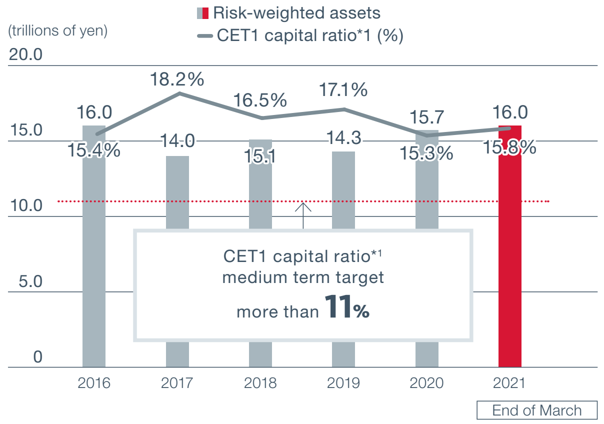
Nomura Group has several global regulations to comply with. Above all, capital adequacy regulations set by the Basel Committee have a direct impact on our business. The minimum required level of the Common Equity Tier1 capital ratio (“CET1 ratio”) is 7.5 ~ 8%*2, and we set a target of maintaining a minimum ratio of 11% over the medium term, including the management buffer. At the end of March 2021, the CET1 ratio was 15.8%, well above our medium-term target of 11%, and we are maintaining a sound level of capital.

We anticipate that the finalization of Basel III, at the end of March 2023, will further tighten the measurement method for risk-weighted assets. We are currently working on measures to reduce risk-weighted assets from various perspectives, including optimizing the booking method and utilizing internal models.

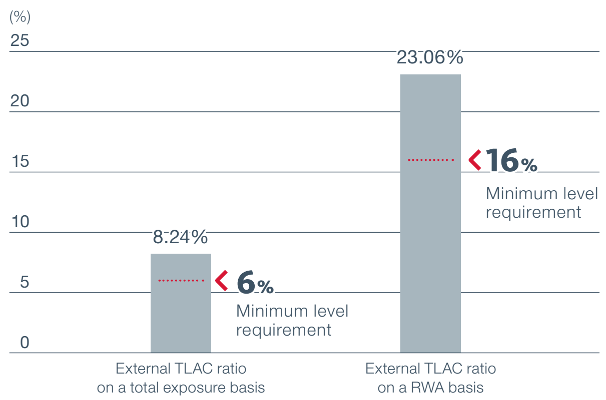
In addition, preparing for the application of TLAC*3 regulations at the end of March 2021, we have been steadily issuing TLAC-eligible liabilities and refinancing existing liabilities. As a result, the ratio of equity capital + TLAC-eligible liabilities to risk-weighted assets as of the end of March 2021 was 23%, and the ratio of equity capital + TLAC-eligible liabilities to total exposure was 8.2%, well above the minimum required levels (16%, 6%). Furthermore, in June 2021, we issued ¥225 billion perpetual subordinated bonds*4 in association with the early redemption of the existing one, and in July, issued $3.25 billion of TLAC-eligible liabilities. We will continue to implement our fund raising plan in order to achieve the required level for our company without difficulty.

Liquidity coverage ratio (“LCR”*5) was 192.4%*6, well above the minimum required level of 100%, indicating that sufficient liquidity can be secured even under stress scenarios.

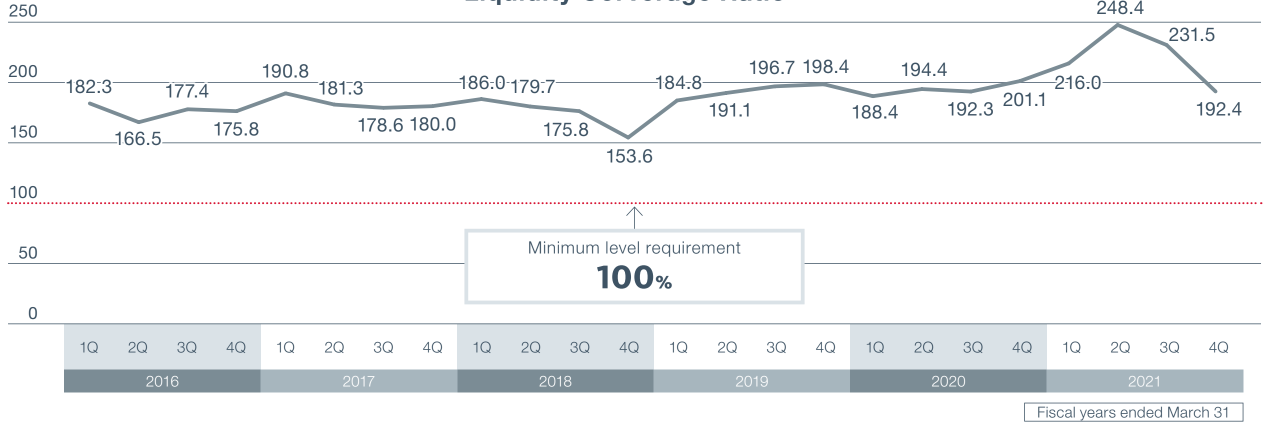
Consolidated Capital Adequacy Ratio



External TLAC ratio (As of March 31, 2021)
(RWA basis and total exposure basis)



Liquidity Corverage Ratio*7



*1 CET1 capital ratio is defined as Tier1 capital minus Additional Tier1 capital divided by risk-weighted assets.
*2 The minimum required CET1 capital ratio may fluctuate each quarter as the counter cyclical buffer is updated quarterly. As of March 31, 2021, the minimum requirement is 7.52%
*3 Abbreviation for Total Loss Absorbing Capability. Sufficient Total Loss Absorbing Capacity aims to promote financial stability where it is a combination of equity capital + TLAC instruments
*4 4 Unsecured perpetual subordinated bonds with optional redemption clause and write-down clause. The Bonds will be qualified as Nomura Holdings’ Additional Tier1 capital under the current applicable capital adequacy requirements
*5 Abbreviation for Liquidity Coverage Ratio. Defined as ratio of High-Quality Liquid Assets (“HQLA”) divided by cash outflow for 30 days under stress
*6 Daily average for the fourth quarter of the fiscal year ended March 2021
*7 Monthly average for each quarter before the third quarter of the fiscal year ended March 2017, and daily average for each quarter after the fourth quarter of the fiscal year ended March 2017

Support for sustainable growth

At our Investor Day, held in May 2021, we raised the consolidated net income before income taxes target for fiscal year ending March 2023 to ¥320 billion. If we are able to achieve this level of profitability, we expect the cost income ratio (cost divided by income) to decrease to 75% from 81% which we recorded in the fiscal year ended March 2021. In addition, we identified areas of profit growth for the fiscal year ending March 2025, which shows the path to achieving the ROE target of 8-10%.

As a CFO, there are two main points to consider in order to achieve this goal. The first is optimal capital allocation. For example, by regularly monitoring financial resources, such as risk-weighted assets, to determine whether each business line is achieving appropriate returns, and reallocating resources from low-margin to high-margin businesses as needed, it is possible to increase revenue even if the capital usage amount is the same. The selection of investments is also important. We need to invest to expand our business, but we can’t spend money endlessly. We will carefully examine investment projects and select those that exceed our cost of capital. The business expansion of the Investment Management Division, which was newly established in April 2021, and the inorganic strategy are also important for expanding our products and expanding our customer base, so we would like to provide solid support.

The second is the continued discipline towards cost control. It is not an approach to set cost reduction targets as was done in the previous fiscal year. By reviewing real estate and utilizing offshore centers, centralizing data strategy and cloud utilization across the group, and effectively consolidating and standardizing operations, we will change our operating model. In other words, we will improve cost efficiency by reviewing our existing methods and processes.

Digital strategies are important for improving the efficiency and sophistication of operations, existing services, seeking new client segments or revenue sources. In the area of Retail, we are moving towards full-scale use of digital marketing. We are also hiring and developing human resources to promote digital transformation, and advancing new technology platforms in financial services such as BOOSTRY and Komainu (P37-38 Digital Transformation). We will continue to invest solidly to advance this digital strategy, and will continue to improve enterprise value over the medium-to long-term.

Pursuit of optimal capital allocation

Monitor profitability against financial resources

Reallocate resources to more profitable businesses

Selection of investment projects and support for investment in growth areas

Improve capital efficiency

Continue cost control

Control costs relative to revenue

Promotion of real estate strategies and utilization of offshore centers

Streamline business processes

Maintain and improve cost efficiency

Finally, it is very important for the CFO to also act as a bridge between management and investors. It is important to carefully explain the status of business progress and management strategy to ensure the profitability and growth potential of the company is appropriately reflected in their evaluation. It is also important to share valuable feedback from investors with senior management and the board of directors, and to reference the feedback as important inputs when making decisions. In the fiscal year ended March 2021, opportunities for in-person face-to-face dialogue were greatly reduced due to COVID-19, but we have worked to maintain connectivity with our investors. We will continue to actively increase the number of opportunities for dialogue through the use of remote communication.

Going forward, we aim to make greater efforts to inform everyone about Nomura Group’s initiatives. For example, we are considering holding events around the theme of sustainability, which has been attracting increasing attention in recent years. Furthermore, we are reviewing and improving the methods and contents of information provided to individual/retail investors. Nomura will continue to strive to provide information in a thorough, conscientious and easy-to-understand manner. We appreciate your ongoing support.