



Outside Director
Board Risk Committee Chairperson
Laura Simone Unger

Board Risk Committee Chairperson Interview

Risk management enhancement

Nomura established the Board Risk Committee to further enhance its risk management and carry out rigorous controls and business oversight. The committee will provide an independent perspective with the aim to strengthen oversight and develop more sophisticated, in-depth risk management. Under the supervision of the committee, which has already started operating, the management of Nomura is committed to implementing advanced risk management measures and building a solid platform for business operations.

The Board Risk Committee

Q: What is the background to the establishment of the Board Risk Committee as part of the enhancement of risk management? Was it triggered by the U.S. incident?

Board-level risk committees are in place at many financial institutions lately, especially in the United States per the requirements of the Dodd-Frank Act (This regulatory requirement is not applicable to Nomura). As the global market complexity increases, we thought that such a risk-focused committee would benefit Nomura as it conducts its business globally. Therefore, the Board of Directors had started discussing whether and how to establish a board risk committee, including the committee member composition and scope of risks to be covered. Following the occurrence of losses arising

from transactions with a U.S. client ("U.S. incident") in 2021, we decided to establish the Board Risk Committee ("BRC"). Although Nomura had started such discussions much before, I do think that the learnings from the U.S. incident really sharpened our need for more sophisticated risk management and thinking as we embarked upon our global expansion. I think Nomura has really begun to invest in all of the underpinnings of what we need to be a truly powerful force going as any global financial firm going forward.

Q: What is the role of the BRC?

The BRC approves the Risk Appetite Statement and risk management framework. The BRC also tries to probe and anticipate strategic risks. For example, we have conversations about emerging risks associated with external factors. My view is that it helps management think about external factors affecting Nomura and its strategy by pressure testing the risk management view. We also conduct deep dives for area of business opportunities as capital market movements are unfolding

and things are moving quite dramatically every day. We have begun to provide opportunities for new management to come to the BRC meeting and have an open line dialogue to the BRC. This transparency would help sharpen the accountability of the risk executives and underscore that we are paying very close attention on all of the risk issues.

Q: What kind of members make up the BRC?

I think Patricia and Chris have a deeper knowledge of the economy and the actual modeling and market related risk considerations, Victor has hands-on experience in the investment business which is relevant to Nomura and Shimazaki-san is obviously a financial expert who also serves a critical role in having the Audit Committee perspective of the risks. This is a good mix of talent for

diversity of thinking on risk. In addition, Chris, Patricia and I serve on the board of Nomura's U.S. subsidiaries. I think that would help increase cross-organization transparency and communication as well.

* Please refer to Page 63 for the composition of the BRC. Please also refer to P67-68 for the BRC member's skills and careers.

Q: What is the philosophy of the committee in terms of challenging management?

The challenge maybe begins in having the conversation. We provide a high-level overlay over some very granular thinking. That overlay is a combination of a kind of background perspective and external events. Sometimes such dialogues are ongoing, but it is critical to at least begin the conversation. I think management also wants

to have some input from board members. BRC does not necessarily supplant the full board conversations, but we look more deeply into issues the board is thinking and cares about, wants to probe, or we vet the issues and then bring them up to the full board.

Risk Culture

Q: How do you think Risk Culture affects Nomura Group's competitiveness?

The U.S. incident might expose less than perfect things about the firms on Wall Street. For us, it provided the trigger to look more deeply into our risk management and risk culture and change and evolve it to the current best practices. I think our journey to be known as a firm that is expert and laser-focused on risk will give us a competitive advantage in attracting clients and new

business. Clients are going to need very sophisticated advice and products to invest in the market and to manage risks. To satisfy those client needs, we are going to have to provide our best thinking and client service. We happen to be very good at bespoke advice in difficult markets and it will continue to become a competitive advantage in a very complicated marketplace.

Q: What is the key for embedding Risk Culture? Also, please tell us your view of the goal Nomura should aim for.

There is a need to look at Risk Culture at the firm level and at the people level. At the firm level, it means a way of thinking about opportunity and strategy going forward, as risk is embedded in everything we do. At the people level, it is how you look at your responsibility in terms of what you do for the firm individually, but then collectively how you work with others in creating success. We're one firm. We should be working together on our future success. It can be a very nuanced

business, where you need to share your expertise among your colleagues and for the greater good of the firm. Preventing the repeat of events like the U.S. incident is one of the goals of enhancing Risk Culture. At the same time, our objective is to create a stronger risk oriented corporate culture. We must work together, escalate concerns without retribution, and ensure voices are heard and respected.

Conclusion

Q: You have been an outside director of Nomura Holdings since 2018. What kind of strategy or action do you think is necessary for Nomura to raise corporate value or to raise share price?

We have had some solid performance, but we have also had some negative surprises. I think having a continuous pattern of performance without any surprises will greatly help our share price, and I know we are working diligently to resolve past issues that could result in a surprise. In addition, if we can show our solid progress

towards our strategic objectives and perhaps provide more granularity to the marketplace about the metrics that will show our progress, I believe that will help develop investor confidence in our future success and improve our share price.

Q: Finally, what message would you like to convey to stakeholders?

Nomura cares deeply about its clients and its stakeholders, and it is moving purposefully towards becoming the new Nomura; reflecting the paradigm shift in capital markets. This entails continuing to build on its risk management culture, and focus on the firm's strategic objectives. I do think we have made incredible strides in our governance and becoming a single global firm as opposed to a Tokyo based firm with offices in other places. That transformation is very apparent to me.

It has made the board stronger and more effective and more focused. Having more engagement with our shareholders and stakeholders and having deeper conversations about strategy and of course being focused on risk with the BRC, will continue to make us crisper and more focused on executing strategy. I think our future should be as a truly global firm with world recognition of our talent and client service.

Risk management enhancement

Front Office initiatives - Management interview

As part of Nomura's initiatives to build out a platform to provide value-added products and services to our clients, we appointed a Global Head of Wholesale Front Office Risk and Control to strengthen critical first-line risk management functions and enhance oversight of complex business activities carried out globally.



Q: Could you introduce your team and role?

As part of Nomura's first line of defense, we oversee both financial risks (market, counterparty and liquidity risks) and non-financial risks (operational, legal, conduct and reputational risks). Structurally, we report to the Head of Global Markets and the Head of Investment Banking, and locally to the NHA CEO, giving us insights to goals and perspectives across the Wholesale business.

Our core mandate is to ensure that all the risks that we take within Wholesale are identified, evaluated, and monitored. Any major risks or changes to our risk profile are then swiftly escalated to senior decision makers so that we can take prompt action when needed. We confirm our risk levels remain within the firm's risk appetite and appropriately balance our risk profile against potential revenue opportunities.

Our role is not about dictating what risks to take,

but to ensure that there is a robust discussion around the risks that affect our business. In evaluating various product types or client risks, we consult with Traders and Risk Officers across regions to deepen our understanding of the opportunities and associated risks. We also hold committee discussions around the largest risks that we have within Wholesale.

We work very closely with Risk Management and other corporate functions within our second line of defense. These key partners share a common goal of actively managing risk inherent to our business activities and fostering sound risk culture. When assessing a particular risk, we encourage perspectives from our partners, which may be different from our own view, leading to healthy debates. There may not always be one correct answer, but it is important to consider all possible scenarios and viewpoints.

Q: What should be done to strengthen risk management?

One of Nomura's key strengths is intellectual integrity. We are very analytical by nature and skilled at solving complex problems. Our risk assessments utilize various mathematical models; but these are just the starting point. Our experience and judgment are even more important when making risk decisions.

We have several key initiatives to reinforce our risk management plan. In particular, ensuring we have a comprehensive approach that assesses all risk types with equal rigor. For instance, we are creating a global framework to assess counterparty risks, while also taking a more

proactive approach to evaluating operational, legal and other non-financial risks. This holistic approach helps ensure the firm is well prepared for financial dislocations when they occur.

In measuring our risks, there is no single metric that captures every risk we take. A robust framework requires a variety of measures used together; e.g. Stress testing, Scenario analysis, Value-at-Risk, Position measures. An important initiative is strengthening our bottom-up stress testing of risk exposures, applied both to Nomura trading books and to our client portfolios. This is crucial in understanding our exposure to extreme

but plausible market events and ensuring it aligns within our risk appetite. In these analyses, we differentiate between diversified, liquid portfolios, and those that may be concentrated in just a few securities or may be difficult to exit in a distressed market.

We also need to research clients' exposures held at other firms to get a handle on their overall

risk profile. We do this by looking diligently at their public disclosures along with private transparency provided to us. Sometimes it may not be possible to get a complete assessment of a client's total risk profile. In such situations, we have to be appropriately more conservative in our risk appetite with those clients.

Q: What are the challenges ahead and path forward?

One of the most significant challenges for our team is the sheer amount you need to have your arms around on a day-to-day basis. I have developed a few key principles for staying on track:

We have greatly reinforced the communication and coordination across our global teams, especially those between the first and second line of defense.

- A Be extremely thorough.** Success in this business starts with executing the small details well.
- B Be prepared for change.** Major events or disasters rarely strike overnight. When markets unravel or clients become distressed, there are nearly always prior warning signs.
- C Prioritize, prioritize, prioritize.** There are so many different market permutations and risks – a good Risk Manager learns which ones really matter. You must manage your time accordingly to focus on those major risks.
- D Leverage your team.** If you can get your team working effectively as a unit, it is like having 20 pairs of eyes or ears. A dependable and collaborative team will offer different perspectives and feed off each other. It's simple but beautiful when you are able to achieve these synergies.

Q: Can a reinforced framework change the Front Office risk behaviors/culture?

Our primary goal is that the enhanced risk framework should increase the effectiveness of our risk decisions, not avoid risk altogether. All businesses need to take risks to generate revenues, but the key is to be informed and

balanced around those risks. The responsibility for that rests with all Nomura employees and building a strong risk culture will make us a superior firm.

Some specific initiatives aimed at achieving this are:

- A Promptly escalating any material risk concerns to appropriate decision makers.** If you see a risk of any sort that is a threat to the firm, you have an obligation to raise it promptly to the appropriate managers who can take action. We have created a formal escalation policy to codify some of the important actions in this regard, including margin calls, material increases in counterparty risk, and large payment requests out of Nomura.
- B Creating an environment where we are able to challenge each other constructively at all levels.** Looking at past events across Wall Street, there are often people at the more junior level who had information that could have saved the loss. I think it is critical that individuals feel empowered to challenge or raise issues to senior level management.
- C Respect for each other and everything we do,** particularly between the first and second line of defense. In every firm, there is some tension between the two, and the trick is to make that tension healthy. We encourage constructive debates and challenging each other, while remaining respectful in order to learn and raise our collective knowledge.