



We aim to ensure a robust financial position with strong profitability while raising corporate value over the long term by supporting business growth and risk management enhancement through optimal capital allocation and cost strategies

### Takumi Kitamura

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## Review of fiscal year ended March 2022

In the fiscal year ended March 2022, market conditions weakened as new waves of the pandemic and geopolitical risks disrupted supply chains and impacted economic activity. Growth in the global equity markets also slowed compared to the previous year.

This created a difficult operating environment for the firm. Our Retail business reported a slowdown in sales of stocks and investment trusts as market uncertainty prompted investors to sit on the sidelines. Client activity in Wholesale was muted and Macro trading in Rates and FX was challenged.

Although losses arising from transactions with a US client<sup>\*1</sup> were lower this year, three segment net revenue declined 4% year on year to ¥1,179.0 billion, while income before income taxes

decreased 17% to ¥205.2 billion.

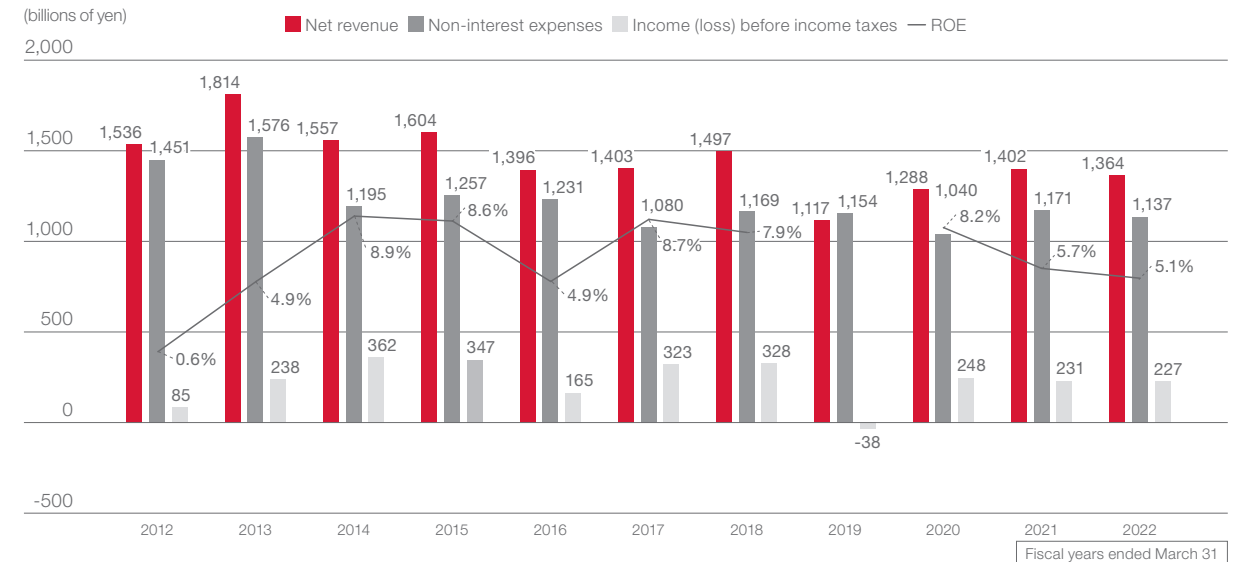
We booked one-off gains and losses in segment Other, including a gain on the sale of a part of our stake in Nomura Research Institute<sup>\*2</sup> and legal expenses for legacy transactions from before the global financial crisis (2007 – 2008)<sup>\*3</sup>.

As a result, firmwide net revenue declined 3% to ¥1,363.9 billion, income before income taxes edged down 2% to ¥226.6 billion, and ROE was 5.1%.

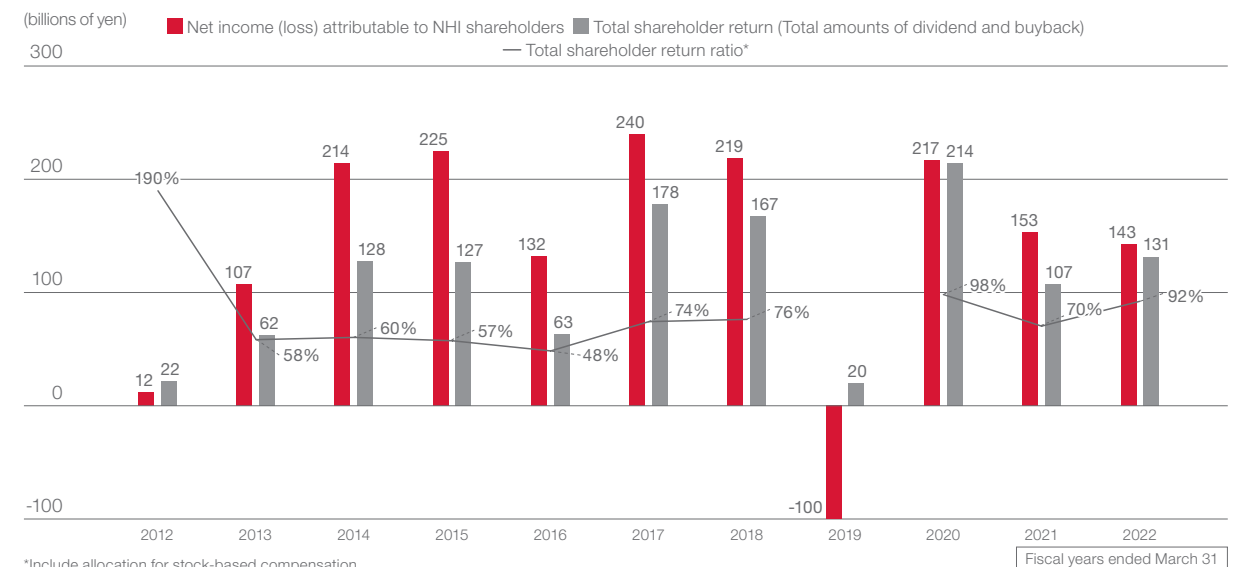
Despite the challenging environment, we started to see results from our business transformation.

In Retail, we focused on asset consulting to lift recurring revenue while controlling costs, resulting in an increase in our recurring revenue cost coverage ratio to 49%. As such, stable recurring revenue now

## Firmwide performance and ROE



## Shareholder returns



\*Include allocation for stock-based compensation

covers about half of our Retail expenses.

Underlying profitability in Wholesale has improved thanks to revenue growth in Equities and Investment Banking. We have a more diverse, consistent revenue mix and we are well positioned to capture revenue uplift under favorable market conditions. We expect to see performance improve if market conditions recover from FY2022/23.

Our shareholder return policy calls for a dividend payout ratio of 30%<sup>\*4</sup> and a total return ratio of 50% or more<sup>\*5</sup>. For the fiscal year ended March 2022, our full year dividend was ¥22 (H1 ¥8, H2 ¥14). We also bought back a total of ¥64 billion of our own shares. That equates to a total return ratio of 92%<sup>\*6</sup>, meaning we returned over 90% of net income attributable to shareholders.

<sup>\*1</sup> Booked loss arising from transactions with a US client of ¥245.7 billion (¥204.2 billion trading loss, ¥41.6 billion loan-loss provision) in FY2020/21 4Q and ¥65.4 billion (¥56.1 billion trading loss, ¥9.3 billion loan-loss provision) in FY2021/22 1Q. In addition, as the recoverable amount for part of the claim related to the loss can now be reasonably estimated, gains of ¥3.2 billion (¥2.6 billion trading revenue, ¥500 million loan loss provision reversal) and ¥11.5 billion (¥9.5 billion trading revenue, ¥2 billion loan-loss provision reversal) were booked in FY2021/22 3Q and FY2021/22 4Q, respectively

<sup>\*2</sup> Booked realized gain on partial sale of stake (¥36.2 billion in 1Q and ¥42.8 billion in 4Q)

<sup>\*3</sup> Booked a provision of approx. ¥39 billion in 2Q and additional expenses of approx. ¥23 billion in 4Q

<sup>\*4</sup> We will strive to pay dividends using a consolidated pay-out ratio of 30% 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

<sup>\*5</sup> Aim for total shareholder return ratio including share buybacks of at least 50%

<sup>\*6</sup> Include allocation for stock-based compensation

## Capital policy and regulatory requirements

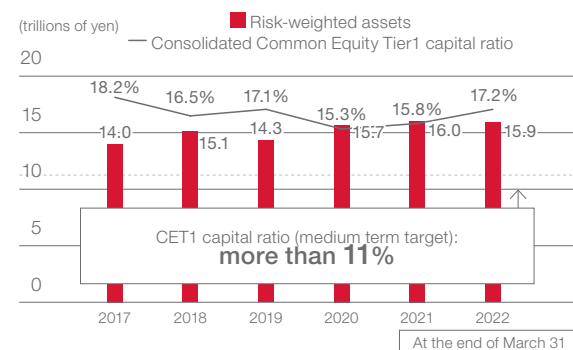
Our capital policy is based on ensuring we allocate capital optimally to maintain a robust financial position, provide financial and capital support for sustainable growth, and deliver adequate returns to our shareholders.

In line with this, we have set a medium-term target for our Common Equity Tier1 capital ratio (CET1 ratio)\*<sup>1</sup> of 11% or above. At the end of March 2022, we had a healthy level of capital with a CET1 ratio of 17.2%. In response to TLAC\*<sup>2</sup> regulations introduced in March 2021, we now have more than the minimum regulatory requirement, giving us sufficient loss absorbing capacity and in turn contributing to stability in the financial system.

\*<sup>1</sup> CET1 capital ratio is defined as Tier1 capital minus Additional Tier1 capital divided by risk-weighted assets

\*<sup>2</sup> 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.

### Consolidated capital adequacy ratio

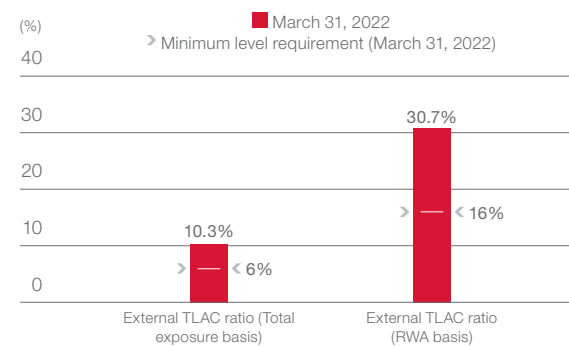


\* CET1 capital ratio is defined as Tier1 capital minus Additional Tier1 capital divided by risk-weighted assets.

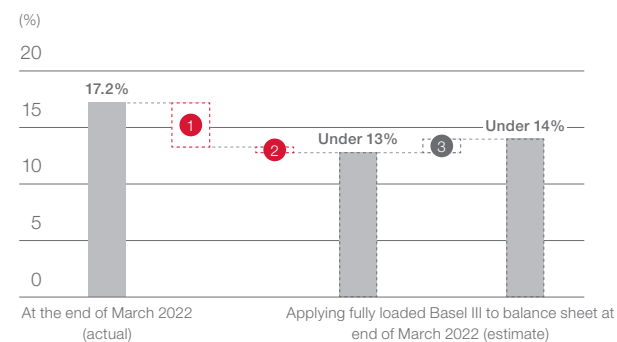
The finalization of Basel III in Japan is set for the end of March 2024. If we were to apply the fundamental review of the trading book and other final rules to our balance sheet at the end of March 2022, our CET1 ratio using the 100% standardized approach would be nearly 13% or close to 14% if we partially used internal models. We believe this is sufficient to meet the tighter regulatory requirements.

When deciding how to use capital exceeding our medium-term target of 11%, we will take into account a broad range of factors to choose from various options including investing for growth and shareholder returns.

### External TLAC ratio (total exposure basis and RWA basis)



### Impact of Basel III finalization



#### Impact of Basel III finalization

- 1 FRTB\*<sup>1</sup>
- 2 Other fully loaded Basel III\*<sup>1</sup>

\*<sup>1</sup> Current estimate applying fully loaded Basel III to balance sheet at end of March 2022. FRTB uses 100% standardized approach; CVA uses 100% standardized approach, estimated by BA-CVA

#### Measures to mitigate the impact

- 3 Applying internal model\*<sup>2</sup>

\*<sup>2</sup> Impact on CET1 changes depending on whether internal model is used or not, the scope of use and the time period

## Sustainable growth

At our Investor Day in May 2022, we announced a three segment income before income taxes target of ¥350 billion to ¥390 billion in FY2024/25, based on ROE target of 8% - 10%. We also discussed some of the specific initiatives we will take to reach those targets such as our revenue growth plans.

There are two things I can do as CFO to help us achieve our targets. First is optimal capital allocation. We are focused allocating capital to our growth areas of the broader asset management business (P25-26) and the advisory business (P27-28). Compared to flow businesses such as trading and brokerage, these businesses are more resilient to changing market conditions and will give us a more stable mix of revenues.

We are currently considering inorganic growth as an option to expand our business through M&A and alliances with business partners in our growth areas. Inorganic growth is an effective way to accelerate growth by adding on new capabilities and extending our client reach. That said, we will conduct rigorous due diligence and only pursue opportunities where we expect returns to exceed the cost of capital.

We place great emphasis on capital efficiency. We currently use attributed capital\*<sup>1</sup>, our own internal indicator, to monitor the profitability of each division in relation to financial resources from multiple angles.

We will continue to sell cross-shareholdings in principle. Over the past 10 years, we have reduced the number of stocks by 40% (P66). Over the next 5 years, we plan to further reduce the number of stocks

\*<sup>1</sup> Capital indicator that takes into account various risks including risk-weighted assets and leverage exposure in Basel regulations and so on.

## In closing

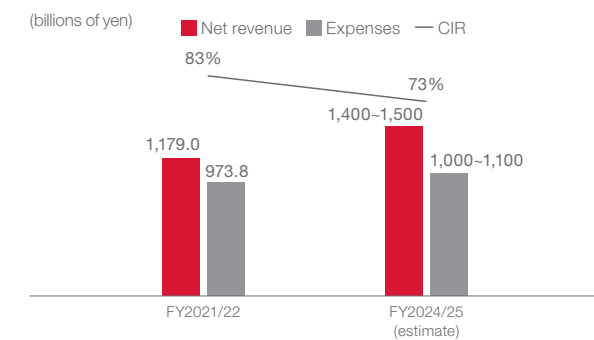
We are committed to proactively communicating with investors. In FY2021/22, we held an IR event on sustainability (Nomura Sustainability Day), an area of increasing interest to investors. We also held an online seminar for individual investors to outline our strategy and initiatives in an easy to understand conversational format. These are both new initiatives and were well received by those who attended. We will continue to find ways to deepen understanding of Nomura Group among various audiences.

by about 25% (compared to the end of March 2022) to improve capital efficiency.

My second area of focus is cost strategies. As we grow our business, we must increase headcount in growth areas, enhance our risk management, and build up our digital capabilities. We are prioritizing the hiring of people with expertise in these fields. We intend to actively invest for growth, while maintaining stringent cost controls, driving efficiencies using digital tools, and reducing real estate costs through our office location strategy. By implementing these cost measures and growing our revenue base, we aim to lower our cost-to-income ratio to 73% in FY2024/25.

The optimal allocation of capital combined with our cost strategies will allow us to work towards achieving a more robust financial position with strong profitability, and in turn lower our cost of capital.

### Three segment total net revenue, expenses and CIR



Through our management vision of achieving sustainable growth by helping resolve social issues, we are targeting ROE of 8% - 10% in FY2024/25 and we will continue our efforts to ensure sustainable growth into the future. Our first priority is to build a foundation to consistently deliver ROE of 8% - 10% by March 2025, and then boost our corporate value over the long term to raise ROE sufficiently above our cost of capital. We look forward to your continued support.