As a provider of sophisticated financial services, Nomura Group recognizes that enhancing risk management is the most important management issue in helping to solve social issues and achieving sustainable growth. We are promoting group-wide efforts to enhance risk management, including promoting an appropriate risk culture among all people working in Nomura Group.

Risk management policy
Nomura Group is working to enhance our people’s knowledge and understanding of risks, as well as to properly recognize, evaluate, and actively manage risks. We manage risks in accordance with the Code of Conduct, and in doing so we not only comply with rules and regulations, but also understand the reasons those rules and regulations were put in place, and manage risks based on high ethical standards. If risk management-related concerns or issues arise, we have a responsibility to proactively and promptly bring those concerns to managers and relevant departments, so as to ensure that the related risks are properly recognized and managed appropriately.

Fostering a sound risk culture is essential in order for risk management and a sense of responsibility to take root. In order to identify as many risks as possible that could lead to significant losses, we strive to understand the nature, impact, and probability of risks associated with our day-to-day operations and the products we handle. As a general rule, we strive to avoid risks that are difficult to identify and manage. In addition, recognizing the existence of unforeseen risks that cannot be identified at present, as financial professionals we work to increase our knowledge about risks and develop a corporate culture of correctly recognizing, assessing and managing risks.

The three lines of defense in risk management
Nomura Group has adopted the following layered structure on the grounds that all employees are accountable for proactively managing risk.

1. **First line of defense**
   - Departments that control risk as owners
   - Establish and promote the risk management framework; monitor and challenge the first line of defense

2. **Second line of defense**
   - Departments that monitor and challenge risk management
   - Review from an independent position

3. **Third line of defense**
   - Internal Audit
   - Departments of the third line of defense (Internal Audit) independently verify and evaluate the effectiveness of the first and second lines of defense respectively. The first line of defense manages risks appropriately. In accordance with the Code of Conduct, the second line of defense supports the risk management activities and monitors the business activities of the first line of defense.

Risk Appetite Statement
To promote integrated risk management, Nomura Group defines risk appetite as the types and level of risk that Nomura Group is willing to assume in pursuit of its strategic objectives and business plans. The Risk Appetite Statement documents these types and levels of risk in writing. The Risk Appetite Statement is approved by the Executive Management Board and receives the consent of the Board Risk Committee. Compliance with the Risk Appetite Statement is monitored. In FY2021/22, we specified our policy of conducting risk management in accordance with the Nomura Group Code of Conduct, and specifically defined the roles and responsibilities of each of the three lines of defense.

Risk management governance and oversight
Nomura has established an organizational structure to facilitate effective business operations and management of risks.

* Please also refer to Page 63 for the role of the Board Risk Committee in the enhancement of Risk Management.

In order to ensure independence from the execution side, the Board Risk Committee, chaired by an outside director, assists the Board of Directors in supervising Nomura Group’s risk management and contributes to the sophistication of risk management. The Board Risk Committee provides consent for the Risk Appetite Statement and the key designs of the risk management framework, and oversees the outcomes of analysis and verification of the risk environment, the future forecasts of the risk environment, along with overseeing the status of execution of overall risk management and medium- to long-term risk strategies.

The Executive Management Board deliberares on and determines management strategies, the allocation of management resources, and important management matters for Nomura Group, and seeks to increase shareholder value by promoting the effective use of management resources and having a consensus regarding the execution of business. Key responsibilities of the Executive Management Board include approval of management resource allocation and limits, approval of business plans and budgets, and reporting to the Board of Directors.

Upon delegation from the Executive Management Board, the Group Risk Management Committee deliberates on and determines important matters concerning Nomura Group’s enterprise risk management to contribute to the sound and smooth operation of businesses. As the decision-making body for risk management on the execution side, the Group Risk Management Committee develops a framework for integrated risk management consistent with the risk appetite, and conducts necessary deliberations on strengthening risk management systems based on reports from business divisions.
Risk management enhancement

Nomura Group recognizes that enhancing risk management is one of the most important management issues for achieving sustainable growth. To date, on the supervision side we have established the Board Risk Committee mainly comprising outside directors, while on the execution side we have established the Group Risk Management Committee. In addition, we have established the Steering Committee for Enhancement of Risk Management to enable members of senior management to promote initiatives aimed at enhancing risk management. We are also taking concrete steps to strengthen and expand our three lines of defense. (See figure below) In addition, on top of instilling a Group-wide risk culture, we are carefully examining governance, management systems, and business processes, and advancing initiatives that will lead to specific improvements.

- Established Board Risk Committee comprised mostly of outside directors
- Established Group Risk Management Committee on execution side
- Established Steering Committee for Enhancement of Risk Management
- Strengthen and enhance business operating structure
- Detailed review of risk culture, governance, management structure, business processes, etc.

Specific initiatives to enhance risk management on the first line

- By conducting various business reviews, ensures consistency between business strategy and the actual business, while cultivating a sense of risk ownership (fully understanding and proactively responding to risks, etc.) and enhances accountability on the business side.
- Integrate existing front office risk management bodies into a consolidated front office risk control function to allow for integrated monitoring of financial and non-financial risks at a global level as the first line of defense.
- In addition to bolstering the counterparty credit risk monitoring framework, enhancing client management practices by making clear the risks and responsibilities of sales personal.
- Increase direct communications from management by using town hall meetings and video messages to deliver initiatives and contents such as business strategy and risk culture.

Strengthening the functions of the Committee

- Conduct annual portfolio reviews of individual businesses to confirm that business operations are conducted in line with risk appetite within the framework of the first and second lines of defense.
- The Risk Appetite Statement was revised to clarify what the management system based on three lines of defense.
- Quantify risk appetites for various risks, review the framework of limit management, including escalation.

Strengthening the functions and organizational bolstering

- Improve risk methodologies in order to measure each risk more appropriately.
- Expand and strengthen risk management systems by strengthening organizations and increasing personal.
- In addition, we are promoting the enhancement of employee expertise through various training programs.

First line

- Conduct more global or multi-regional audits to further enhance Internal Audit’s ability to respond to the globalization of business and the associated complexity of risks, amid growing expectations of Internal Audit from various stakeholders.
- Also enhance the effectiveness of internal audits by reorganizing the staff structure on an ongoing basis in accordance with the changes of the risk environment, and establish an HR model containing adequate and sufficient professional skills on a global basis.

Second line

- Appointed new Senior Managing Director in Tokyo headquarters in charge of Risk Management.
- Established Group Risk Management Head Office
- In addition to having Chief Risk Officer in Americas, we conducted focused hiring of senior staff to manage risk
- Hired global head to oversee risk control in the front office
- Hired global head to oversee management of client activity and internal collaboration
- Conducting audits from business execution functions, the formulation of the audit plan and budget for internal audits are subject to the approval of the Audit Committee or the Audit Committee members appointed by the Audit Committee.

Third line

- Internal Audit is enhancing its capabilities and promoting audits more globally in the risk management audit areas. This is to better evaluate the effectiveness of such internal controls.
- In order to ensure the effectiveness and appropriateness of internal controls, the firm has established dedicated internal auditing departments in the Company and its major subsidiaries that are independent from the execution of business operations, and these departments conduct internal audits across the Nomura Group.
- The firm is working to strengthen and enhance its internal control system. This is to ensure appropriate corporate behavior throughout the Group in an effort to (i) deliver management transparency and ensure efficiency, (ii) comply with regulations, (iii) manage risks, (iv) maintain the reliability of business and financial reports, and (v) encourage appropriate information disclosure. Internal Audit independently evaluates the effectiveness of such internal controls.
- For details about Nomura’s Internal Control System Framework including Internal Controls Committee, please visit Nomura Holdings, Inc’s website.
- https://www.nomuraholdings.com/company/cg/intcon.html

Specific initiatives to enhance risk management on the second line

- Establish and strengthen internal control systems by strengthening organizations and increasing personal.
- In addition, we are promoting the enhancement of employee expertise through various training programs.

Internal audit structure and specific initiatives on the third line

- The firm’s business strategies.

Strengthening three lines of defense

- Implement structure for cross-divisional, cross-regional collaboration to speed up decision making and identify potential risks early.

**Sources:**

- https://www.nomuraholdings.com/company/cg/intcon.html