Application of TLAC Regulation to Nomura

Nomura Holdings, Inc.

April 13, 2018
TLAC Requirements, and timeframe for application to Nomura

- Total loss-absorbing capacity (TLAC) requires systemically important banks to have sufficient loss-absorbing capacity in order to facilitate the orderly resolution of a bank when it fails, in a manner that minimizes impacts on financial stability without exposing taxpayers to loss.

- Specifically, banks in scope of the TLAC regulation must maintain the minimum levels of TLAC-eligible capital and debt to their risk-weighted assets and leverage exposure.

- From March 31, 2021, the TLAC regulation will apply to Nomura Holdings, Inc. (NHI), with the following regulatory minimal requirements and timeframe:

<table>
<thead>
<tr>
<th>Minimum Requirements</th>
<th>March 31, 2021 ~</th>
<th>March 24, 2024 ~</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Minimum TLAC as a percentage of RWA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Capital + TLAC-eligible debt *1) / RWA</td>
<td>16%</td>
<td>18%</td>
</tr>
<tr>
<td>2. Minimum TLAC as percentage of Leverage Exposures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Capital + TLAC-eligible debt *1) / Leverage Exposure</td>
<td>6%</td>
<td>6.75%</td>
</tr>
</tbody>
</table>

1. TLAC-eligible debt: Debt instruments that satisfy loss-absorbing capacity criteria defined by The Financial Services Agency in Japan.
### TLAC for Nomura (2)

#### Requirement for minimum TLAC of RWAs

<table>
<thead>
<tr>
<th></th>
<th>Current capital requirement</th>
<th>Requirement after TLAC implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CET1</strong></td>
<td>4.5%</td>
<td>4.5%</td>
</tr>
<tr>
<td><strong>Other Tier1</strong></td>
<td>3.5%</td>
<td>3.5%</td>
</tr>
<tr>
<td><strong>Tier2</strong></td>
<td>8.0%</td>
<td>8.0%</td>
</tr>
<tr>
<td><strong>Minimum TLAC requirement</strong></td>
<td>16%</td>
<td>19% (2.5%)</td>
</tr>
<tr>
<td><strong>Minimum TLAC eligible debt, etc.</strong></td>
<td>10.0%</td>
<td>21% (3.5%)</td>
</tr>
</tbody>
</table>

1. **Baseline III capital requirement** 8%

2. **Several capital buffers**

   - **Current capital requirement**
     - After March 2019: 3.0%
     - After March 2021: 3.0%
     - After March 2024: 3.0%

   - **Minimum requirement**
     - After March 2019: 3.5%
     - After March 2021: 3.5%
     - After March 2024: 3.5%

**In order to comply with TLAC regulation**

- **Balance Sheet image (Current)**
  - Total assets
  - Loans, senior bonds (NHI)
  - Equities

- **After TLAC implementation**
  - TLAC eligible debt
  - Loans, senior bonds
  - Equities

**Nomura intends to replace a portion of existing NHI liabilities when they become due with TLAC eligible debt**

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1. **Capital conservation buffer of 2.5%** and **D-SIB buffer of 0.5%** Excludes countercyclical capital buffer.

2. **Under the TLAC framework, certain credible ex-ante commitments to recapitalise a G-SIB in resolution as necessary to facilitate an orderly resolution may count toward a firm’s minimum external TLAC.** Since Japanese Deposit Insurance Fund Reserves fulfill the requirements for such a commitment, the amount equivalent to 2.5% of RWAs and 3.5% of RWAs will be allowed to count from and after March 31, 2021 and March 31, 2024, respectively.
The TLAC regulation will impose the following restrictions on Japanese banks in holding Non-Capital TLAC Instruments and Debt instruments that rank *pari passu* with Non-Capital TLAC Instruments (*Pari Passu Instruments*), collectively “Regulated Instruments”, in order to reduce the risk of contagion in the event of a systemically important bank’s failure.

**TLAC Holding Regulation**

- **Internationally Active Banks**: Deduction of the holding of the Regulated Instruments in excess of a certain threshold from the bank’s own capital.
- **Domestic Banks**: 150% risk-weight shall be applied for a domestic bank’s holding of Regulated Instruments in excess of a certain threshold whereas a typical risk weight applied to holding of financial institutions bonds is 20%.

By way of exception, however, the following transitional treatment for the holding restriction will be applied:

<table>
<thead>
<tr>
<th>Category</th>
<th>Instrument (Applicable only to NHI’s Regulated Instruments)</th>
<th>Transitional treatment</th>
<th>Application of holding restrictions</th>
<th>Typical Instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internationally Active Banks</td>
<td>TLAC-eligible debt</td>
<td>No</td>
<td>n/a</td>
<td>TLAC bonds to be issued by NHI</td>
</tr>
<tr>
<td></td>
<td><em>Pari Passu</em>¹</td>
<td>Yes</td>
<td>Exempted for 5 years starting from March 31, 2021</td>
<td>Existing bank borrowings and bonds owed by NHI</td>
</tr>
<tr>
<td>Domestic Banks</td>
<td>TLAC-eligible debt²</td>
<td>Yes</td>
<td>Exempted for 10 years starting from March 31, 2019</td>
<td>TLAC bonds to be issued by NHI</td>
</tr>
<tr>
<td></td>
<td><em>Pari Passu</em>¹</td>
<td>Yes</td>
<td>Exempted for 5 years starting from March 31, 2021</td>
<td>Existing bank borrowings and bonds owed by NHI</td>
</tr>
</tbody>
</table>

1. *Instruments held by banks at March 31, 2021, so long as the banks retain the holding of the instruments*

2. *Instruments held by banks at March 31, 2019, so long as the banks retain the holding of the instruments*
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