

## **FY2019/20 1Q Financial Results Conference Call Q&A**

Date: July 31, 2019

Speaker: Takumi Kitamura, Chief Financial Officer, Nomura Holdings, Inc.

**Q1: Wholesale expenses have declined to about 140 billion yen, which is 87 percent of revenues. The pace of the decline is faster than expected, but is it sustainable?**

A1: Adjusted annualized expenses, excluding the impact of revenue uplift and additional investments, etc., are just over 5 billion dollars. Quarterly expenses could fluctuate due to various reasons, but we will continue to focus on reducing costs by carrying out our cost reduction program.

**Q2: Rates and Credit trading had a good quarter. What factors helped you outperform your peers and do you think this is sustainable?**

A2: As part of the revision of our business portfolio, we rightsized businesses with low profitability and overexposure to market conditions. This quarter we saw good results from focusing on businesses where we have a client franchise and competitive advantage such as US agency mortgages and European government bonds.

Market conditions are extremely challenging and we expect the market to continue to be affected by macro and geopolitical events. The key to sustainability lies in how low rates affect investor sentiment and whether they look to rebalance their portfolios.

**Q3: The Japan Credit business recovered during the quarter. What investors went after what types of credit products? Also, illiquid Level 3 assets have increased over the past year, as have mortgages and debt securities. What risk are you taking and in what regions?**

A3 As Japanese institutional investors search for yield, we have seen a stronger willingness to invest in bonds that incorporate some emerging market currencies.

Level 3 assets have increased slightly because without taking on much risk we have increased infrastructure financing and ABC financing, both of which we can expect to see relatively strong demand for. This is mainly in the US and we are aiming to build a business portfolio resilient to the market cycle.

**Q4: What is the breakdown of client revenues and trading revenues for Fixed Income? As the Rates business becomes increasingly digitized, fees could decline. Once you have finished rebuilding your business platform, could you still generate the same level of revenues as this quarter under the same market conditions?**

A4: Client revenues account for just under 80 percent and trading revenues just over 30 percent. We are currently working on introducing a platform that uses artificial intelligence. The

results of a proof of concept we conducted show that by using AI could improve the hit ratio and lead to higher trading revenues while lowering costs.

As you rightly say, with advances in digitization spreads will become thinner, but with a higher hit ratio we will require less warehousing and ensure revenue levels.

**Q5: Risk assets increased this quarter, mostly due to market risk. Previously you said Wholesale could cut risk assets by over 10 percent. Can you achieve that over the medium term?**

A5: We have already realigned our business portfolio. We have reduced allocation of risk assets to Wholesale and risk assets in businesses subject to the review have declined. On the other hand, for businesses we are maintaining or growing such as the European government bond business, risk assets increased this quarter by about 400 billion yen due to stronger client activity.

**Q6: First quarter Wholesale net revenue recovered to nearly 160 billion yen. Last year you said negative revenue generating businesses pushed down overall revenues. Does that mean they are no longer present?**

A6: Last year I said client revenues were 100 percent and trading zero. This year in the first quarter an extra 20-plus percent was added to Wholesale revenues as trading revenues. This is because businesses that were a drag are no longer there and our Rates and other businesses captured opportunities as interest rates declined.

**Q7: Previously, you said by improving unprofitable businesses in Wholesale you could improve earnings by 400 million dollars. Are you starting to see the results of these improvement measures in the first quarter?**

A7: We saw results from dealing with unprofitable businesses and improvement from market normalization.

**Q8: If you simply annualize first quarter expenses then they will decline significantly compared to FY2017/18 and FY2018/19. It looks as though you have already met your cost reduction target of 140 billion yen, but you said it was only 50 percent done as of the end of July. Could you please clarify?**

A8: Past years include many one-off expenses. We want to reduce normal business costs, excluding one-offs, by 140 billion yen.

**Q9: You said you plan to carry out 60 percent of cost reductions in the year ending March 2020. How is that progressing?**

A9: Cost reductions are progressing smoothly.

**Q10: How do you define the rate of progress for the cost reductions?**

A10: Although we took action up to July, it will take time for the effect of some of the cuts to be seen.

**Q11: As you compress risk assets and maintain sufficient capital ratios, is there a chance that you could carry out further share buybacks?**

A11: We have an ongoing share buy-back program set in June with an upper limit of 300 million shares and 150 billion yen. Although the first quarter was a very good start to the new fiscal year, we must remain vigilant and at the moment I cannot comment on whether we will conduct additional share buybacks.

**Q12: So depending on the situation, additional share buybacks could be an option?**

A12: Share buybacks are always an important option in our policy on shareholder returns.

**Q13: Has the streamlining conducted so far been fully reflected in headcount as of the end of June?**

A13: Even when notice is given to employees, it doesn't mean that will be immediately reflected in headcount reductions.

**Q14: How will the Retail reorganization in August affect second quarter revenues?**

A14: As part of the reorganization, over 1 million client accounts will change sales representative. We can't avoid some effects, but we will minimize the impact by handing over as quickly as possible. We believe this is the right approach over the medium to long term in order to more effectively provide services that meet the individual needs of each client.

**Q15: European financial institutions are downsizing their US operations and US players are also adjusting their businesses. Would you consider changing direction and increasing headcount?**

A15: There is no change to our strategy. We will continue to reduce headcount where we can and hire in areas we are looking to build up. We won't be influenced by what other companies are doing.

**Q16: It seems Retail had a slow month in July. Does that mean performance is already being affected by the reorganization?**

A16: We announced a personnel reshuffle on July 12 and that when the handover process started. Some impact of the reorganization started in July, but TSE turnover dropped significantly so market factors are also a cause. We can't say to what extent each factor has impacted performance.

**Q17: I haven't heard from your competitors that investor sentiment has improved, so why did your Retail business improve?**

A17: Because we revised our product strategy that had leaned towards Fund Wraps in the past few years. So sales of investment trusts and bonds, such as global stock funds with a good track record and emerging market bonds, increased compared to last quarter.

**Q18: Can you sustain the Wholesale pretax margin of about 12 percent?**

A18: The first quarter was particularly affected by geopolitical risk and client activity was muted. We are trying our best to maintain revenue levels. At the same time, cost reductions are still a work in progress. By further cutting costs, we aim to maintain and improve profitability.

**Q19: Retail sales of foreign bonds increased 5.7 percent quarter on quarter, while sales credit increased by 42 percent. Why is that?**

A19: Sales credit includes not only foreign bonds, but also revenue related to foreign stocks.

1. *This document is produced by Nomura Holdings, Inc. ("Nomura"). Copyright 2019 Nomura Holdings, Inc. All rights reserved.*
2. *Nothing in this document shall be considered as an offer to sell or solicitation of an offer to buy any security, commodity or other instrument, including securities issued by Nomura or any affiliate thereof. Offers to sell, sales, solicitations to buy, or purchases of any securities issued by Nomura or any affiliate thereof may only be made or entered into pursuant to appropriate offering materials or a prospectus prepared and distributed according to the laws, regulations, rules and market practices of the jurisdictions in which such offers or sales may be made.*
3. *No part of this document shall be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior written permission of Nomura.*
4. *The information and opinions contained in this document have been obtained from sources believed to be reliable, but no representations or warranty, express or implied, are made that such information is accurate or complete and no responsibility or liability can be accepted by Nomura for errors or omissions or for any losses arising from the use of this information.*
5. *This document contains statements that may constitute, and from time to time our management may make "forward-looking statements" within the meaning of the safe harbor provisions of The Private Securities Litigation Reform Act of 1995. Any such statements must be read in the context of the offering materials pursuant to which any securities may be offered or sold in the United States. These forward-looking statements are not historical facts but instead represent only our belief regarding future events, many of which, by their nature, are inherently uncertain and outside our control. Important factors that could cause actual results to differ from those in specific forward-looking statements include, without limitation, economic and market conditions, political events and investor sentiments, liquidity of secondary markets, level and volatility of interest rates, currency exchange rates, security valuations, competitive conditions and size, and the number and timing of transactions.*
6. *The consolidated financial information in this document is unaudited.*