

## FY2019/20 3Q Financial Results Conference Call Q&A

Date: January 30, 2020

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

**Q1: Fixed Income revenues jumped 29 percent quarter on quarter. What are the key factors that helped you outperform your US peers?**

A1: By streamlining our business and focusing resources on our core strengths of Rates and AEJ Credit, productivity improved and this combined with favorable market conditions to drive revenue growth.

The outlook remained highly uncertain through to the second quarter and the performance of our US peers was underpinned by sticky revenues from such businesses as FX for corporates. But for us, the Rates business was weak and we lost some market share. Market conditions turned favorable in the third quarter and revenues returned to the level we had around two years ago when we refocused our business. Also, December is the end of the fiscal year for our US peers and they tend to shrink their balance sheet at that time. So that is a seasonal factor that helps us boost revenues.

**Q2: Your 3Q repo book increased by about 5 percent compared to last year. How did you increase revenues given the turmoil in the US short-term interest rate market and the lack of liquidity?**

A2: Seasonal factors made it easier to increase repo revenues. Last year, the repo market temporarily spiked and demand remains tight so we see business opportunities. That said, although repo transactions are appealing as they generate stable earnings without using risk assets, our peers are also focused on this area, so we do not intend to further increase our balance sheet.

**Q3: The spread between repo and interest rate swaps has been tightening recently. Is that a negative for repo transactions? Traditionally, you have generated revenues by strategically conducting repo transactions. Is there any knock-on effect for highly profitable businesses such as agency mortgages?**

A3: Conditions were favorable in the third quarter, but we expect this to normalize in the fourth quarter. However, with Brexit etc., we expect decent demand for flow repo transactions and cross-currency repo transactions.

**Q4: Commissions for distribution of investment trusts in Retail strongly outperformed the market. Why did they increase considerably both quarter on quarter and year on year?**

A4: The second quarter included the summer break as a seasonal factor and this combined with our efforts to reform our channels and integrate branch offices to push down revenues significantly. Those factors were no longer present this quarter and we were able to increase revenues by making proposals matched to client needs as we reform our channels and improved investor sentiment on the back of the favorable market conditions.

**Q5: How much of the QoQ increase in Americas Fixed Income revenues was driven by repo transactions?**

A5: Contributions from repo transactions account for a relatively small part of overall Americas revenues.

**Q6: What is the breakdown of Fixed Income revenues by region?**

A6: Japan just over 20 percent, EMEA in the mid-twenties, Americas about 40 percent, and AEJ in the mid-teens.

**Q7: Why did corporate items in segment "Other" decline significantly QoQ? And why is Others in segment "Other" slightly negative?**

A7: Corporate items is an aggregate of many small items. It includes a portion of bonus provisions due to stronger revenues, and our yen interest rate swap position as part of our funding made a negative contribution due to year-end factors (which were unwound in the new year).

Others in segment "Other" had positive contributions from own credit and mark-to-market gains on Mebuki Financial Group, but there was a one-off negative factor from the decommissioning of IT systems in EMEA (in the low billions of yen).

**Q8: How do you rate Retail third quarter performance?**

A8: Market factors had a strong influence in the third quarter. Internally, we do not want to become overly optimistic that it was all benefits from our channel reformation. We are not saying there was not any benefit at all, but we are starting to see changes in behavior of sales staff in each channel. In the channel for company owners, the percentage of consulting-related revenues within total revenues is increasing. In the HNWI channel, the number of clients who transact with us for multiple products is increasing, and we are having more dialog with clients around services other than asset management such as insurance, loans and real estate. In the mass affluent channel, we are seeing changes in our sales staff approach with the number of face-to-face client meetings declining and the use of email increasing. This has resulted in the number of actively trading clients increasing by 20 percent.

**Q9: What is the breakdown for client revenues and trading revenues in Fixed Income and Equities?**

A9: In percentage terms, in Fixed Income client revenues account for around mid-sixties and the rest is trading revenues. In Equities, over 80 percent is client revenues and the rest is trading revenues.

**Q10: What are your plans for year-end dividend and share buybacks?**

A10: There is no change to our policy of consolidated payout ratio of 30 percent and total payout ratio of at least 50 percent. The total payout ratio of 50 percent is lower limit and we continue to see share buybacks as an important option.

**Q11: As US interest rates declined in the first and second quarters, I believe this led to an increase in early redemptions and new issuances of US mortgage bonds. Why was the mortgage business strong in the third quarter even though interest rates did not decline further?**

A11: In the third quarter, although US interest rates rose moderately, they remain at historically low levels. Employment in the United States is very strong and the housing market is generally solid, creating an active primary market in the third quarter for new issuances and refinancing. Advance repayments slowed slightly in October and November, but increased again towards the end of the year leading to solid refinancing demand. The secondary market was also strong with a fair amount of rebalancing by investors.

**Q12: Fixed Income client revenues are trending around 60 billion yen and the third quarter revenue growth was driven by trading revenues. Why did trading revenues increase even though interest rates are not declining?**

A12: On a monthly basis, December was good. US-China trade friction eased and the UK election happened on the 12th. The market turned somewhat to risk on and client flows increased. As the market direction became clearer we were able to monetize client activity. Client revenues are higher from structured than flow. So when the proportion of structured-related revenues increase, the ratio of client flows also increases. In the third quarter, one factor is that the flow business grew and as a result, overall revenue looks to have increased even though client revenues did not grow.

**Q13: You said net outflows in investment trusts in retail in the third quarter was due also to seasonal factors. Are these one-offs? How has performance been in January?**

A13: In the third quarter, share prices rose heading to December leading to many investment trust redemptions. Some funds from sales were reinvested in other investment trusts and some are accumulating in MRFs, while some flowed out external parties. The market has been choppy in January and has dropped recently. In such a downward phase, purchases pick up not only investment trusts, and we see some of the funds for these purchases coming from MRFs.

**Q14: Interest revenue/expenses in the income statement improved in the third quarter. Is this in line with trends in businesses such as mortgages, repo and Credit?**

A14: We do not analyze just interest revenue/expenses, we look at it together with trading revenues. We assume that repos have had some effect, but we do not closely track interest revenue/expenses on its own.

**Q15: Wholesale performance has improved but risk assets have not increased. Why has profitability improved in comparison to the level of risk assets?**

A15: Last year, we significantly reduced less profitable and productive businesses. Also, in the third quarter the repo and other businesses performed well and as you know they don't use much risk assets so that is another reason.

**Q16: Retail recurring revenue is not growing but divisional revenues are. Net redemptions of fund wraps seems to be going in the opposite direction to what you want. How will you move the business forward?**

A16: One factor of the fund wrap net redemptions is profit taking on the back of the favorable market conditions.

To deliver products and services matched to the needs of each client, we reformed our Retail channels last year. SMAs have grown recently. This is due to various reasons. Some existing clients are investing more. Some corporate clients are purchasing to manage their funds amid low interest rates. Some HNW clients are putting funds gained from the sale of stocks that have increased in price into SMAs, which offer high diversification. And some

are choosing wrap trusts for asset building and estate planning. We are focused on providing services and products aligned to client needs so we believe this will result in various fee-based assets gradually increasing.

**Q17: Your cost reductions were over 60 percent in the second quarter and close to 70 percent in the third quarter. What do you expect this to be at fiscal year-end and going forward? Wholesale second quarter run rate costs were about 4.8 billion dollars, but what about the third quarter?**

A17: Cost reductions were close to 70 percent complete at the end of the third quarter. This is far faster than we first expected, reaching our March 2020 target ahead of plan. Looking ahead, our efforts will focus on longer term initiatives such as overhauling our operating model. We remain focused on reaching our 2022 target. Based on certain revenue expectations, current Wholesale run rate costs are just under 4.8 billion dollars.

**Q18: How sustainable are Fixed Income revenues? Not just market tailwinds, but are you seeing traction such as enhanced client franchise or gains in market share?**

A18: Without being too pessimistic, it is true that this quarter we benefitted from market tailwinds. And it is true there were seasonal factors at the end of December. We expect this to normalize a bit going forward. However, we are gaining traction in terms of growing market share and enhancing our presence in the products we are focused on. We aim to enhance our capabilities to be able to monetize opportunities when market conditions improve in our areas of competitive strength.

We have also made significant progress in lowering our breakeven point, becoming leaner overall, and shoring up our bottom line.

**Q19: You said the contribution from the Retail channel reformation was not much in the third quarter. Is that because the sales staff had just taken on new clients and were not in a position to recommend products as the market rallied? Or is it because the focus will be on providing consulting to clients over the long term?**

A19: It is not that there was not contribution from the channel reformation, it is just that market factors played a large part in the third quarter. Our stance is to stay focused and work hard for our clients. While it is hard to quantify financially, we are starting to see some results from the steps we have taken.

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