NOMURA

FY2020/21 2Q Financial Results Conference Call Q&A

Date: October 28, 2020
Speaker: Takumi Kitamura, Chief Financial Officer, Nomura Holdings, Inc.

Q1: Why did RWA decline by 1.3 trillion yen from the end of June?

A1: This is mainly due to a drop in market risk. RWA spiked at the end of March due to the market volatility, which has since eased. We use a 60 day average to calculate some risk assets and the impact declined for the end of September. RWA also declined in part due to a reduction in risk origination positions.

Q2: Given your capital ratios have improved, share price is cheap and the revenue environment good, why didn't you announce a share buyback?

A2: As other banks, in particular the US banks, postpone buybacks, the virus infection rates are reaching new highs in Europe and the US and we feel that we must remain vigilant. We announced an interim dividend 20 yen per share as a solid return for shareholders. That is the third highest half-year dividend we have paid out and the highest in the past 10 years. We aim for a total payout ratio of at least 50 percent so we would like to consider a share buyback at some point.

Q3: Equities delivered very strong momentum even when compared to the US banks. Why was the US particularly strong and is it sustainable?

A3: There has been strong hedging demand by investors for US stocks in the lead up to the US election. We have a strong platform for this business with a wide range of clients and products, which allows us to tap into revenue opportunities in various market phases

Q4: Can you maintain expenses at this level or as sales activities normalize will expenses increase? Are you considering further cost reductions?

A4: In percentage terms, we have completed around the mid 80s of the 140 billion yen cost reduction program. We are focused on completing the remaining 15 percent. Business development expenses have declined but even if the economy normalizes we won't go back to the same cost structure.

Q5: What is the outlook for Investment Banking in the second half based on the ECM, DCM and M&A pipeline?

A5: With low interest rates globally and the pandemic, we expect demand to have cash on hand to continue. As I mentioned last quarter, we think first there is demand to raise funds through bond issuances and then through capital, including hybrid capital, raising. For M&A, amid the uncertain economic outlook, demand is increasing for business reorganizations to adapt to the changing environment and M&A geared towards growth. In Japan, the number of consultations for M&A are up by 20 to 30 percent compared to a normal year. We don't think the demand for ECM, DCM and M&A is temporary.

Q6: What is behind the strong rebound in Retail performance?

A6: The expertise of our sales people have improved and they are adapting better to change. Another positive factor has been increased interactions with clients through email and phone calls. The channel realignment is also gradually delivering results. For corporates and owners, the number of newly onboarded clients has doubled compared to before the direct impact of coronavirus appeared. In the high-net-worth space, there is stronger demand for investment management amid the low rate environment giving us more opportunities to offer our services.

Q7: You said you will do a share buyback going forward, is that an indication of your confidence in the sustainability of your performance?

A7: We have a solid client franchise and the market environment will continue to offer monetization opportunities. Given that benefits from the transformation of our Retail business are starting to appear, we feel that we can maintain momentum.

Q8: Why did Fixed Income slightly outperform your US peers?

A8: Trading of government bonds slowed a bit from the first quarter, but agency mortgages were very strong due partly to low rates. In FX, Asian currencies found direction in relation to the US dollar which we were able to monetize. We don't try to be everything. We focus our resources on our areas of strength and that is yielding results.

Q9: Some of your US peers have said that trading was underpinned by funding needs related to M&A prompted by the pandemic and the transition from LIBOR. What are your thoughts on client activity in Fixed Income from next year onwards?

A9: While interest rate volatility is easing slightly, considering the fiscal expansion around the world, we expect to see continued business to support financing in Europe. Although we can't calculate the impact of the LIBOR transition, the change will support the Flow Rates business. For Agency Mortgages, we see continued strong demand from Japan and AEJ clients as assets offering a yield become harder to find. Based on that, we expect the environment in the first half of next year to remain resilient.

Q10: The deadline for implementation of Basel III has been extended and there are discussion about relaxing the rules for the Net Stable Funding Ratio (NSFR). You should benefit from this, but have your thoughts on surplus capital changed?

A10: Market turmoil has eased and our Tier 1 and leverage ratios have improved. Relaxing the NSFR rules will be a positive for government bond market making and in terms of calculating NSFR. We are watching closely how it will be finalized in Japan. Our Tier 1 capital ratio is over 19 percent and while the impact of 2023 FRTB is important for us, we feel we have a suitable level of surplus capital.

Q11: How much loss carried forward do you have left under US tax law?

A11: Just under 420 billion yen at the end of March.

Q12: As for the shareholders' equity account, why has accumulated other comprehensive income (loss) grown negative?

A12: The market value of our bonds used to be recognized as a gain or loss, but from a few years ago it has been booked in comprehensive income. This quarter it was negative because of credit spread tightening.

Q13: Will your Fixed Income market share continue to grow?

A13: We have streamlined our business areas and there is scope to further extend our market share in certain areas. One of our strengths is our access to 1,900 trillion yen of personal financial assets in Japan. Japanese corporates also boast robust financial positions and we are well positioned to connect funds in Japan and the rest of Asia to the Americas.

Q14: Could you share any internal stress test results you have. For instance, in the Bank of Japan report on the financial system the estimates include severe downside scenarios for the financial markets.

A14: We do internal stress tests but we don't disclose such figures. At the end of September, our Tier 1 capital ratio was 19.3 percent and unless we apply unrealistic stress, the ratio would not go below our target.

Q15: What sort of functions could be in scope for inorganic growth? The asset management industry is going global, what is your appetite for M&A?

A15: We acquired the M&A boutique Greentech in April this year. Although the start was slow due to the pandemic, we are starting to see synergies and transactions coming through. We find it these boutiques that focus on certain themes to be attractive, but we don't expect to do anything large scale. In Asset Management, we are looking to reach our 2023 KPI of assets under management of 65 trillion yen through organic growth. That said, we are discussing what we can do to achieve further growth and would not dismiss M&A if there is a good opportunity.

Q16: EMEA posted a pretax loss. As Fixed Income normalizes, what downside risks do you see and how will you address them?

A16: EMEA includes expenses related to legacy transactions. While performance normalized from the strong first quarter, performance of the government bond business in the region was not bad as we supported financing in different countries through underwriting. We have already scaled down our Credit business in EMEA, making the Rates our main business so we don't see much downside risk.

Q17: International revenue accounted for over half of pretax income this quarter. What is the outlook for future quarters?

A17: Given global fee pools, we expect the ratio of our US business to increase. At the same time, our strongest franchise is in Japan and the ratio would change depending on large ECM and DCM deals. So we don't have a target on how the Japan versus international ratio should be.

Q18: If the debate in Japan around firewall regulations puts banks at an advantage, how would that affect your domestic business?

A18: We believe the debate should focus on what is best in terms of convenience for clients and the development of the capital markets.