Date: October 29, 2021
Speaker: Takumi Kitamura, Chief Financial Officer, Nomura Holdings, Inc.

Q1: You are still reporting losses long after the global financial crisis. What is your outlook for risk and how can external stakeholders assess the risk of losses occurring?
A1: We made the necessary provision in 2Q and we can’t comment on future possibility. As long as we operate globally, we can’t completely rule out litigation risk. Following today’s announcement about further enhancing our risk management, we will focus on solid businesses in order to minimize future risks as possible.

Q2: Your total payout ratio is around 144 to 145 percent. Why did you announce a payout over 100 percent? Is that due to an adjustment of income or because you had too much surplus capital?
A2: Last quarter we were asked if we would account for the loss arising from transactions with a US client in our half-year dividend, and we said we would take it into account to a certain degree. Accordingly, we made an adjustment to income in determining the dividend this time. We have also included what we need for restricted stock units, making total shareholder returns look relatively high.
Our Tier 1 ratio at the end of September was 20.2 percent and our CET1 ratio was 17.6 percent, meaning we do have some surplus capital. Previously, we said the FRTB impact to our CET1 ratio would be about 3 to 4 percent, but recently that has increased slightly. We believe we can mitigate the impact somewhat by taking several measures in the lead up to full implementation.

Q3: Japan’s Financial Services Agency has announced the draft regulatory notice to an amendment concerning market risk, credit risk and CVA. Does the biggest impact center on market risk?
A3: Market risk will have the biggest impact for us.

Q4: What is the breakdown of client revenues and trading revenues in Global Markets?
A4: In 2Q, for both Fixed Income and Equities, client revenues were 90 percent and trading revenues 10 percent.

Q5: Wholesale cost income ratio was 86 percent, slightly higher than your 80 percent target. How were costs in relation to your previously disclosed run rate?
A5: We maintain stringent cost control. At the same time we are investing in growth areas such as private markets, advisory and AEJ Wealth Management, and in these areas costs come first slightly. As secondary trading revenues normalized, our cost income ratio looks slightly high but as revenues pick up again we expect it to drop below 80 percent.
Q6: Why did Equities revenues look slow compared to your US peers? Is it because of the impact from the review of your prime brokerage business?
A6: Our Equities business remains strong. It is true that the US banks had a strong quarter in Equities, but it was underpinned by a rush in US IPOs and strong cash trading due to the market rally. Performance in our core business of Equity Derivatives was in line with the US banks and we didn’t see any impact from revising our prime brokerage business.

Q7: Investment trust sales slowed in July and August and there was a limited rebound in September. What do you make of this and how have you kept momentum of net inflows into October?
A7: We aim to help our clients grow their assets through goal-based asset management, portfolio management and medium to long term investment. In doing so, our approach has changed from being transaction-based to fee-based asset consulting and quarterly investment trust sales don’t necessarily move in line with the market.

We are now in the fifth year of our client-centric approach and it has become the norm internally. Since last June, our clients have seen unrealized gains increase along with the market recovery and most recently in September the average was about 20 percent. At the same time, product switching has dropped and as unrealized gains increase so does client satisfaction, leading to incentives to hold assets over the medium to long term.

Q8: Was the provision of Y39bn included in the maximum loss of 68 billion yen as disclosed in the 1Q quarterly securities report? Will maximum loss in the 2Q quarterly securities report decline?
A8: The provision was not included in the most recently disclosed maximum loss of 68 billion yen. The maximum loss includes cases where an estimate of the range of reasonably possible losses can be made.

Because the situation changed between disclosure of the 1Q report and our financial results announcement, we made a provision for the portion not included in maximum loss. The 2Q quarterly securities report maximum loss will be disclosed in due course.

Q9: What level of income are your shareholder returns based on? You have a dividend payout ratio of 30 percent so an 8 yen per share dividend would be based on income of 80 billion yen, is that correct?
A9: That is difficult to answer, but your line of thinking is roughly correct.

Q10: Is it correct to say you used income levels that exclude the US client issue and this quarter’s provision?
A10: As discussed last quarter, we took into account the impact from the US client issue to a certain extent.
Q11: Please discuss 2Q segment income before income taxes of 57 billion yen. Wholesale costs seem to be slightly high, while Retail pretax income margin looks slightly low.

A11: While seasonality tends to lead to comparatively slower results in 2Q, the Macro business had an unexpectedly tough quarter. That said, Wholesale was able to book income before income taxes of 25 billion yen as a result of the steps we have taken. We don’t expect the current market conditions to continue for the Macro business and we expect to see an improvement along with client flows. Due to technical factors such as the timing of booking compensation and benefits, Retail costs were low last quarter and that is why the cost income ratio looks slightly higher in 2Q.

Q12: If Wholesale revenues increase, won't expenses go up in line with pay for performance? Should we take 2Q costs as the run rate going forward?

A12: The 2Q cost level could be one baseline given we are investing in areas of growth. However, because the market environment was particularly challenging in 2Q, our cost income ratio was higher. Although costs will rise in line with pay for performance, if the top line grows, we expect the cost income ratio to come down.

Q13: Why are Retail client assets trending up steadily and what is required for that to continue?

A13: Introducing a CIO service and revising investment methods for discretionary investments as well as building an organizational structure geared to providing detailed follow up for our clients has led to net inflows. Our sales Partners are well aware of our goal-based approach to have a medium to long term perspective for investment trusts, and we have seen a decline in sale due to short-term market turmoil. The changes to our approach have contributed to net inflows and we believe this is sustainable.

Q14: Although the provision is related to legacy transactions, it is a fact that your earnings decline when such risk appears. What reforms do you plan to implement while trying to find a balance between risk taking and revenues?

A14: The provision is related to transactions from before the global financial crisis, and since then along with regulatory tightening, Nomura and the industry as a whole has strengthened risk management. In our trading business, our first priority is to provide liquidity to our clients and we take risk prudently while keeping a close watch on market movements. In the second quarter, the macro trading environment was particularly challenging but revenues as a percent of risk assets was 7.1 percent which is not bad. As CFO, I place importance on and constantly monitor profitability in relation to risk and resources. To further grow and contribute to the creation of a truly affluent society it is critical that we further enhance our risk management.

Q15: Is Retail market share increasing or decreasing?

A15: Sales of investment trusts are on the rise across the industry and one positive is that investment appetite is increasing among younger people. Looking at our investment trust net inflows, this is increasing across a broad range of age groups with the main group being people in their 50s or 60s, which accounts for nearly 50 percent. We are also enhancing our approaches for these age groups via our contact center, which has also contributed to a decline in the age of active clients.
Q16: What is the breakdown of Fixed Income revenues by region? EMEA was particularly weak. Is that due to something specific to 2Q or will 3Q also be challenging?

A16: Americas accounted for over 40 percent, AEJ about 30 percent, EMEA over 10 percent and Japan about 10 percent. EMEA was particularly challenging due to seasonal factors. Our main Fixed Income business in EMEA is EGB trading where there are limited new issue trading opportunities in the summer months as EGB issuance volumes decline then.

Another macro factor is the end to monetary easing coming closer and market participants were looking to see where interest rates would land. Recently, there were concerns of prolonged inflation and only a small number of investors were investing considerably in long-term bonds. We don't expect this situation to continue for long. The new issuance market is returning to normal and the spread between long and short term rates is somewhat widening so we expect to see activity pick up.

Q17: 2Q revenues were less than half the level of the past four quarters. So even if they recover, will they not return to the level of the past four quarters?

A17: We don’t expect revenues to return to the levels of last year which was supported by strong market tailwinds. But the 2Q environment was very challenging for our core business of Rates so we can expect to see some improvement there.

---

1. This document is produced by Nomura Holdings, Inc. (“Nomura”). Copyright 2021 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.