Q1: How has the Russia-Ukraine conflict affected you directly and indirectly in terms of performance and risk assets?

A1: We don’t have an office in Russia and we have been reducing our Eastern European and CIS-related businesses for a few years now. So we have no direct exposure and the impact has been very limited. However, the heightened geopolitical risks led to a market slump and a spike in volatility meaning we were indirectly impacted.

Risk assets have increased slightly. Higher volatility and credit spread widening pushed up market risk, while credit risk increased on the back of higher counterparty risk. The sharp depreciation of the yen into the end of March also had an impact.

Q2: Why did you set a long duration of about 10 months for the share buyback program?

A2: Just to be cautious we set it until the end of March next year. Given the current level of our share price, it could be completed earlier. It doesn’t mean we are limiting the possibility of share buybacks in FY2022/23. We take a flexible approach to share buybacks taking into account factors such as our performance, the regulatory landscape, and our share price.

Q3: Please outline your plans for risk assets. Will you shrink them or maintain at the current level for the time being?

A3: Risk assets stood at 15.9 trillion yen at the end of March. We are monitoring our portfolio and controlling appropriately so they have remained relatively stable. If the yen continues to depreciate, we don’t expect any changes so we don’t see the need to cut dramatically.

Q4: How did you decide on the upper limit of 30 billion yen for the share buyback and allotment of 99 million shares for RSUs? Shouldn’t you assume the same level for each year?

A4: We consider a wide range of factors when determining share buybacks. We determined the level this time because we didn’t use 10 billion yen of the 50 billion set in the first half of the year, our share price is low, and we had to address dilution by RSUs. As we focus on pay for performance, bonuses are determined in line with performance and part of bonuses are granted as RSUs so it is difficult to give future guidance on the size.

Q5: If the Wholesale revenue outlook declines, will fixed costs also come down?

A5: Our fourth quarter cost-income ratio was 81 percent, which is roughly in line with expectations. Investment in advisory and other capital-light growth areas and hiring for the International Wealth Management business in AEJ have front-loaded some expenses. Our
risk management enhancement program also entails some upfront costs. Once these investments generate revenues, the cost-income ratio will decline further.

Q6: In the fourth quarter, Fixed Income saw a rebound in EMEA, slight slowdown in the US, and a drop in AEJ from the particularly strong previous quarter. What is the outlook for this fiscal year by region and product?

A6: The Americas agency mortgage business will be slightly challenged by rising interest rates, but overall the Rates business should see a return of activity given demand for hedging with options, etc. and portfolio rebalancing. The outlook for EMEA is roughly the same as the Americas. In AEJ, although Credit revenues declined in the fourth quarter, activity has improved recently and we are optimistic about the current fiscal year.

Q7: Did you set the share buyback period until the end of March next year because there are many market uncertainties and you might not be able to set an additional program?

A7: No, we didn’t take that into account.

Q8: You booked legal expenses for the RMBS issue twice, causing maximum loss to jump and creating concern within the market. With these additional expenses have you now drawn a line under your most concerning issue? Could maximum loss spike again?

A8: I can’t go into details of ongoing litigation, but this issue rose suddenly in FY2021/22 and we booked a provision in the second quarter, and the maximum loss also increased. The management team acted proactively to resolve the issue by the end of the fiscal year. For FY2021/22 we booked expenses of 62 billion yen and as of the fourth quarter we have now mostly completed the accounting treatment so it is no longer a significant concern.

The remaining maximum loss of 60 billion yen is different to this issue in that much of it is related to legal proceedings over the long-term and we have already made provisions for probable losses. Currently, we don’t expect to see any concerns grow rapidly.

Q9: What is the breakdown of fourth quarter revenues for Investment Banking?

A9: Roughly half from Advisory, 15 percent from ECM and 10 percent from DCM.

Q10: Does about 18 billion yen of revenues from advisory mean that over the past two years this has doubled from 9 billion to 18 billion?

A10: Yes, that is correct.

Q11: Fourth quarter Investment Banking revenues slipped slightly from the previous quarter, while the US banks posted significant declines. Did the Advisory business offset the slowdown in ECM and DCM?

A11: ECM drop considerably, while the Advisory business posted solid results as we monetized transactions we had been working on.
Q12: Is your market share in the Advisory business increasing? Also, is your Advisory revenue share increasing in Japan and internationally?

A12: We have worked hard and believe our market share is growing despite the shrinking industry fee pools.

Q13: Did you sell NRI shares to offset the legal expenses?

A13: The purpose of the share sale was to use our assets effectively.

Q14: Will you sell more NRI shares?

A14: NRI remains an important partner for us. After the sale, we still hold a 24.6 percent stake and we will maintain this important relationship. In regards to other assets, we have sold off strategic shareholdings as much as we can and disposed of real estate over the past few years.

Q15: From your viewpoint as CFO, what financial impact will the full introduction from April of the level fee structure have?

A15: We fully introduced the level fee structure in April and client assets have steadily grown to 100 billion yen. However, considering we have 122 trillion yen of Retail client assets, there is not much financial impact. Over the coming years we aim to grow these assets to 10 trillion yen or more together with discretionary investments. At that level, sales commissions will probably decline. The aim of the level fee structure is to align our interests to our clients and enhance client satisfaction. Even if sales commissions decline, if we can bring in more new money, there won’t be much negative impact to overall revenues.

Q16: How much level fee assets are you aiming for over this fiscal year?

A16: We don’t have a target for this year.

Q17: Fourth quarter Retail expenses seem high in proportion to the drop in the top line. Is this because of investments? As challenging market conditions continue, will you cut costs to ensure profit or will costs continue due to strategic investments?

A17: Our Retail business is strengthening its approaches to each segment (corporates/owners, high net worth, and mass affluent) which requires human capital, intellectual capital and digital resources. We will keep a close eye on profitability and costs in each segment. We believe we have to put more effort into digital, and at last year’s Investor Day I said we will invest 10 billion yen annually. Some of that is included in this year’s expenses, but this is investment to expand client touch points. We will also continue to ensure stringent cost control.

Q18: What impact will yen depreciation and overseas interest rate hikes have on your business?

A18: Exchange rates have an impact on investment payoffs, investment timing, and supply chain strategies of companies and we follow this closely. There has been some impact recently from yen depreciation, but as growth in the Japanese market alone is limited, companies
Aiming for global growth over the medium to long term will not change their strategies. Further, opportunities to support companies financing for sustainability are expected to grow regardless of the exchange rate so the business environment looks promising over the medium to long term.

Q19: EMEA remains loss making so what is its current positioning and how will you address this?

A19: As the market normalizes in EMEA, it was a tough year for Fixed Income. Looking ahead, we believe Fixed Income revenues will improve driven by macro products. At the same time, due to compensation-related regulations and the fact that EMEA is a hub for our international business, the cost base is less flexible and tends to remain elevated and this is something we recognize needs to be addressed.

With a strong Advisory business in FY2021/22 and the expansion of the sustainability-related business currently centered on the US into EMEA, we will diversify our revenue mix in the region and aim to improve profitability.

Q20: You said you expect Retail revenues to achieve a self-supported rebound. How far do you think it can recover? Fourth quarter segment income of 5 billion yen isn’t really enough.

A20: As the asset consulting approach takes hold in the business, some sales Partners may have hesitated to offer clients certain products aligned to the current market environment. We will reiterate that it is in our clients’ best interests to provide products flexibly to match market conditions and each client’s portfolio.

Rather than only waiting for a self-supported recovery, we will enhance proposals to meet the increasingly diverse needs of our clients and help to solve issues they may not realize they face. To do so swiftly, we appointed executive officers to oversee each segment.

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