**FY2022/23 2Q Financial Results Conference Call Q&A**

**Date:** November 2, 2022  
**Speaker:** Takumi Kitamura, Chief Financial Officer, Nomura Holdings, Inc.

**Q1:** The cost-to-income ratio in Wholesale is on the rise. What are you doing to control costs?  
**A1:** Second quarter CIR was high at 90 percent. We booked an unrealized loss on loan products due to widening credit spreads. Excluding the impact of this, our CIR was in line with last quarter. While we are seeing the impact of inflation, including increases in fixed compensation outside Japan, we are focused on lowering our expenses. We also expect our CIR to decline as our Financing and Advisory businesses improve and our top line grows.

Since the start of the year, we have been keeping a close watch on the absolute amount of expense by product and project. I have been in close contact with the new division head Chris Willcox and we are looking at areas where we have excess and areas where we see potential growth. We need to invest in infrastructure to support business growth. Our experiences during the pandemic have given us a good idea of where we have room to improve efficiencies.

**Q2:** In the Americas, even after stripping out legal expenses and American Century Investments (ACI) related gain/loss, it seems that you made a loss of about 10 billion yen or so. Some of your peers are reconsidering their US businesses. Do you have any plans to review your allocation of resources to the US?  
**A2:** Although the loss in the Americas did include ACI-related loss and legal expenses, we were also impacted by our Wholesale business, in particular Fixed Income and Investment Banking, which had a tough time due to worsening market conditions. Our Rates business was generally good, but the Americas agency mortgage business struggled, pushing down revenues. Investment Banking was hit by a drop in M&A transactions globally. And as I said, we booked an unrealized loss on loan products.

So although the first half was challenging, Global Markets has established itself as a leader in multiple products and we are not concerned about the medium to long term outlook. The US is the world's largest market in terms of fee pools and building out our Investment Banking platform is a strategic priority. Despite the challenging market conditions, we expect to see steady and increasingly diverse demand for sustainability-related transactions. Through our newly established Greentech Industrials and Infrastructure (GII) group, we aim to boost revenues in our focus areas and leverage the relatively well performing private placement business to find new M&A acquirers.

We constantly review our resource allocation taking into account cost levels, competitiveness and the medium to long term outlook.
Q3: **You had two tough quarters. If this continues, won’t you have to start cutting costs?**
A3: We have to make the necessary investments to prevent any contraction but at the same time we must work to reduce costs in a way that ensures the best structure of revenues and expenses.

In Retail, we launched a project with the division head and me as sponsors to ensure stringent management of our revenue and expenses in each segment. We are controlling personnel expenses by keeping a check on new hires and revising our policies while also overhauling our existing cost structure. For IT, not just in Retail, we are looking at how we can streamline our systems and applications.

Q4: **There’s currently some businesses up for sale outside Japan. Do you plan to make any major investments? What is your risk appetite for overseas investment?**
A4: Generally speaking, we are always looking at increasing our market share via M&A. We consider companies where we can achieve synergies such as companies that have products or expertise we don’t, or companies that offer new client coverage or client reach. But we currently have no firm plans on any investments. We also need to consider the balance with our financial soundness taking into account the impact of finalization of Basel III in 2024.

Some areas to consider are private markets and digital. Although recent performance has been challenged, our acquisition of Greentech Capital was a very good choice. We would be interested in options that offer a different sort of inorganic growth.

Q5: **Considering your ROE level, you seem to have a revenue problem rather than a cost one. Looking out over the medium term, of net inflows into the asset management business, what can be considered highly sticky? And what can help grow revenues through origination, etc.?**
A5: We recognize the importance of growing revenues while actively reducing costs.

A key part of that is how we grow our Investment Management business. We aim to grow the real estate fund business set up with Nomura Real Estate over the medium term, and expanding our investment trust business is a major theme for us. We will provide solid support for Japan’s plan to double asset-based income. We reported inflows of 300 billion yen into core funds in the second quarter, driven by the bank channel and funds for DC plans. We will also expand investment trusts lined to SDGs and ESG.

In Wholesale, our infrastructure financing business is running well and our International Wealth Management business is growing steadily with accumulated ultra-high-net-worth accounts of around 950.

Q6: **Your FY2024/25 ROE target is 8 to 10 percent. Do you have any plans at the moment to revise that?**
A6: Although the current environment is very tough, it won’t continue forever. We will do what we need to and work towards achieving our FY2024/25 ROE target.
Q7: Why did you decide on a half-year dividend of 5 yen per share?
A7: After adjusting our shareholder return pool for first-half one-offs (fines by US regulators), we applied 50 percent, the lower limit of our total payout ratio, and that worked out to 5 yen per share.

Q8: How much did structured bonds contribute to revenues in both Retail and Wholesale? Also, what is your sales policy, including for privately placed bonds?
A8: For Retail in the first half it was just over 3 percent of revenues, of which publicly offered bonds accounted for 0.2 percent and privately placed bonds 3 percent. For Wholesale, it was just shy of 1 percent and mostly privately placed bonds. As such, revenue impact for both divisions is limited.

Privately placed bonds are tailor made products aligned to the individual needs of clients so we will continue to offer them. For publicly offered bonds, the Japan Securities Dealers Association is currently revising the guidelines for structured bonds and we have stopped selling them from October.

Q9: Other within segment Other was a pretax loss of 11.7 billion yen. What factors did it include aside from CVA/DVA loss (Y2.6bn)?
A9: In the second quarter, there was a discrepancy between financial and management accounting due to the sharp changes to FX and US short-term rates. In addition, the rapid change to rates in a short period caused movement in the valuation of swaps related to bond issuances, resulting in significant treasury-related P&L.

Q10: For Fund Wrap products, when clients choose low risk products, the fact that commissions are high compared to expected return has become an issue. How many products do you have where the risk-taking leads to negative yields?
A10: Compared to investment trusts with the same risk, there is not much difference in cost and the performance has so far not been particularly worse than balanced funds. For higher risk-taking courses, the performance can be worse than balanced funds in some cases, but it is hard to say because it changes with the timing.

Under the current low interest environment, we temporarily lowered costs for courses with low risk that include domestic bonds which has helped improve performance for our clients.

Q11: Why was private equity and debt related gain/loss (Y5.7bn) so high?
A11: We booked valuation gain from investments by the former Merchant Banking division. Performance improved as the pandemic subsided. It also include some realized gains.

Q12: Your compensation ratio remains high at 48 percent. What is your target if the revenue environment remains largely unchanged?
A12: The compensation ratio tends to go up when performance is slow. We determine each individual’s total compensation taking into account industry levels so our performance and the situation at our peers are both important factors.

For example, in Investment Banking, compared to last year when the environment was good and the labor market hot, the cost of hiring bankers has declined.

We don’t have a clear target for the compensation ratio, but it is important that we control it.
Q13: You mentioned you are getting rid of unnecessary systems and applications. Will information processing and communications expenses decline?

A13: Getting rid of such items can also lead to one-off expenses such as losses related to retirement of assets, but after that depreciation charges decrease. However, to be honest we need proper infrastructure to support our operations. Without that infrastructure you have to overly rely on manpower which results in higher costs. We believe it is best to control personnel expenses while also controlling information processing and communications expenses.