News Release

NOMURA

Nomura Enhances Global Risk Management

Tokyo, October 29, 2021—Nomura Holdings, Inc. today announced it has established a Board Risk Committee comprising outside directors and a non-executive director.

Following an incident in the US in March this year that resulted in a significant loss, from the end of May to mid-August the firm conducted a comprehensive review of its risk management framework and considered a broad range of measures to further strengthen its risk management.

The direction of these measures and implementation framework for enhanced global risk management have now been largely finalized.

As a global financial services group, Nomura strives to deliver value-added products and services to its clients globally. Given the diversification of its products and services, as well as the multi-faceted nature and expansion of global business, Nomura recognizes that its clients, partners and shareholders demand higher standards of risk management.

In response to the incident, Nomura immediately launched a thorough review of its business management processes as well as its procedures and organizational structure. Based on the review, Nomura identified a number of areas to address, such as how it manages its business in the current environment, communication and coordination across departments, and allocation of management resources. In light of this, Nomura has taken steps to further enhance its risk management including revamping its organizational structure and realigning headcount in related departments.

The Group CEO and management of Nomura see enhanced risk management as a key management project and one of the top priorities for the firm over the medium to long-term. The management is committed to leveraging the full capabilities of the group to strengthen risk management, including building a stronger risk culture and raising the awareness of everyone at the firm.

Enhancing risk management is critical to bolstering the management structure to allow Nomura to continue providing sophisticated financial services to its clients and contribute to resolving social issues. Nomura is committed to strengthening governance at the Board level and enhancing its execution capabilities through a broad range of measures.

Taking into account feedback from stakeholders, Nomura established the Board Risk Committee to further enhance its risk management and carry out rigorous controls and business oversight. The committee will provide an independent perspective with the aim to strengthen oversight and develop more sophisticated, in-depth risk management.

Under the supervision of the committee, which has already started operating, the management of Nomura is committed to implementing advanced risk management measures and building a solid platform for business operations.

To drive these measures forward globally and strengthen group-wide collaboration, Nomura has set up the Steering Committee for Enhancement of Risk Management chaired by Group CEO Kentaro Okuda. In addition, Nomura recently appointed former Group CAO Jonathan Lewis as Chief Transformation Officer (CTO) to lead the implementation of measures across the group. The CTO reports directly to the Group CEO.

Under the leadership of the steering committee, detailed measures to enhance risk management have already been discussed and implementation has begun. These measures have been categorized into four areas: business strategy, oversight, risk management, and risk culture. Nomura has assigned an executive officer or executive-level person to each area and will prioritize the resources necessary for implementation.

Details of the specific measures to strengthen Nomura's risk management are outlined in the attached document.

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(Attachment)

<u>Overview of Enhanced Risk Management Measures</u>

1. Establishment of Board Risk Committee (BRC)

1.1 Purpose and authority

The BRC provides specialized oversight to deepen the oversight functions of the Board of Directors. The BRC contributes to more sophisticated Group risk management mainly in the areas outlined below:

a. Consent to the Risk Appetite Statement
b. Consent to the main design of the risk management framework
c. Analysis of risk environment/verification results and future projections
d. Supervision of overall execution of risk management and medium- to long-term risk strategies

1.2 Composition of the BRC

To ensure a high degree of independence, the BRC is chaired by an outside director and comprises six members, including five outside directors and an internal non-executive director.

Chairperson:	Laura Unger, Outside Director*
Members:	Noriaki Shimazaki, Outside Director, Chairman of Audit Committee; Victor Chu, Outside Director; Christopher Giancarlo, Outside Director; Patricia Mosser, Outside Director; and Shoji Ogawa, Director, Member of Audit Committee

*Former member and Acting Chairperson of the Securities and Exchange Commission

2. Strengthening risk management governance on the executive side

2.1 Establishment of the Group Risk Management Committee

Until now, the Group Integrated Risk Management Committee (GIRMC) was the highest body for risk management executive officers to deliberate important matters related to overall risk management. In line with the establishment of the BRC at the Board of Director level, the GIRMC was reorganized to form the Group Risk Management Committee to strengthen senior management involvement in risk management.

As the highest decision-making body for risk management on the executive side, the Group Risk Management Committee formulates the Risk Appetite Statement and risk management framework, in addition to receiving reports from the front office (Business) on the status of measures taken to strengthen the risk management structure and conducting deliberations on necessary matters.

2.2 Strengthening and expanding business management structure

To build out our platform to provide value-added products and services to our clients as a global financial services company, we have implemented various initiatives including hiring a new Co-CEO of our US subsidiary in May.

2.2.1 Wholesale Division

To strengthen critical first-line risk management functions and enhance oversight of complex business activities carried out globally, we hired a Global Head of Front Office & Risk Control, and we plan to also hire a Global Head of Client Account Management. In addition, we hired a new International Head of Equities.

2.2.2 Risk Management

We will increase managers in the risk management function, strengthen our global cooperation and controls, and further enhance risk management. To achieve this, we are assigning a new executive officer in charge of risk management at the Tokyo headquarters and implementing other initiatives. To supervise risk management enhancement initiatives and business management, and strengthen our implementation capabilities, we will also newly establish the Group Risk Management Head Office. The Group Risk Management Head Office will monitor risk management operations globally, support the work of the Group CRO and bolster collaboration with relevant departments. In the Americas, in addition to the Chief Risk Officer, we will focus on hiring senior staff for credit risk management.

3. Main Measures to Enhance Risk Management

3.1 Establishment of Steering Committee for Enhancement of Risk Management

The Steering Committee for Enhancement of Risk Management (Steering Committee) was established to promote the implementation of measures to enhance risk management across the group. The Steering Committee is chaired by Group CEO Kentaro Okuda, and Deputy President Tomoyuki Teraguchi serves as Vice Chairman. Jonathan Lewis, Chief Transformation Officer (CTO) and a member of the Steering Committee, will lead efforts to advance group-wide initiatives, and foster collaboration and consistency across regions.

The Steering Committee will deliberate on matters such as formulating and overseeing the execution of enhancement measures, securing necessary resources, and developing a global cooperation structure to ensure enhancements are achieved.

3.2 Outline of main measures

We conducted a comprehensive review of the risk management framework over three months from May this year. This included a thorough review of matters such as risk culture, governance, management structure and business processes, mainly targeting the Wholesale Division and risk management and internal audit related departments.

Based on the review, we identified four areas to enhance risk management: business strategy, oversight, risk management, and risk culture. The CTO will oversee the overall implementation of risk management measures, and the Steering Committee will review the details and consider additional measures as necessary. The main strategies in each area are outlined below.

3.2.1 Business Strategy

By clarifying our Global Markets business strategy and conducting regular reviews of the business portfolio using various methods, we will maintain consistency between the risk profile, and other areas such as the firm’s strategic direction, risk appetite and allocation of resources.

3.2.2 Oversight

In order to build a more robust, global cross-border governance framework, we will review the cross-border booking model and controls at local entities from front office to back office. As outlined in section 2.2.1, we are making critical hires including for newly created positions as part of efforts to strengthen business oversight.

3.2.3 Risk Management

To strengthen the risk control function in the first line and risk management function in the second line, we plan to significantly increase the headcount in each line. We also plan to increase the number of employees in Internal Audit, which is the third line. We are also working to improve processes related to risk appetite, by adding quantitative indicators to our Risk Appetite Statement, and by reviewing our business limit framework.

3.2.4 Risk Culture

We will establish a firmwide program to strengthen risk management and foster a shared sense of responsibility toward managing risks. To appropriately evaluate and embed the targeted actions, we are working to revise the Nomura Group Code of Conduct, expand conduct-related workshops and annual training programs to all regions, and systematically review and change policies and practices for providing incentives. To measure the progress of these initiatives, we plan to establish a framework to assess the effectiveness of the program, including risk culture surveys and other metrics.

(Reference)

Details of loss arising from transactions with US client (extracted and updated from Annual Securities Report for the year ended March 2021)

In March 2021, following the default by one of our prime brokerage clients in the United States on its obligations to post additional margin in respect of its positions with us, we issued a closeout notice to the client following which we began to wind down the positions held by us and liquidate hedges held against those positions. Due to fluctuations in the market values of the hedges against the positions and our expectation that we would not be able to recover those losses from the client, we recognized significant losses during the fourth quarter and fiscal year ended March 31, 2021. We also recognized additional losses in the quarter ended June 30, 2021.

Our transactions with the client comprised (i) total return swaps (“TRS transactions”), which are transactions that allow the client to obtain synthetic (i.e., derivative) long or short exposure to underlying individual equities or indices, as well as (ii) providing financing against a portfolio of securities in the client’s cash prime brokerage account. To manage credit risk in relation to prime brokerage clients, we require that prime brokerage clients deposit collateral (referred to as “margin”) in respect of their positions with us in accordance with the margin ratios applied to them. These margin ratios are determined based on the results of an internal risk assessment of the specific client and the composition of the client’s positions and may require that they post additional margin based on the effect of market movements on these ratios. TRS transactions are hedged from a market risk perspective by holding long or short positions in individual equities or indices and through derivative transactions, depending on the positions taken by the relevant client.

For long equity positions taken by the client, we hold cash equity long positions and conduct hedging. As such, if the client defaults on its obligation and the TRS transactions are liquidated, the long equity positions held by us remain. Since lending transactions against cash prime brokerage portfolios are generally overcollateralized, and therefore not separately hedged, we may enter into separate hedges if the value of the collateral falls.

Particularly between January and March 2021, transaction amounts and volumes with the client increased significantly as a result of changes in market prices as well as new positions entered into by the client. However, in March 2021, the market value of certain securities in which the client held a large synthetic position experienced a sharp decline, after which we requested that the client deposit additional margin with us pursuant to our contractual agreements with the client. The client defaulted on its obligation to post additional margin, and we issued a closeout notice to the client. It became clear that the client had similar large positions with other financial institutions, and that the client had also defaulted on margin calls with these financial institutions.

Although we endeavored to take a disciplined approach to unwind the positions and liquidate the hedges for the TRS transactions, taking into account both market impact and our own trading losses, due to the significant volume of positions being closed by both us and the other affected financial institutions and the effect on market prices, we recognized Y204.2 billion of losses in earnings reported within *Net gain (loss) on trading* in the quarter and fiscal year ended March 31, 2021. We also recognized additional provisions for current expected credit losses of Y41.6 billion in earnings reported within *Other expenses* during the same period against loans extended to the client collateralized by a cash portfolio of securities, reflecting the reduced likelihood of recovery on these lending transactions. All of the positions with the client were closed out and hedges liquidated by May 17, 2021. We recognized losses of approximately Y65 billion during the quarter ended June 30, 2021.