

## **D. Risk Factors.**

### **Risk Factors**

You should carefully consider the risks described below before making an investment decision. If any of the risks described below actually occurs, our business, financial condition, results of operations or cash flows could be adversely affected. In that event, the trading prices of our shares could decline, and you may lose all or part of your investment. In addition to the risks listed below, risks not currently known to us or that we now deem immaterial may also harm us and affect your investment.

#### **Our business may be materially affected by financial markets, economic conditions and market fluctuations in Japan and elsewhere around the world**

Our business and revenues may be affected by any adverse changes in the Japanese and global economic environments and financial markets. In addition, not only purely economic factors but also future wars, acts of terrorism, economic or political sanctions, pandemics, forecasts of geopolitical risks and geopolitical events which have actually occurred, natural disasters or other similar events could have an effect on the financial markets and economies of each country. If any adverse events including those discussed above were to occur, a market or economic downturn may last for a long period of time, which could adversely affect our business and can result in us incurring substantial losses. Furthermore, unfavorable demographic trends, such as the long-term trends of population aging and population decline faced by Japan, are expected to continue to put downward pressure on demand in the businesses in which we operate, including, in particular, our retail business. Even in the absence of a prolonged market or economic downturn, changes in market volatility and other changes in the environment may adversely affect our business, financial condition and results of operations. The following are certain risks related to the financial markets and economic conditions for our specific businesses.

*Governmental fiscal and monetary policy changes in Japan, or in any other country or region where we conduct business may affect our business, financial condition and results of operations*

We engage in our business globally through domestic and international offices. Governmental fiscal, monetary and other policy changes in Japan, or in any other country or region where we conduct business may affect our business, financial condition and results of operations. In addition, any changes to the monetary policy of the Bank of Japan or central banks in major economies worldwide, which could potentially be followed by volatility of interest rate or yields may negatively affect our ability to provide asset management products to our clients as well as our and our clients' trading and investment activities, as exemplified by decreased returns for fixed income products in the prolonged low interest rate environment in Japan.

*Brexit may adversely affect our business on various fronts*

As a result of the national referendum took place on June 23, 2016, the United Kingdom ("U.K.") is due to leave the European Union ("EU") ("Brexit") sometime in the near future. Although, under the current agreement between the U.K. and the EU in accordance with the Article 50(3) of the Treaty on the European Union, Brexit is required to occur by the end of October 2019 at the latest, the final timing of Brexit is still uncertain, and Brexit may not occur at all. Moreover, if Brexit does occur, the final form and substance of Brexit remain undecided, and many other uncertainties still remain.

Because we conduct a substantial level of business throughout Europe where London is our regional hub, Brexit may adversely affect our business on various fronts. Currently, our regulated activities in European region are carried out mainly through Nomura International plc ("NIP"), our broker-dealer arm established in London. NIP has access to the entire European Economic Area ("EEA") through providing cross-border services under the relevant EU single market legislation known as "passporting rights". If Brexit happens without any agreement between the U.K. and the EU in respect of continuation of access for financial services, including passporting rights, NIP may lose access to the EEA and, as a result, our revenue and profitability from business

in the European region may be adversely affected. This situation would also similarly apply to other group entities operating in the European region.

In order to address such potential impact on our business, we have established a new broker-dealer entity, Nomura Financial Products Europe GmbH ("NFPE") as a licensed broker-dealer in the Federal Republic of Germany. As a German entity, NFPE is eligible for passporting rights after Brexit, if it occurs. However, as discussed below, a number of uncertainties affecting our business in the European region will remain regardless of establishment of NFPE.

For example, the form and substance of the final agreement over Brexit between the U.K. and the EU may adversely affect our business in the European region. Moreover, if no agreement is reached, Brexit may occur in a disorderly manner, which may adversely affect financial stability both in the U.K. and the wider European region. Any market turmoil and increased volatility due to a disorderly Brexit may adversely affect our business, with potentially severe liquidity and operational pressures on our financial position, particularly in the short term. If the U.K. and EU agree on a longer transition period for maintaining the status quo until final agreement for a future relationship becomes effective, this may affect the behavior of market participants and their potential response to Brexit. For example, market participants may postpone or cancel transactions or other activities that they would otherwise engage in, which may adversely affect our revenues and profitability.

Depending on the content of any future agreement between the U.K. and the EU, the wider financial system and regulatory and supervisory regime in European region may also be substantially changed, which could adversely affect our business as well. Euro-denominated financial transactions in the market, which are currently centralized in London, in particular may be affected by any regulatory regime emerging after Brexit in terms of the physical location for financial market infrastructure, liquidity provision and pricing. Operating conditions for financial institutions and financial market infrastructures may also become more stringent for all market participants depending on the content of any such new regulatory or supervisory regime.

These potential changes in the relevant regulatory or supervisory regimes in the wider financial system may accelerate fragmentation of the financial markets and, as a result, we may be adversely affected due to increasing operating costs, which could impact on our profitability. Such increased operating costs may result from a number of factors, including the introduction or modification of regulatory requirements such as regulatory capital, liquidity, governance, risk management control and overall entity structure planning.

Overall, Brexit poses a high level of potentially prolonged uncertainties both politically and economically, mainly in the U.K. and the EU. There may also be certain extraterritorial effects in markets outside of the region. These uncertainties, together with other potential developments such as rising trade tensions, may add further downward pressure to the world economic growth and global financial stability and, as a result, we may see lower liquidity in financial markets, an unexpected increase in volatility across various asset classes, higher funding costs, a trend towards increasing risk averseness in investment activities and negative business sentiment, all of which may adversely affect our business.

#### *Our brokerage and asset management revenues may decline*

A market downturn could result in a decline in the revenues generated by our brokerage business because of a decline in the volume and value of securities that we broker for our clients. Also, within our asset management business, in most cases, we charge fees and commissions for managing our clients' portfolios that are based on the market value of their portfolios. A market downturn that reduces the market value of our clients' portfolios may increase the amount of withdrawals or reduce the amount of new investments in these portfolios, and would reduce the revenue we receive from our asset management business. Also, any changes in our clients' investment preference on their asset portfolios, including shifting investment assets to stable assets such as deposits and/or passive funds, which bring relatively low commission rates, may reduce our revenue as well.

*Our investment banking revenues may decline*

Changes in financial or economic conditions would likely affect the number and size of transactions for which we provide securities underwriting, financial advisory and other investment banking services. Our investment banking revenues, which include fees from these services, are directly related to the number and size of the transactions in which we participate and would therefore decrease if there are financial and market changes unfavorable to our investment banking business and our clients.

*Our electronic trading business revenues may decline*

Electronic trading is essential for our business in order to execute trades faster with fewer resources. Utilizing these systems allows us to provide an efficient execution platform and on-line content and tools to our clients via exchanges or other automated trading facilities. Revenue from our electronic trading, which includes trading commissions and bid-offer spreads from these services, are directly correlated with the number and size of the transactions in which we participate and would therefore decrease if there are financial market or economic changes that would cause our clients to trade less frequently or in smaller amounts. In addition, the use of electronic trading has increased across capital markets products and has put pressure on trading commissions and bid-offer spreads in our industry due to the increased competition of our electronic trading business. Although trade volumes may increase due to the availability of electronic trading, this may not be sufficient to offset margin erosion in our execution business, leading to a potential decline in revenue generated from this business. We continue to invest in developing technologies to provide an efficient trading platform; however, we may fail to maximize returns on these investments due to this increased pressure on lowering margins.

*We may incur significant losses from our trading and investment activities*

We maintain large trading and investment positions in fixed income, equity and other markets, both for proprietary purposes and for the purpose of facilitating our clients' trades. Our positions consist of various types of assets, including securities, derivatives transactions with equity, interest rate, currency, credit and other underliers, as well as loans, reverse repurchase agreements and real estate. Fluctuations in the markets where these assets are traded can adversely affect the value of these assets. To the extent that we own assets, or have long positions, a market downturn could result in losses if the value of these long positions decreases. Furthermore, to the extent that we have not kept assets and sold them, or have short positions, an upturn in prices of the assets could expose us to potentially significant losses. Although we continue to mitigate these position risks with a variety of hedging techniques, we may also incur losses if the value of these assets are fluctuated or if the financial system is overly stressed and the markets move in a way we have not anticipated.

Our businesses have been, and may continue to be, affected by changes in market volatility levels. Certain of our trading businesses such as those engaged in trading and arbitrage opportunities depend on market volatility to generate revenues. Lower volatility may lead to a decrease in business opportunities which may affect the results of operations of these businesses. On the other hand, higher volatility, while it can increase trading volumes and spreads, also increases risk as measured by Value-at-Risk ("VaR") and may expose us to higher risks in connection with our market-making and proprietary businesses. Higher volatility can also cause us to reduce the outstanding positions or size of these businesses in order to avoid increasing our VaR.

Furthermore, we commit capital to take relatively large positions for underwriting or warehousing assets to facilitate certain capital market transactions. We also structure and take positions in pilot funds for developing financial investment products and invest seed money to set up and support financial investment products. We may incur significant losses from these positions in the event of significant market fluctuations.

In addition, if we are the party providing collateral in a transaction, significant declines in the value of the collateral or a requirement to provide additional collateral due to a decline in our creditworthiness (by way of a

lowered credit rating or otherwise) can increase our costs and reduce our profitability. On the other hand, if we are the party receiving collateral from our clients and counterparties, such declines may also affect our profitability due to decrease in client transactions. Assuming a one-notch and two-notch downgrade of our credit ratings on March 31, 2019, absent other changes, we estimate that the aggregate fair value of assets required to be posted as additional collateral in connection with our derivative contracts would have been approximately ¥6.2 billion and ¥51.4 billion, respectively.

*Transition from IBORs to alternative rate indices may adversely affect our business*

We trade interest rate swaps and other derivatives and underwrite bonds and loans which refer to Interbank Offered Rates ("IBORs") such as the London Interbank Offered Rate ("LIBOR"). Following the LIBOR manipulation scandal in 2012, the Chief Executive of the U.K. Financial Conduct Authority ("FCA"), which regulates LIBOR, announced on July 27, 2017 that FCA will no longer persuade or compel banks to submit rates for the calculation of LIBOR after 2021, and indicated that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. Since then, the Financial Stability Board ("FSB") has observed structural declines in liquidity of the interbank short term funding including IBORs. The regulators and the finance industry have responded and are discussing the development of alternatives to IBORs and how to transfer existing contracts and products to such alternative rates. Some IBORs are expected to be replaced by the end of 2021. Such transfers will involve the development of new calculation methods for alternative rates, revisions to relevant contracts and modifications to the application of accounting principles to the relevant transactions. These changes could require us to incur additional costs and subject us to risks associated with systematic reform, operational application and client disclosure, or adversely impact the pricing, volatility and liquidity of financial products including derivatives, bonds and loans which refer IBORs as floating rate. Therefore, our business, financial condition and results of operations could be impacted materially adversely and/or we could be subject to disputes, litigation or other actions with counterparties or relative participants.

We have established a firmwide IBOR transition program to manage the transition away from these IBORs. However, the regulatory and industry responses to these developments are the subject of significant uncertainty, and we may not be successful in managing this transition without potentially serious disruption to our business.

*Holding large and concentrated positions of securities and other assets may expose us to large losses*

Holding large and concentrated positions of certain securities can expose us to large losses in our businesses such as market-making, block trading, underwriting, asset securitization, acquiring newly-issued convertible debt securities through third-party allotment or providing business solutions to meet clients' needs. We have committed substantial amounts of capital to these businesses. This often requires us to take large positions in the securities of a particular issuer or issuers in a particular industry, country or region. We generally have higher exposure to those issuers engaged in financial services businesses, including commercial banks, broker-dealers, clearing houses, exchanges and investment companies. There may also be cases where we hold relatively large amounts of securities by issuers in particular countries or regions due to the business we conduct with our clients or our counterparties. In addition, we may incur losses due to market fluctuations on asset-backed securities such as residential mortgage-backed securities ("RMBS") and commercial mortgage-backed securities ("CMBS").

*Extended market declines and decreases in market participants can reduce liquidity and lead to material losses*

Extended market declines can reduce the level of market activity and the liquidity of the assets traded in those markets in which we operate. Market liquidity may also be affected by decreases in market participants that could occur, for example, if financial institutions scale back market-related businesses due to increasing regulation or other reasons. As a result, it may be difficult for us to sell, hedge or value such assets which we hold. Also, in the event that a market fails in pricing such assets, it will be difficult to estimate their value. If we cannot properly close out or hedge our associated positions in a timely manner or in full, particularly with respect

to Over-The-Counter ("OTC") derivatives, we may incur substantial losses. Further, if the liquidity of a market significantly decreases and the market may become unable to price financial instruments held by us, this could lead to unanticipated losses.

*Our hedging strategies may not prevent losses*

We use a variety of financial instruments and strategies to hedge our exposure to various types of risk. If our hedging strategies are not effective, we may incur losses. We base many of our hedging strategies on historical trading patterns and correlations. For example, if we hold an asset, we may hedge this position by taking a position in another asset which has, historically, moved in a direction that would offset a change in value of the former asset. However, historical trading patterns and correlations may not continue, as seen in the case of past financial crises, and these hedging strategies may not be fully effective in mitigating our risk exposure because we are exposed to all types of risk in a variety of market environments.

*Our risk management policies and procedures may not be fully effective in managing market risk*

Our policies and procedures to identify, monitor and manage risks may not be fully effective. Although some of our methods of managing risk are based upon observed historical behavior of market data, the movement of each data in future financial market may not be the same as was observed in the past. As a result, we may suffer large losses through unexpected future risk exposures. Other risk management methods that we use also rely on our evaluation of information regarding markets, clients or other matters, which is publicly available or otherwise accessible by us. This information may not be accurate, complete, up-to-date or properly evaluated, and we may be unable to properly assess our risks, and thereby suffer large losses. Furthermore, certain factors, such as market volatility, may render our risk evaluation model unsuitable for a new market environment. In such event, we may become unable to evaluate or otherwise manage our risks adequately.

*Market risk may increase other risks that we face*

In addition to the potentially adverse effects on our businesses described above, market risk could exacerbate other risks that we face. For example, the risks inherent in financial instruments developed through financial engineering and innovation may be increased by market risk.

Also, if we incur substantial trading losses caused by our exposure to market risk, our need for liquidity could rise sharply while our access to cash may be impaired as a result of market perception of our credit risk.

Furthermore, in a market downturn, our clients and counterparties could incur substantial losses of their own, thereby weakening their financial condition and, as a result, increasing our credit risk to them.

**We may have to recognize impairment charges with regard to the amount of goodwill, tangible and intangible assets recognized on our consolidated balance sheets**

We have purchased all or a part of the equity interests in, or operations from, certain other companies in order to pursue our business expansion, and expect to continue to do so when and as we deem appropriate. We account for certain of those and similar purchases and acquisitions as a business combination under U.S. GAAP by allocating our acquisition costs to the assets acquired and liabilities assumed and recognizing the remaining amount as goodwill. We also possess tangible and intangible assets other than those stated above.

We may have to recognize impairment charges, as well as other losses associated with subsequent transactions, with regard to the amount of goodwill, tangible and intangible assets and, if recognized, such changes may adversely affect our financial condition and results of operations. For example, during the year ended March 31, 2019, we recognized an impairment loss on goodwill in our Wholesale segment attributable to previous overseas acquisitions of ¥81,372 million.

**Liquidity risk could impair our ability to fund operations and jeopardize our financial condition**

Liquidity, or having ready access to cash, is essential to our business. We define liquidity risk as the risk of loss arising from difficulty in securing the necessary funding or from a significantly higher cost of funding than normal levels due to deterioration of our creditworthiness or deterioration in market conditions. In addition to maintaining a readily available cash position, we seek to secure ample liquidity through repurchase agreements and securities lending transactions, long-term borrowings and the issuance of long-term debt securities, diversification of our short-term funding sources such as commercial paper, and by holding a portfolio of highly liquid assets. We bear the risk that we may lose liquidity under certain circumstances, including the following:

*We may be unable to access unsecured or secured funding*

We continuously access unsecured funding from issuance of securities in the short-term credit markets and debt capital markets as well as bank borrowings to finance our day-to-day operations, including refinancing. We also enter into repurchase agreements and securities lending transactions to raise secured funding for our trading businesses. An inability to access unsecured or secured funding or funding at significantly higher cost than normal levels could have a substantial negative effect on our liquidity. For example, lenders could refuse to extend the credit necessary for us to conduct our business based on their assessment of our long-term or short-term financial prospects if:

- we incur large trading losses,
- the level of our business activity decreases due to a market downturn,
- regulatory authorities take significant action against us, or
- our credit rating is downgraded.

In addition to the above, our ability to borrow in the debt capital markets could also be adversely impacted by factors that are not specific to us, such as reductions in banks' lending capacity, a severe disruption of the financial and credit markets, negative views about the general prospects for the investment banking, brokerage or financial services industries, or negative market perceptions of Japan's financial soundness.

*We may be unable to sell assets*

If we are unable to raise funds or if our liquidity declines significantly, we will need to liquidate assets or take other actions in order to meet our maturing liabilities. In volatile or uncertain market environments, overall market liquidity may decline. In a time of reduced market liquidity, we may be unable to sell some of our assets, or we may have to sell at depressed prices, which could adversely affect our results of operations and financial condition. Our ability to sell assets may also be adversely impacted by other market participants seeking to sell similar assets into the market at the same time.

*Lowering of our credit ratings could impact our funding*

Our funding depends significantly on our credit ratings. Rating agencies may reduce or withdraw their ratings or place us on "credit watch" with negative implications. Future downgrades could increase our funding costs and limit our funding. This, in turn, could adversely affect our result of operations and our financial condition. In addition, other factors which are not specific to us may impact our funding, such as negative market perceptions of Japan's financial soundness.

**Event risk may cause losses in our trading and investment assets as well as market and liquidity risk**

Event risk refers to potential losses we may suffer through unpredictable events that cause large unexpected market price movements such as natural or man-made disasters, epidemics, acts of terrorism, armed conflicts or

political instability, as well as adverse events specifically affecting our business activities or counterparties. These events include not only significant events such as the Great East Japan Earthquake in March 2011, the increasing tensions on Korean Peninsula following North Korean nuclear tests in 2017, and sudden and unexpected developments in global trade or security policies such as tensions between the United States and China in 2018 and 2019 but also more specifically the following types of events that could cause losses in our trading and investment assets:

- sudden and significant reductions in credit ratings with regard to financial instruments held by our trading and investment businesses by major rating agencies,
- sudden changes in trading, tax, accounting, regulatory requirements, laws and other related rules which may make our trading strategy obsolete, less competitive or no longer viable, or
- an unexpected failure in a corporate transaction in which we participate resulting in our not receiving the consideration we should have received, as well as bankruptcy, deliberate acts of fraud, and administrative penalty with respect to the issuers of our trading and investment assets.

**We may be exposed to losses when third parties that are indebted to us do not perform their obligations**

Our counterparties are from time to time indebted to us as a result of transactions or contracts, including loans, commitments to lend, other contingent liabilities and derivative transactions. We may incur material losses when our counterparties default or fail to perform on their obligations to us due to their filing for bankruptcy, a deterioration in their creditworthiness, lack of liquidity, operational failure, an economic or political event, repudiation of the transaction or for other reasons.

Credit risk may also arise from:

- holding securities issued by third parties, or
- the execution of securities, futures, currency or derivative transactions that fail to settle at the required time due to nondelivery by the counterparty, such as financial institutions and hedge funds which are counterparties to credit default swaps or systems failure by clearing agents, exchanges, clearing houses or other financial infrastructure.

Issues related to third party credit risk may include the following:

*Defaults by a large financial institution could adversely affect the financial markets generally and us specifically*

The commercial soundness of many financial institutions is closely interrelated as a result of credit, trading, clearing or other relationships among the institutions. As a result, concern about the creditworthiness of or a default by, a certain financial institution could lead to significant liquidity problems or losses in, or defaults by, other financial institutions. This may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which we interact on a daily basis. Actual defaults, increases in perceived default risk and other similar events could arise in the future and could have an adverse effect on the financial markets and on us. Our funding operations may be adversely affected if major financial institutions, Japanese or otherwise, fail or experience severe liquidity or solvency problems.

*There can be no assurance as to the accuracy of the information about, or the sufficiency of the collateral we use in managing, our credit risk*

We regularly review our credit exposure to specific clients or counterparties and to specific countries and regions that we believe may present credit concerns. Default risk, however, may arise from events or circumstances that are difficult to detect, such as account-rigging and fraud. We may also fail to receive full



information with respect to the risks of a counterparty. In addition, in cases where we have extended credit against collateral, we may fall into a deficiency in value in the collateral if sudden declines in market values reduce the value of our collateral.

*Our clients and counterparties may be unable to perform their obligations to us as a result of political or economic conditions*

Country, regional and political risks are components of credit risk, as well as market risk. Political or economic pressures in a country or region, including those arising from local market disruptions or currency crises, may adversely affect the ability of clients or counterparties located in that country or region to obtain credit or foreign exchange, and therefore to perform their obligations owed to us.

#### **The financial services industry faces intense competition**

Our businesses are intensely competitive, and are expected to remain so. We compete on the basis of a number of factors, including transaction execution capability, our products and services, innovation, reputation and price. We have experienced intense price competition, particularly in brokerage, investment banking and other businesses.

*Competition with commercial banks, commercial bank-owned securities subsidiaries, non-Japanese firms and online securities firms in the Japanese market is increasing*

Since the late 1990s, the financial services sector in Japan has undergone deregulation. In accordance with the amendments to the Securities and Exchange Law of Japan (which has been renamed as the Financial Instruments and Exchange Act of Japan ("FIEA") since September 30, 2007), effective from December 1, 2004, banks and certain other financial institutions became able to enter into the securities brokerage business. In addition, in accordance with the amendments to the FIEA effective from June 1, 2009, firewalls between commercial banks and securities firms were deregulated, and our competitors will be able to cooperate more closely with their affiliated commercial banks. As a result, securities subsidiaries of commercial banks and non-Japanese firms with increased competitiveness have been affecting our market shares in the sales and trading, investment banking and retail businesses. In recent years, the rise of online securities firms has further intensified the competition. In order to address such changes in the competitive landscape, we have taken certain measures, including the establishment of a business alliance with a social networking and messaging service provider. However, these measures may not be successful in growing or maintaining our market share in this increasingly fierce competitive environment, and we may lose business or transactions to our competitors, harming our business and results of operations.

*Increased consolidation, business alliance and cooperation in the financial services groups industry mean increased competition for us*

There has been substantial consolidation and convergence among companies in the financial services industry. In particular, a number of large commercial banks and other broad-based large financial services groups have established or acquired broker-dealers or have consolidated with other financial institutions. Recently, these large financial services groups have been further developing business linkage within their respective groups in order to provide comprehensive financial services to clients. These financial services groups continue to offer a wide range of products, including loans, deposit-taking, insurance, brokerage, asset management and investment banking services within their group, which may enhance their competitive position compared with us. They also have the ability to supplement their investment banking and brokerage businesses with commercial banking and other financial services revenues in an effort to gain market share. In addition, the financial services industry has seen collaboration beyond the borders of businesses and industries, such as alliances between commercial banks and securities companies outside of framework of existing corporate groups and recent alliances with non-financial companies including emerging companies. Our competitiveness may be adversely affected if our competitors are able to expand their businesses and improve their profitability through such business alliances.



*Our global business strategies have not resulted in the anticipated outcome to date, and we may not be able to successfully rebuild them*

We continue to believe there are significant opportunities in the international markets, but there is also significant competition associated with such opportunities. In order to take advantage of these opportunities, we will have to compete successfully with financial services firms based in important non-Japanese markets, including the U.S., Europe and Asia. Under such competitive environment, as a means to bolster our international operations, we acquired certain Lehman Brothers operations in Europe, the Middle East and Asia in 2008 and we have invested significant management resources to maintain and develop our operations in these regions and the U.S. After the acquisition, however, market structures have changed drastically due to the scaling back of market-related businesses by European financial institutions and the monetary easing policies by central banks of each country, resulting in decline in whole market liquidity. In light of this challenging business environment, we have endeavored to reallocate our management resources to optimize our global operations and thereby improve our profitability. However, due in part to the challenging environment facing these businesses, the bulk of which are within our Wholesale segment, performance has been weaker than expected, and we recognized an impairment loss of ¥81,372 million in the fiscal year ended March 31, 2019 attributable to the Wholesale segment. If we are not able to successfully restructure and revitalize these businesses, included as described below, our global businesses, financial condition and results of operations may be further materially and adversely affected.

On April 4, 2019, we announced our plans to rebuild our global business platform, under which we aim to simplify our operating model, transform our business portfolio and pivot towards client businesses and growth areas. However, we may be unable to successfully execute this strategy. Even if we are able to successfully execute this strategy, we may be required to incur greater expenses than expected, or to commit greater financial, management and other resources to this strategy than expected, which could adversely affect our business and results of operations. Moreover, the assumptions and expectations upon which this strategy is based may not be correct, which could lead to us realizing fewer benefits than expected or could even harm our business and results of operations overall. For example, we may not correctly select business lines to streamline, which could lead to us missing or otherwise being unable to take advantage of a potential opportunity. Furthermore, to the extent we reduce compensation or headcount as part of this strategy, our ability to attract and retain the employees needed to successfully run our businesses could be adversely affected. We may also be unsuccessful in designing a streamlined management structure, which could harm our ability to properly control or supervise our many businesses across the world.

#### **Our business is subject to various operational risks**

We classify and define operational risk as the risk of loss resulting from inadequate or failed internal processes, personnel, and systems or from external events. It excludes strategic risk (the risk of loss as a result of poor strategic business decisions), but includes the risk of breach of legal and regulatory requirements, and the risk of damage to our reputation if caused by an operational risk.

## [Table of Contents](#)

Operational risk is inherent in all our products, activities, processes and systems which therefore can potentially have a direct financial impact on us or an indirect financial impact through a disruption to our business, regulatory sanctions, loss of clients, reputational damage or damage to the health and safety of our management and employees. While we have established a robust framework to manage and mitigate the impact of operational risks within us, prevention of the following key specific types of key operational risks occurring remains challenging:

Event Category	Definition
<b>Internal Fraud</b>	Intentional breach of laws, rules, regulations or internal policies and procedures.
<b>Mis-selling</b>	Offering of products and services which are not commensurate with the client's knowledge, experience, asset status and investment purpose as well as his/her ability to make judgment regarding risk management, or failure to provide sufficient information about the risks associated with the products and services offered.
<b>Regulatory non- Compliance</b>	Violation of financial and other applicable laws, rules or regulations and internal rules governing the firm's business activities and personnel.
<b>Information Management Failure</b>	Activity which may lead to leakage or damage of the firm's data including client and sensitive information, or failure to maintain a sufficient control environment to prevent such events.
<b>Cyber Attack</b>	Unauthorized intrusion, theft, modification and destruction of data, failure or malfunction of information systems and execution of illegal computer programs, committed via the Internet through malicious use of information communication networks and information systems.
<b>System Outages</b>	Significant system defects, including system outages or malfunction.
<b>Business Continuity Management Failure</b>	Failure to maintain effective business continuity due to insufficient measures and preparations against major natural or man-made disaster.
<b>Outsourcing Management Failure</b>	Failure to maintain effective management of outsourced processes including continuous monitoring by the owner of the process and oversight from control functions.

**Misconduct or fraud by an employee, director or officer, or any third party, could occur, and our reputation in the market and our relationships with clients could be harmed**

We face the risk that our employees, directors or officers, or any third party, could engage in misconduct that may adversely affect our business. Misconduct by an employee, director or officer includes conduct such as entering into transactions in excess of authorized limits, acceptance of risks that exceed our limits, or concealment of unauthorized or unsuccessful activities. The misconduct could also involve the improper use or disclosure of non-public information relating to us or our clients, such as insider trading and the recommendation of trades based on such information, as well as other crimes, which could result in regulatory sanctions, legal liability and serious reputational or financial damage to us.

For example, on March 5, 2019, a researcher at Nomura Research Institute, Ltd. (“NRI”), our equity-method affiliate, revealed information that there was a high possibility that the standard for designating the top market of the Tokyo Stock Exchange (the “TSE”) would fall to ¥25 billion, which had been under review at the TSE, to a chief strategist (the “NSC Strategist”) in the research division of Nomura Securities Co., Ltd. (“NSC”). The researcher at NRI was a member of the Advisory Group to Review the TSE Equity Market Structure and received this information in such capacity. On the same day and the next day, the NSC Strategist communicated the information to certain people including members of Japanese stock sales team of NSC and Nomura International (Hong Kong) Limited, some of whom provided the information to their institutional investor clients. Although these our providing the information did not represent a violation of law, they were inappropriate conducts and impaired the implicit trust placed in us and our employees by other market participants. Following a special internal investigation conducted by external experts, on May 24, 2019, we announced a remediation plan and the reduction of compensation of certain of our executives and those of NSC. On May 28, 2019, the FSA issued a business improvement order to us and to NSC, requiring us to clarify responsibility for this incident, develop and submit a detailed improvement plan, and report periodically on the implementation and effectiveness of measures for improvement. However, our remediation plan may not be successful in preventing similar future incidents due to misconduct by third parties and other factors. Furthermore, the extent of the damage by such business improvement order to our reputation and our business is not certain at this point.

Although we have precautions in place to detect and prevent such misconduct in the future, the measures we have implemented or may implement may not be effective in all cases, and we may not always be able to detect or deter misconduct by an employee, director or officer. If any administrative or judicial sanction is issued against us as a result of such misconduct, we may lose business opportunities for a period of time, even after the sanction is lifted, if and to the extent that our clients, especially public institutions, decide not to engage us for their financial transactions.

Third parties may also engage in fraudulent activities, including devising a fraudulent scheme to induce our investment, loans, guarantee or any other form of financial commitment, both direct and indirect. Because of the broad range of businesses that we engage in and the large number of third parties with whom we deal in our day-to-day business operations, such fraud or any other misconduct may be difficult to prevent or detect.

We may not be able to recover the financial losses caused by such activities and our reputation may also be damaged by such activities.

**A failure to identify and appropriately address conflicts of interest could adversely affect our business**

We are a global financial institution that provides a wide range of products and services to a diverse group of clients, including individuals, corporations, other financial institutions and governmental institutions. As such, we face potential conflicts of interest in the ordinary course of our business. Conflicts of interests can arise when our services to a particular client conflict or compete, or are perceived to conflict or compete, with our own interests. In addition, where non-public information is not appropriately restricted or shared within the firm, conflicts of interest can also arise where a transaction within the Nomura Group and/or a transaction with another client conflict or compete, or is perceived to conflict or compete, with a transaction with a particular client. While we have extensive internal procedures and controls designed to identify and address conflicts of interest, a failure, or a perceived failure, to identify, disclose and appropriately address such conflicts could adversely affect our reputation and the willingness of current or potential clients to do business with us. In addition, conflicts of interest could give rise to regulatory actions or litigation.

**Our business is subject to substantial legal, regulatory and reputational risks**

Substantial legal liability or a significant regulatory action against us could have a material financial effect on us or cause reputational harm to us, which in turn could adversely affect our business prospects, financial

condition and results of operations. Also, material changes in regulations applicable to us or to the markets in which we operate could adversely affect our business. See Note 21 *“Commitments, contingencies and guarantees”* in our consolidated financial statements included in this annual report for further information regarding the significant investigations, lawsuits and other legal proceedings that we are currently facing.

*Our exposure to legal liability is significant*

We face significant legal risks in our businesses. These risks include liability under securities or other laws in connection with securities underwriting and offering transactions, liability arising from the purchase or sale of any securities or other financial products, disputes over the terms and conditions of complex trading arrangements or the validity of contracts for our transactions, disputes with our business alliance partners and legal claims concerning our other businesses.

During a prolonged market downturn or upon the occurrence of an event that adversely affects the market, we would expect claims against us to increase. We may also face significant litigation. The cost of defending such litigation may be substantial and our involvement in litigation may damage our reputation. In addition, even legal transactions might be subject to adverse public reaction according to the particular details of such transactions. These risks may be difficult to assess or quantify and their existence and magnitude may remain unknown for substantial periods of time.

*Extensive regulation of our businesses limits our activities and may subject us to significant penalties and losses*

The financial services industry is subject to extensive regulation. We are subject to increasing regulation by governmental and self-regulatory organizations in Japan and in virtually all other jurisdictions in which we operate, and such governmental and regulatory scrutiny may increase as our operations expand or as laws change. In addition, while regulatory complexities increase, possibilities of extra-territorial application of a regulation in one jurisdiction to business activities outside of such jurisdiction may also increase. These regulations are broadly designed to ensure the stability of financial systems and the integrity of the financial markets and financial institutions, and to protect clients and other third parties who deal with us, and often limit our activities and/or affect our profitability, through net capital, client protection and market conduct requirements. In addition, on top of traditional finance-related legislation, the scope of laws and regulations applying to, and/or impacting on, our operations may become wider depending on the situation of the wider international political and economic environment or policy approaches taken by governmental authorities in respect of regulatory application or law enforcement. In particular, the number of investigations and proceedings against the financial services industry by governmental and self-regulatory organizations has increased substantially and the consequences of such investigations and proceedings have become more severe in recent years, and we are subject to face the risk of such investigations and proceedings. For example, the U.S. Department of Justice (the “DOJ”) conducted an investigation regarding residential mortgage-backed securities securitized by some of our U.S. subsidiaries prior to 2009. On October 15, 2018, the U.S. subsidiaries settled the investigation with the DOJ and agreed to pay USD 480 million. Although we have policies in place to prevent violations of such laws and regulations, we may not always be able to prevent violations, and we could be fined, prohibited from engaging in some of our business activities, ordered to improve our internal governance procedures or be subject to revocation of our license to conduct business. Our reputation could also suffer from the adverse publicity that any administrative or judicial sanction against us may create, which may negatively affect our business opportunities and ability to secure human resources. As a result of any such sanction, we may lose business opportunities for a period of time, even after the sanction is lifted, if and to the extent that our clients, especially public institutions, decide not to engage us for their financial transactions. In addition, certain market participants may refrain from investing in or entering into transactions with us if we engage in business activities in regions subject to international sanctions, even if our activities do not constitute violations of sanctions laws and regulations.

*Tightening of regulations applicable to the financial system and financial industry could adversely affect our business, financial condition and results of operations*

If regulations that apply to our businesses are introduced, modified or removed, we could be adversely affected directly or through resulting changes in market conditions. The impact of such developments could make it economically unreasonable for us to continue to conduct all or certain of our businesses, or could cause us to incur significant costs to adjust to such changes.

Furthermore, the exact details of the implementation of proposals for regulatory change and its impact on us will depend on the final regulations as they become ultimately adopted by various governmental agencies and oversight boards. See Item 4.B “*Business Overview–Regulation*” in this annual report for more information about such regulations.

New regulations or revisions to existing regulations relating to accounting standards, regulatory capital adequacy ratios, liquidity ratios and leverage ratios applicable to us could also have a material adverse effect on our business, financial condition and results of operations. Such new regulations or revisions to existing regulations include the so-called Basel III package formulated by the Basel Committee on Banking Supervision (“Basel Committee”) and the finalized Basel III reforms published in December 2017. Furthermore, in October 2012, the Basel Committee developed and published a set of principles on the assessment methodology and higher loss absorbency requirements for domestic systemically important banks (“D-SIBs”), and, in December 2015, the FSA identified us as a D-SIB and imposed a surcharge of 0.5% on our required capital ratio after March 2016 with 3-year transitional arrangement. In addition, FSB published the final standard requiring global systemically important banks (“G-SIBs”) to maintain a certain level of total loss-absorbing capacity (“TLAC”) upon their failure in November 2015. Under the FSA’s policy implementing the TLAC framework in Japan as updated in April 2018, the TLAC requirements in Japan apply not only to Japanese G-SIBs but also to Japanese D-SIBs that are deemed (i) of particular need for a cross-border resolution arrangement and (ii) of particular systemic significance to Japanese financial system if they fail. Based on the revised policy, in March 2019, the FSA published the notices and guidelines of TLAC regulations in Japan. According to these notices and guidelines, Nomura will be subject to the TLAC requirements in Japan from March 31, 2021 although Nomura is not identified as a G-SIB as of the date of this annual report. These changes in regulations may increase our funding costs or require us to liquidate financial instruments and other assets, raise additional capital or otherwise restrict our business activities in a manner that could adversely affect our operating or financing activities or the interests of our shareholders.

*Deferred tax assets may be impacted due to a change in business condition or in laws and regulations, resulting in an adverse effect on our operating results and financial condition*

We recognize deferred tax assets in our consolidated balance sheets as a possible benefit of tax relief in the future. If we experience or forecast future operating losses, if tax laws or enacted tax rates in the relevant tax jurisdictions in which we operate change, or if there is a change in accounting standards in the future, we may reduce the deferred tax assets recognized in our consolidated balance sheets. As a result, it could adversely affect our financial condition and results of operations. See Note 16 “*Income taxes*” in our consolidated financial statements included in this annual report for further information regarding the deferred tax assets that we currently recognize.

**Unauthorized disclosure of personal information held by us may adversely affect our business**

We keep and manage personal information obtained from clients in connection with our business. In recent years, there have been many reported cases of personal information and records in the possession of corporations and institutions being improperly accessed or disclosed.

Although we exercise care to protect the confidentiality of personal information and take steps to safeguard such information in compliance with applicable laws, rules and regulations, were any material unauthorized

disclosure of personal information to occur, our business could be adversely affected. For example, we could be subject to administrative fines in case there is any violation of applicable personal data protection laws, rules and regulations or be subject to complaints and lawsuits for damages from clients if they are adversely affected due to the unauthorized disclosure of their personal information (including leakage of such information by an external service provider). In addition, we could incur additional expenses associated with changing our security systems, either voluntarily or in response to administrative guidance or other regulatory initiatives. Any damage to our reputation caused by such unauthorized disclosure could lead to a decline in new clients and/or a loss of existing clients, as well as to increased costs and expenses incurred for public relations campaigns designed to prevent or mitigate damage to our corporate or brand image or reputation.

**System failure, the information leakage and the cost of maintaining sufficient cybersecurity could adversely affect our business**

Our businesses rely on secure processing, storage, transmission and reception of personal, confidential and proprietary information on our systems. We may become the target of attempted unauthorized access, computer viruses or malware, and other cyber-attacks designed to access and obtain information on our systems or to disrupt and cause other damage to our services. Although these threats may originate from human error or technological failure, they may also originate from the malice or fraud of internal parties, such as employees, or third parties, including foreign non-state actors and extremist parties. Additionally, we could also be adversely impacted if any of the third-party vendors, exchanges, clearing houses or other financial institutions to whom we are interconnected are subject to cyber-attacks or other informational security breaches. Such events could cause interruptions to our systems, reputational damage, client dissatisfaction, legal liability, enforcement actions or additional costs, any and all of which could adversely affect our financial condition and operations.

While we continue to devote significant resources to monitor and update our systems and implement information security measures to protect our systems, there can be no assurance that any controls and procedures we have in place will be sufficient to protect us from future security breaches. As cyber threats are continually evolving, our controls and procedures may become inadequate and we may be required to devote additional resources to modify or enhance our systems in the future. For example, in June 2018, one of our foreign subsidiaries experienced a spear phishing incident that resulted in the unauthorized access to the firm's desktop network, requiring us to immediately launch an internal investigation to assess and remediate the incident, notify the appropriate authorities of its occurrence and communicate with clients and other individuals whose data may have been impacted. The investigation is still ongoing and the extent and potential magnitude of this incident, including whether any client information has been impacted, have yet to be determined. As a result of this incident, we may suffer financial loss through reputational damage, legal liability and enforcement actions and through the cost of additional resources not only to remediate this incident but also to enhance and strengthen the cyber security of other Nomura group companies, all of which could negatively affect our financial conditions and results of operations.

**Natural disaster, terrorism, military dispute and infectious disease could adversely affect our business**

We have developed a contingency plan for addressing unexpected situations. However, disaster, terrorism, military dispute or infectious disease afflicting our management and employees could exceed the assumptions of our plan, and could adversely affect our business.

**The Company is a holding company and depends on payments from subsidiaries**

The Company heavily depends on dividends, distributions and other payments from subsidiaries to make payments on the Company's obligations. Regulatory and other legal restrictions, such as those under the Companies Act, may limit the Company's ability to transfer funds freely, either to or from the Company's subsidiaries. In particular, many of the Company's subsidiaries, including the Company's broker-dealer subsidiaries, are subject to laws and regulations, including regulatory capital requirements, that authorize

regulatory bodies to block or reduce the flow of funds to the parent holding company, or that prohibit such transfers altogether in certain circumstances. For example, NSC, Nomura Securities International, Inc., Nomura International plc and Nomura International (Hong Kong) Limited, our main broker-dealer subsidiaries, are subject to regulatory capital requirements that could limit the transfer of funds to the Company. These laws and regulations may hinder the Company's ability to access funds needed to make payments on the Company's obligations.

**We may not be able to realize gains we expect, and may even suffer losses, on our investments in equity securities and non-trading debt securities**

We hold substantial investments in equity securities including private equity investments and non-trading debt securities. Under U.S. GAAP, depending on market conditions, we may recognize significant unrealized gains or losses on our investments in equity securities and debt securities, which could have an adverse impact on our financial condition and results of operations. Depending on the market conditions, we may also not be able to dispose of these equity securities and debt securities when we would like to do so, as quickly as we may wish or at the desired price.

**Equity investments in affiliates and other investees accounted for under the equity method in our consolidated financial statements may decline significantly over a period of time and result in us incurring impairment losses**

We have affiliates and investees accounted for under the equity method in our consolidated financial statements and whose shares are publicly traded. Under U.S. GAAP, if there is a decline in the fair value, i.e., the market price, of the shares we hold in such affiliates over a period of time, and we determine that the decline is other-than-temporary, then we recognize an impairment loss for the applicable fiscal period which may have an adverse effect on our financial condition and results of operations.

**We may face an outflow of clients' assets due to losses of cash reserve funds or debt securities we offer**

We offer many types of products to meet various needs of our clients with different risk profiles.

Cash reserve funds, such as money market funds and money reserve funds are categorized as low risk financial products. As a result of a sudden rise in interest rates, such cash reserve funds may fall below par value due to losses resulting from price decreases of debt securities in the portfolio, defaults of debt securities in the portfolio or charges of negative interest. If we determine that a stable return cannot be achieved from the investment performance of cash reserve funds, we may accelerate the redemption of, or impose a deposit limit on, such cash reserve funds. For example, Nomura Asset Management Co., Ltd., the Company's subsidiary, ended its operation of money market funds in late August 2016 and executed an accelerated redemption of such funds in September 2016.

In addition, debt securities that we offer may default or experience delays in the payment of interest and/or principal.

Such losses, early redemption or deposit limit for the products we offer may result in the loss of client confidence and lead to an outflow of client assets from our custody or preclude us from increasing such client assets.

**Because of daily price range limitations under Japanese stock exchange rules, you may not be able to sell your shares of the Company's common stock at a particular price on any particular trading day, or at all**

Stock prices on Japanese stock exchanges are determined on a real-time basis by the equilibrium between bids and offers. These exchanges are order-driven markets without specialists or market makers to guide price



formation. For the purpose of protecting investors from excessive volatility, these exchanges set daily upward and downward price fluctuation limits for each stock, based on the previous day's closing price. Although transactions may continue at the upward or downward limit price if the limit price is reached on a particular trading day, no transactions may take place outside these limits. Consequently, an investor wishing to sell at a price above or below the relevant daily limit may not be able to sell his or her shares at such price on a particular trading day, or at all.

**Under Japan's unit share system, holders of the Company's shares constituting less than one unit are subject to transfer, voting and other restrictions**

The Company's Articles of Incorporation, as permitted under the Companies Act, provide that 100 shares of the Company's stock constitute one "unit." The Companies Act imposes significant restrictions and limitations on holdings of shares that constitute less than a whole unit. Holders of shares constituting less than one unit do not have the right to vote or any other rights relating to voting. Under the unit share system, any holders of shares constituting less than a unit may at any time request the Company to purchase their shares. Also, holders of shares constituting less than a unit may request the Company to sell them such number of shares that the Company may have as may be necessary to raise such holder's share ownership to a whole unit. Shares constituting less than a unit are transferable under the Companies Act, but may not be traded on any Japanese stock exchange.

**As a holder of ADSs, you will have fewer rights than a shareholder has and you will have to act through the depositary to exercise these rights**

The rights of shareholders under Japanese law to take actions including voting their shares, receiving dividends and distributions, bringing derivative actions, examining the company's accounting books and records and exercising appraisal rights are available only to holders of record. Because the depositary, through its custodian agent, is the record holder of the shares underlying the ADSs, only the depositary can exercise those rights in connection with the deposited shares. The depositary will make efforts to vote the shares underlying your ADSs as instructed by you and will pay you the dividends and distributions collected from the Company. However, in your capacity as an ADS holder, you will not be able to bring a derivative action, examine the Company's accounting books or records or exercise appraisal rights except through the depositary.

**Rights of shareholders under Japanese law may be more limited than under the laws of other jurisdictions**

The Companies Act and the Company's Articles of Incorporation and Regulations of the Board of Directors govern the Company's corporate affairs. Legal principles relating to such matters as the validity of corporate procedures, directors' and executive officers' fiduciary duties and shareholders' rights may be different from those that would apply to a non-Japanese company. Shareholders' rights under Japanese law may not be as extensive as shareholders' rights under the laws of other jurisdictions, including jurisdictions within the U.S. You may have more difficulty in asserting your rights as a shareholder than you would as a shareholder of a corporation organized in another jurisdiction.

**The Company's shareholders of record on a record date may not receive the dividend they anticipate**

The customary dividend payout practice of publicly listed companies in Japan may significantly differ from that widely followed or otherwise deemed necessary or fair in foreign markets. The Company's dividend payout practice is no exception. The Company ultimately determines whether the Company will make any dividend payment to shareholders of record as of a record date and such determination is made only after such record date. For the foregoing reasons, the Company's shareholders of record as of a record date may not receive the dividends they anticipate. Furthermore, the Company does not announce any dividend forecasts.

**It may not be possible for investors to secure personal jurisdiction within the U.S. over the Company or the Company's directors or executive officers, or to enforce against the Company or those persons judgments obtained in U.S. courts predicated upon the civil liability provisions of the federal securities laws of the U.S.**

The Company is a limited liability, joint-stock corporation incorporated under the laws of Japan. Most of the Company's directors and executive officers reside in Japan. Many of the Company's assets and the assets of these persons are located in Japan and elsewhere outside the U.S. It may not be possible, therefore, for U.S. investors to obtain personal jurisdiction over the Company or these persons within the U.S. or to enforce against the Company or these persons judgments obtained in U.S. courts predicated upon the civil liability provisions of the federal securities laws of the U.S. The Company believes that there is doubt as to the enforceability in Japan, in original actions or in actions for enforcement of U.S. court judgments, of liabilities predicated solely upon the federal securities laws of the U.S.

#### **Special Note Regarding Forward-looking Statements**

This annual report contains forward-looking statements that are based on our current expectations, assumptions, estimates and projections about our business, our industry and capital markets around the world. These forward-looking statements are subject to various risks and uncertainties. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "may", "will", "expect", "anticipate", "estimate", "plan" or similar words. These statements discuss future expectations, identify strategies, contain projections of our results of operations or financial condition, or state other forward-looking information.

Known and unknown risks, uncertainties and other factors may cause our actual results, performance, achievements or financial position to differ materially from any future results, performance, achievements or financial position expressed or implied by any forward-looking statement contained in this annual report. Such risks, uncertainties and other factors are set forth in this Item 3.D and elsewhere in this annual report.

#### **Item 4. Information on the Company**

##### **A. History and Development of the Company.**

The Company (previously known as The Nomura Securities Co., Ltd.) was incorporated in Japan on December 25, 1925 under the Commercial Code of Japan when the securities division of The Osaka Nomura Bank, Ltd. became a separate entity specializing in the trading and distribution of debt securities in Japan. The Company was the first Japanese securities company to develop its business internationally with the opening in 1927 of a representative office in New York. In Japan, we broadened the scope of our business when we began trading in equity securities in 1938 and when we organized the first investment trust in Japan in 1941.

Since the end of World War II, we have played a leading role in most major developments in the Japanese securities market. These developments include the resumption of the investment trust business in the 1950s, the introduction of public stock offerings by Japanese companies in the 1960s, the development of the over-the-counter bond market in the 1970s, the introduction of new types of investment trusts such as the medium-term Japanese government bond investment trust in the 1980s, and the growth of the corporate bond and initial public offering markets in the 1990s.

Our expansion overseas accelerated in 1967, when the Company acquired a controlling interest in Nomura International (Hong Kong) Limited for the purpose of conducting broker-dealer activities in the Hong Kong capital markets. Subsequently, we established a number of other overseas subsidiaries, including Nomura Securities International, Inc. in the U.S. in 1969 as a broker-dealer and Nomura International Limited, now Nomura International plc, in the U.K. in 1981, which acts as an underwriter and a broker, as well as other overseas affiliates, branches and representative offices.

On October 1, 2001, we adopted a holding company structure. In connection with this reorganization, the Company changed its name from "The Nomura Securities Co., Ltd." to "Nomura Holdings, Inc." The Company