

**SECOND SUPPLEMENT DATED 11 AUGUST 2020 TO THE BASE PROSPECTUS DATED 8 APRIL 2020**

# **NOMURA**

**NOMURA BANK INTERNATIONAL PLC**

**USD4,100,000,000**

## **NOTE, WARRANT AND CERTIFICATE PROGRAMME**

This supplement (the **Supplement**) to the Base Prospectus (the **Base Prospectus**) dated 8 April 2020, as previously supplemented by a supplement dated 29 May 2020 (the **Prior Supplement**), which comprises a base prospectus for the purposes of the Prospectus Regulation, constitutes a supplement to the Base Prospectus for the purposes of (i) Article 23 of the Prospectus Regulation and (ii) Part IV of the Luxembourg Act dated 16 July 2019 relating to prospectuses for securities (the **Prospectus Act**) and is prepared in connection with the Note, Warrant and Certificate Programme (the **Programme**) of Nomura Bank International plc (the **Issuer**). The Base Prospectus may also constitute "listing particulars" for the purposes of listing on the Global Exchange Market and, for such purposes, does not constitute a "prospectus" for the purposes of the Prospectus Regulation. For the purpose of such "listing particulars" this Supplement constitutes "supplementary listing particulars". Terms defined in the Base Prospectus, have the same meaning when used in this Supplement. When used in this Supplement, **Prospectus Regulation** means Regulation (EU) 2017/1129.

This Supplement is supplemental to and should be read in conjunction with the Base Prospectus and the Prior Supplement.

This Supplement has been approved by the Central Bank of Ireland (the **Central Bank**), as Irish competent authority under the Prospectus Regulation. The Central Bank only approves this Supplement as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Approval by the Central Bank should not be considered as an endorsement of the Issuer or Guarantor. Such approval relates only to the Non-Exempt Securities which are to be admitted to trading on the regulated market of the Irish Stock Exchange plc trading as Euronext Dublin (**Euronext Dublin**) or other regulated markets for the purposes of the Markets in Financial Instruments Directive (Directive 2014/65/EU as amended) or which are to be offered to the public in a Member State of the European Economic Area or in the UK. This Supplement has also been approved as supplementary listing particulars by Euronext Dublin. This Supplement has also been approved by the Luxembourg Stock Exchange under Part IV of the Prospectus Act 2019. This Supplement has been approved by the Luxembourg Stock Exchange under Part IV of the Prospectus Act 2019 in respect of the Exempt Securities.

Each of the Issuer, Nomura Holdings, Inc. (the **NHI Guarantor**) and Nomura Securities Co., Ltd. (the **NSC Guarantor** and, together with the NHI Guarantor, the **Guarantors**, and each a **Guarantor**) accepts responsibility for the information contained in this Supplement. To the best of the knowledge of each of the Issuer and the Guarantors, the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

### **1. PURPOSE OF THIS SUPPLEMENT**

The Issuer has recently published its annual report for the year ended 31 March 2020 (the **Issuer's Annual Report**).

The NHI Guarantor has recently published (i) a United States Securities and Exchange Commission Form 20-F filing dated 30 June 2020 for the financial year ended 31 March 2020 (the **NHI Guarantor's Form 20-F**) and (ii) a United States Securities and Exchange Commission Form 6-K filing dated 29 July 2020 of an English translation of the NHI Guarantor's unaudited financial summary for the three months ended 30 June 2020 (the **NHI Guarantor's Financial Summary Form 6-K**).

The NSC Guarantor has recently published (i) audited non-consolidated financial statements for the financial year ended 31 March 2020 including the auditor's report (the **NSC Guarantor's Annual Financial Statements**) and (ii) an English translation of the NSC Guarantor's unaudited quarterly financial information for the three months ended 30 June 2020 (the **NSC Guarantor's Quarterly Financial Information**) as referred to in the NHI Guarantor's Financial Summary Form 6-K.

The Risk Factors relating to the Nomura Group detailed under the sub-category headed "Risks relating to the Nomura Group" contained on pages 22 to 38 of the Base Prospectus shall be updated and replaced by the information set out in the Annex to this Supplement as detailed in paragraph 9 below.

The Terms and Conditions of the N&C Securities as contained on pages 207 to 338 of the Base Prospectus shall be amended as set out at paragraph 10 below.

The purpose of this Supplement is to (a) incorporate by reference the Issuer's Annual Report, (b) incorporate by reference the NHI Guarantor's Form 20-F, (c) incorporate by reference the NHI Guarantor's Financial Summary Form 6-K, (d) incorporate by reference the NSC Guarantor's Annual Financial Statements, (e) incorporate by reference the NSC Guarantor's Quarterly Financial Information, (f) update the material adverse change statements in relation to the Guarantors, (g) update the significant change statements in relation to the Guarantors, (h) amend the Risk Factors relating to the Nomura Group and (i) amend the Terms and Conditions of the N&C Securities.

## **2. PUBLICATION OF THE ISSUER'S ANNUAL REPORT**

The Issuer has recently published the Issuer's Annual Report.

A copy of the Issuer's Annual Report is available at:

<https://www.nomuranow.com/portal/site/login/en-gb/resources/upload/NBI-Annual-Report-310320.pdf>

By virtue of this Supplement, the Issuer's Annual Report is incorporated by reference in, and forms part of, the Base Prospectus.

## **3. PUBLICATION OF THE NHI GUARANTOR'S FORM 20-F**

The NHI Guarantor has recently published the NHI Guarantor's Form 20-F.

A copy of the NHI Guarantor's Form 20-F is available at:

[https://www.nomuraholdings.com/investor/library/sec/20f/200630/200630\\_e.pdf](https://www.nomuraholdings.com/investor/library/sec/20f/200630/200630_e.pdf).

By virtue of this Supplement, the NHI Guarantor's Form 20-F is incorporated by reference in, and forms part of, the Base Prospectus.

## **4. PUBLICATION OF THE NHI GUARANTOR'S FINANCIAL SUMMARY FORM 6-K**

The NHI Guarantor has recently published the NHI Guarantor's Financial Summary Form 6-K.

A copy of the NHI Guarantor's Financial Summary Form 6-K is available at:

[https://www.nomuraholdings.com/investor/library/sec/6k/200729/200729\\_1.pdf](https://www.nomuraholdings.com/investor/library/sec/6k/200729/200729_1.pdf)

By virtue of this Supplement, the NHI Guarantor's Financial Summary Form 6-K is incorporated by reference in, and forms part of, the Base Prospectus.

## **5. PUBLICATION OF THE NSC GUARANTOR'S ANNUAL FINANCIAL STATEMENTS**

The NSC Guarantor has recently published the NSC Guarantor's Annual Financial Statements.

A copy of the NSC Guarantor's Annual Financial Statements is available at:

[https://www.ise.ie/debt\\_documents/Accounts-310320-NSC\\_0a3c51d4-08b2-4b4b-8cd9-ec316e9acf71.PDF](https://www.ise.ie/debt_documents/Accounts-310320-NSC_0a3c51d4-08b2-4b4b-8cd9-ec316e9acf71.PDF)

By virtue of this Supplement, the NSC Guarantor's Annual Financial Statements are incorporated by reference in, and forms part of, the Base Prospectus.

## **6. PUBLICATION OF THE NSC GUARANTOR'S QUARTERLY FINANCIAL INFORMATION**

The NSC Guarantor has recently published the NSC Guarantor's Quarterly Financial Information.

A copy of the NSC Guarantor's Quarterly Financial Information is available at:

[https://www.nomuraholdings.com/company/group/nsc/pdf/2021\\_1q.pdf](https://www.nomuraholdings.com/company/group/nsc/pdf/2021_1q.pdf)

By virtue of this Supplement, the NSC Guarantor's Quarterly Financial Information is incorporated by reference in, and forms part of, the Base Prospectus.

## **7. UPDATE OF THE MATERIAL ADVERSE CHANGE STATEMENTS**

There has been no material adverse change in the prospects of the Issuer since 31 March 2020 or the Guarantors since 31 March 2020.

## **8. UPDATE OF THE SIGNIFICANT CHANGE STATEMENTS**

There has been no significant change in the financial position of the Issuer since 31 March 2020. There has been no significant change in the financial performance or position of the NHI Guarantor or the Nomura Group since 30 June 2020. There has been no significant change in the financial performance or position of the NSC Guarantor since 30 June 2020.

## **9. AMENDMENT OF THE RISK FACTORS**

The Risk Factors relating to the Nomura Group detailed under the sub-category headed "Risks relating to the Nomura Group" contained on pages 22 to 38 of the Base Prospectus shall be deemed updated and replaced with the Risk Factors in the Annex to this Supplement.

## **10. AMENDMENT OF THE TERMS AND CONDITIONS OF THE N&C SECURITIES**

Condition 6.3.2.2(A) of the Terms and Conditions of the N&C Securities on page 232 of the Base Prospectus shall be amended by deleting the definition of "d" and replacing it with the following language:

"d is the number of calendar days from (and including) the day in relation to which x is determined to (but excluding) the day in relation to which y is determined; and"

## **11. GENERAL**

All references to pages in this Supplement are to the original unsupplemented Base Prospectus, notwithstanding any amendments described herein.

To the extent that there is any inconsistency between (a) any statement in this Supplement or any statement incorporated by reference into the Base Prospectus by this Supplement and (b) any other statement in or incorporated by reference in the Base Prospectus, the statements in (a) above will prevail.

Save as disclosed in this Supplement and the Prior Supplement, there has been no other significant new factor, material mistake or material inaccuracy relating to information included in the Base Prospectus since the publication of the Base Prospectus.

If documents which are incorporated by reference themselves incorporate any information or other documents therein, either expressly or implicitly, such information or other documents will not form part of this Supplement for the purposes of the Prospectus Regulation except where such information or other documents are specifically incorporated by reference or attached to this Supplement.

## ANNEX

### 4. Risks relating to the Nomura Group

**In this Document, the term "Nomura Group" describes the NHI Guarantor (or "NHI") and its consolidated subsidiaries, including the Issuer and the NSC Guarantor (or "NSC"), each of which is a wholly owned subsidiary of the NHI Guarantor. Any factors which affect the financial condition and/or creditworthiness of the NHI Guarantor may have a direct or indirect impact upon the financial condition and/or creditworthiness of other entities within the Nomura Group, including the Issuer and the NSC Guarantor. Accordingly, risks identified in this "Risks relating to the Nomura Group" section relating to NHI should, unless the context requires otherwise, be construed as potentially applying also to all other entities within the Nomura Group including, in particular, the Issuer and the NSC Guarantor.**

**The Nomura Group's business may be materially affected by financial markets, economic conditions and market fluctuations in Japan and elsewhere around the world**

The Nomura Group's 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 the Nomura Group's business and can result in it incurring substantial losses. In particular, global turmoil and economic conditions caused by the coronavirus (**COVID-19**) pandemic could continue to negatively affect the Nomura Group's business, even after the pandemic itself has subsided. It is highly uncertain and difficult to predict how critically the Nomura Group's business continuity and revenue will be affected if this situation continues for an extended period. Furthermore, 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 the Nomura Group operates, including, in particular, its 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 its business, financial condition and results of operations. The following are certain risks related to the financial markets and economic conditions for the Nomura Group's specific businesses.

*Governmental fiscal and monetary policy changes in Japan, or in any other country or region where the Nomura Group conducts business may affect its business, financial condition and results of operations*

The Nomura Group engages in its business globally through domestic and international offices. Governmental fiscal, monetary and other policy changes in Japan, or in any other country or region where the Nomura Group conducts business may affect its 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 the Nomura Group's ability to provide asset management products to its clients as well as the Nomura Group and its clients' trading and investment activities, as exemplified by decreased returns for fixed income products in the prolonged low interest rate environment in Japan.

*The COVID-19 pandemic has affected the Nomura Group's business, customers and employees and this may continue in the future*

In 2020, the COVID-19 pandemic and the measures taken by governments to prevent its spread had a severe impact on the Nomura Group's business environment, particularly in the capital markets, which are expected to see continued instability due to the ongoing turmoil including an extreme volatility in global equity prices,

interest rates and elsewhere and a widening of credit spreads, as well as the possibility that uncertainty in the economic outlook will continue in the future.

*Post-Transition Brexit may adversely affect the Nomura Group's business on various fronts*

On 31 January 2020, the United Kingdom (UK) withdrew from the European Union (EU) under the Withdrawal Agreement between the UK and the EU (**Brexit**), which provides for a transition period during which the rules and regulations of the EU continue to apply to the UK until 31 December 2020. The legal deadline for the UK and the EU to agree on whether to extend the transition period is currently 30 June 2020. If the transition period ends without the UK and the EU agreeing upon the terms of their relationship, such as a free trade arrangement, tariffs and other trade restrictions may come into force immediately, including on the provision of services such as ours.

Because the Nomura Group conducts a substantial level of business throughout Europe where London is its regional hub, the outcome of the negotiations following Brexit may adversely affect the Nomura Group's business on various fronts. Currently, the Nomura Group's regulated activities in the European region are carried out mainly through Nomura International plc (**NIP**), the Nomura Group's broker-dealer arm established in London. NIP currently can provide the entire European Economic Area (EEA) cross-border services under the relevant EU single market legislation known as "passporting rights". If the transition period ends without an agreement between the UK and the EU in respect to the continuation of access for financial services, including passporting rights, NIP may lose access to the EEA and, as a result, the Nomura Group's revenue and profitability from business in the European region remaining in the NIP legal entity may be adversely affected. This situation would also similarly apply to other group entities operating in the European region.

In order to address the consequences of Brexit, the Nomura Group established a 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 will continue to hold passporting rights even if the transition period ends with no agreement. However, potential risks are associated with timely migration of European clients to NFPE and ability to provide the same level of service as the NIP entity. In addition as discussed below, a number of uncertainties affecting the Nomura Group's business in the European region remain.

For example, agreements between the UK and the EU on financial services after the end of the transition period may adversely affect the Nomura Group's business in the European region. Moreover, if no agreement is reached, financial stability both in the UK and the wider European region may be adversely affected. Any market turmoil and increased volatility may adversely affect the Nomura Group's business, with potentially severe liquidity and operational pressures on the Nomura Group's financial position, particularly in the short term. Even if the UK and the EU agree on extending the transition period to maintain the status quo until a final agreement for the future relationship becomes effective, this may affect the behavior of market participants. For example, market participants may postpone or cancel transactions or other activities that they would otherwise engage in, which may adversely affect the Nomura Group's revenues and profitability.

Depending on the content of any future agreement between the UK and the EU, the wider financial system and regulatory and supervisory regime in the European region may also be substantially changed, which could adversely affect the Nomura Group's 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 the transition period, 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, Nomura Group may be adversely affected due to increasing operating costs, which could impact its 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, the final form that Brexit takes poses a high level of potentially prolonged uncertainties both politically and economically, mainly in the UK 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, the Nomura Group 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 its business.

*The Nomura Group's brokerage and asset management revenues may decline*

A market downturn could result in a decline in the revenues generated by the Nomura Group's brokerage business because of a decline in the volume and value of securities that the Nomura Group brokers for its clients. Also, within the Nomura Group's asset management business, in most cases, the Nomura Group charges fees and commissions for managing its clients' portfolios that are based on the market value of their portfolios. A market downturn that reduces the market value of the Nomura Group's clients' portfolios may increase the amount of withdrawals or reduce the amount of new investments in these portfolios, and would reduce the revenue the Nomura Group receives from its asset management business. Also, any changes in the Nomura Group's clients' investment preferences 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 the Nomura Group's revenue as well. A market downturn or a change in investor preferences as described above may adversely affect the financial performance of the Nomura Group and the market perception thereof. In turn, this could have an adverse impact on the demand (if any) for the Securities in the secondary market.

*The Nomura Group's investment banking revenues may decline*

Changes in financial or economic conditions would likely affect the number and size of transactions for which the Nomura Group provides securities underwriting, financial advisory and other investment banking services. The Nomura Group's investment banking revenues, which include fees from these services, are directly related to the number and size of the transactions in which the Nomura Group participates and would therefore decrease if there are financial and market changes unfavourable to its investment banking business and its clients.

The COVID-19 pandemic in 2020 has increased uncertainty in the business environment for investment banking, negatively affecting investment banking revenues. A potential reduction in M&A activities and other investment banking is expected to continue to have negative impact on the Nomura Group's revenues in the future.

Any such decrease in the Nomura Group's investment banking revenues may have an adverse impact on the Nomura Group's financial performance, which could in turn adversely affect the value of the Securities. Ultimately, a sustained decrease in investment banking revenues caused by severe and continuing changes in financial or economic conditions may adversely affect the creditworthiness of the Issuer and, as a result, increase the risk that the Issuer will be unable to meet its obligations in respect of the Securities.

*The Nomura Group's electronic trading business revenues may decline*

Electronic trading is essential for the Nomura Group's business in order to execute trades faster with fewer resources. Utilising these systems allows the Nomura Group to provide an efficient execution platform and on-line content and tools to its clients via exchanges or other automated trading facilities. Revenue from the Nomura Group's electronic trading, which includes trading commissions and bid-offer spreads, is directly correlated with the number and size of the transactions in which the Nomura Group participates. Competition in electronic trading is intense and the introduction of highly discounted or no-commission trades at

competitors has and will continue to exert pressure on the Nomura Group's electronic and traditional trading revenue. Moreover, such revenue would decrease if there are financial market or economic changes that would cause its clients to trade less frequently or in a smaller amounts. Even if trade volumes increase due to the convenience of electronic trading, this may not be sufficient to offset margin erosion in the Nomura Group's execution business, leading to a potential decline in revenue generated from this business. The Nomura Group continues to invest in developing technologies to provide an efficient trading platform; however, the Nomura Group may fail to maximise returns on these investments due to this increased pressure on lowering margins. Increased competition and/or reduced demand for electronic trading services as described above may adversely affect those areas of the Nomura Group's business that rely on such services to generate sales and revenue. Over time this could have a negative impact on the Nomura Group's financial performance more broadly, which may adversely affect the value of the Securities.

*The Nomura Group may incur significant losses from its trading and investment activities*

The Nomura Group maintains trading and investment positions in fixed income, equity and other markets, both for proprietary purposes and for the purpose of facilitating its clients' trades. The Nomura Group's positions consist of various types of assets, including securities, derivatives transactions with equity, interest rate, currency, credit and other underliers, as well as loans and reverse repurchase agreements. Fluctuations in the markets where these assets are traded can adversely affect the value of the Nomura Group's positions, in these assets, with downturns potentially negatively affecting long positions and upturns potentially negatively affecting short positions. Although the Nomura Group continues to mitigate these position risks with a variety of hedging techniques, it may also incur losses if the value of these assets fluctuate or if the financial system is overly stressed and the markets move in a way it has not anticipated.

The Nomura Group's businesses have been, and may continue to be, affected by changes in market volatility levels. Certain of the Nomura Group's 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, while higher volatility can increase trading volumes and spreads, it also increases risk as measured by Value-at-Risk (**VaR**) and may expose the Nomura Group to higher risks in connection with its market-making and proprietary businesses. Higher volatility can also cause the Nomura Group to reduce the outstanding positions or size of these businesses in order to avoid increasing its VaR.

Furthermore, the Nomura Group commits capital to take relatively large positions for underwriting or warehousing assets to facilitate certain capital market transactions. The Nomura Group also structures and takes positions in pilot funds for developing financial investment products and invests seed money to set up and support financial investment products. The Nomura Group may incur significant losses from these positions in the event of significant market fluctuations.

In addition, if the Nomura Group is 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 its creditworthiness (by way of a lowered credit rating or otherwise) can increase its costs and reduce its profitability. On the other hand, if the Nomura Group is the party receiving collateral from its clients and counterparties, such declines may also affect its profitability due to a decrease in client transactions. Assuming a one-notch and two-notch downgrade of the Nomura Group's credit ratings on 31 March 2020, absent other changes, the Nomura Group estimates that the aggregate fair value of assets required to be posted as additional collateral in connection with its derivative contracts would have been approximately ¥5.5 billion and ¥64.3 billion, respectively.

*Transition from LIBOR to alternative rate indices may adversely affect the Nomura Group's business*

The Nomura Group trades derivatives including interest rate swaps and underwrites 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 FCA, which regulates LIBOR, announced

on 27 July 2017 that the 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 cannot and will not be guaranteed after 2021. Since then, regulators of each country including Japan have expressed their intention to request that financial transactions that refer to LIBOR be converted to alternative rate indices and that measures be taken in preparation for the permanent cessation of LIBOR. So, almost all the transaction agreements which refer to LIBOR are expected to be replaced or to be amended adding “fallback” clause by the end of 2021. But details of calculation methodologies of alternative rate indices are under discussion in each country currently, and 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 the Nomura Group to incur additional costs and subject it 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, the Nomura Group’s business, financial condition and results of operations could be impacted materially adversely and/or it could be subject to disputes, litigation or other actions with counterparties or relative participants.

The Nomura Group has established a firmwide LIBOR transition programme to manage the transition away from these IBORs which includes transitions to alternative reference rates i.e. risk-free rates (**RFRs**) (please see the "*Investment Considerations*" section). However, the transactions referring to the alternative rate indices are not familiarised and fixed in the market yet since the details of calculation methods are still under discussion, so these developments are the subject of significant uncertainty, and the Nomura Group may not be successful in managing this transition without potentially serious disruption to its business.

*Holding large and concentrated positions of securities and other assets may expose the Nomura Group to large losses*

Holding large and concentrated positions of certain securities can expose the Nomura Group to large losses in its businesses such as market-making, block trading, underwriting, asset securitisation, acquiring newly-issued convertible debt securities through third-party allotment or providing business solutions to meet clients' needs. The Nomura Group has committed substantial amounts of capital to these businesses. This often requires the Nomura Group to take large positions in the securities of a particular issuer or issuers in a particular industry, country or region. The Nomura Group generally has 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 the Nomura Group holds relatively large amounts of securities by issuers in particular countries or regions due to the business it conducts with its clients or its counterparties. In addition, the Nomura Group 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 the Nomura Group operates. 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 the Nomura Group to sell, hedge or value such assets which the Nomura Group holds. Also, in the event that a market fails in pricing such assets, it will be difficult to estimate their value. If the Nomura Group cannot properly close out or hedge its associated positions in a timely manner or in full, particularly with respect to Over-The-Counter (**OTC**) derivatives, it 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 the Nomura Group, this could lead to unanticipated losses.

While the COVID-19 pandemic in 2020 and the associated measures taken to prevent its spread led to a rapid contraction of the global economy, the Nomura Group's trading business was active due to an increase in client

activity driven by volatility in equity markets and interest rates and flight to risk-free assets. However in future, it is unclear how long this trend will continue.

*The Nomura Group's hedging strategies may not prevent losses*

The Nomura Group uses a variety of financial instruments and strategies to hedge its exposure to various types of risk. If the Nomura Group's hedging strategies are not effective, the Nomura Group may incur losses. The Nomura Group bases many of its hedging strategies on historical trading patterns and correlations. For example, if the Nomura Group holds an asset, it 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 the Nomura Group's risk exposure because it is exposed to all types of risk in a variety of market environments.

*The Nomura Group's risk management policies and procedures may not be fully effective in managing market risk*

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

*Market risk may increase other risks that the Nomura Group faces*

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

Also, if the Nomura Group incurs substantial trading losses caused by its exposure to market risk, its need for liquidity could rise sharply while its access to cash may be impaired as a result of market perception of its credit risk.

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

***The Nomura Group may have to recognise impairment charges with regard to the amount of goodwill, tangible and intangible assets recognised on its consolidated balance sheets***

The Nomura Group has purchased all or a part of the equity interests in, or operations from, certain other companies in order to pursue its business expansion, and expect to continue to do so when and as it deems appropriate. The Nomura Group accounts for certain of those and similar purchases and acquisitions as a business combination under U.S. GAAP by allocating the Nomura Group's acquisition costs to the assets acquired and liabilities assumed and recognising the remaining amount as goodwill. The Nomura Group also possesses tangible and intangible assets other than those stated above.

The Nomura Group may have to recognise impairment charges, as well as other losses associated with subsequent transactions, with regard to the amount of goodwill, tangible and intangible assets and, if

recognised, such charges may adversely affect its financial condition and results of operations. For example, during the year ended 31 March 2019, the Nomura Group recognised an impairment loss on goodwill in its Wholesale segment attributable to previous overseas acquisitions of ¥81,372 million.

***Liquidity risk could impair the Nomura Group's ability to fund operations and jeopardise its financial condition***

Liquidity, or having ready access to cash, is essential to the Nomura Group's business. The Nomura Group defines 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 its creditworthiness or deterioration in market conditions. In addition to maintaining a readily available cash position, the Nomura Group seeks to secure ample liquidity through repurchase agreements and securities lending transactions, long-term borrowings and the issuance of long-term debt securities, diversification of its short-term funding sources such as commercial paper, and by holding a portfolio of highly liquid assets. The Nomura Group bears the risk that it may lose liquidity under certain circumstances, including the following:

*The Nomura Group may be unable to access unsecured or secured funding*

The Nomura Group continuously accesses unsecured funding from issuance of securities in the short-term credit markets and debt capital markets as well as bank borrowings to finance its day-to-day operations, including refinancing. The Nomura Group also enters into repurchase agreements and securities lending transactions to raise secured funding for its 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 its liquidity. For example, lenders could refuse to extend the credit necessary for the Nomura Group to conduct its business based on their assessment of the Nomura Group's long-term or short-term financial prospects if:

- the Nomura Group incurs large trading losses,
- the level of its business activity decreases due to a market downturn,
- regulatory authorities take significant action against it, or
- its credit rating is downgraded.

In addition to the above, the Nomura Group's ability to borrow in the debt capital markets could also be adversely impacted by factors that are not specific to the Nomura Group, 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.

*The Nomura Group may be unable to sell assets*

If the Nomura Group is unable to raise funds or if its liquidity declines significantly, it will need to liquidate assets or take other actions in order to meet its maturing liabilities. In volatile or uncertain market environments, overall market liquidity may decline. In a time of reduced market liquidity, the Nomura Group may be unable to sell some of its assets, or it may have to sell at depressed prices, which could adversely affect its results of operations and financial condition. The Nomura Group's 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 the Nomura Group's credit ratings could impact its funding*

The Nomura Group's funding depends significantly on its credit ratings. Rating agencies may reduce or withdraw their ratings or place the Nomura Group on "credit watch" with negative implications. Future downgrades could increase the Nomura Group's funding costs and limit its funding. This, in turn, could

adversely affect its result of operations and its financial condition. In addition, other factors which are not specific to the Nomura Group may impact its funding, such as negative market perceptions of Japan's financial soundness.

### **Event risk may cause losses in the Nomura Group's trading and investment assets as well as market and liquidity risk**

Event risk refers to potential losses the Nomura Group 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 the Nomura Group's 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 the Korean Peninsula following North Korean nuclear tests in 2017, sudden and unexpected developments in global trade or security policies such as tensions between the United States and China in 2018 and 2019 and the COVID-19 pandemic in 2020 but also more specifically the following types of events that could cause losses in the Nomura Group's trading and investment assets:

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

### **The Nomura Group may be exposed to losses when third parties that are indebted to it do not perform their obligations**

The Nomura Group's counterparties are from time to time indebted to the Nomura Group as a result of transactions or contracts, including loans, commitments to lend, other contingent liabilities and derivative transactions. The Nomura Group may incur material losses when its counterparties default or fail to perform on their obligations to it 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. In particular, as the effects of the COVID-19 pandemic, or governmental responses thereto, are felt, the Nomura Group may see an increase in defaults by counterparties. Although the Nomura Group establishes and maintains allowances for credit losses, such allowances reflect management judgments and assumptions based on information available to them. For example, the Nomura Group's allowances as of 31 March 2020 reflect certain assumptions on short and long-term effects of the COVID-19 pandemic on the ability of its counterparties to perform their obligations to the Nomura Group. However, these judgments and assumptions may prove to be incorrect, potentially significantly so.

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 non-delivery 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 the Nomura Group 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 the Nomura Group interacts 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 the Nomura Group. The Nomura Group's 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 the Nomura Group uses in managing, its credit risk*

The Nomura Group regularly reviews its credit exposure to specific clients or counterparties and to specific countries and regions that it believes may present credit concerns. Default risk, however, may arise from events or circumstances that are difficult to detect, such as account-rigging and fraud. The Nomura Group may also fail to receive full information with respect to the risks of a counterparty. In addition, in cases where the Nomura Group has extended credit against collateral, it may fall into a deficiency in value in the collateral if sudden declines in market values reduce the value of its collateral.

*The Nomura Group's clients and counterparties may be unable to perform their obligations to the Nomura Group 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 the Nomura Group.

### **Environmental, Social and Governance factors including Climate change and broader associated policy changes in each jurisdiction could adversely affect the Nomura Group's business**

Increasing attention on the management of Environmental, Social and Governance (ESG) factors in the business makes it imperative that the Nomura Group continues to develop its policies in these areas, and positions itself in a positive light to its stakeholders including shareholders, customers and broader society. Lack of sufficient focus on ESG considerations may not only impede the Nomura Group's ability to build a sustainable business model, but may also increase the Nomura Group's vulnerability to ESG related risks such as risks associated with climate change in the medium to long-term.

The direct impact of climate change, and the resulting changes in the business environment could cause losses to the Nomura Group. The climate change related risk is broadly divided into two parts; Physical Risks and Transition Risks.

- **Physical Risk:** The risk of physical damage or the impairment of the operating capability of the assets of the Nomura Group, customers and business partners due to climate change. This includes the potential impact of extreme weather events, fire and sea level flooding.
- **Transition Risk:** The risks associated with accelerated policy and external changes associated with the move towards addressing Climate Risk. This includes changes in government policies, industrial policy or carbon based taxes, and rapid changes in technologies which have the potential to leave stranded assets that are no longer viable.

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

The Nomura Group's businesses are intensely competitive, and are expected to remain so. The Nomura Group competes on the basis of a number of factors, including transaction execution capability, its products and services, innovation, reputation and price. The Nomura Group has 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. Banks and certain other financial institutions became able to enter into the securities brokerage business in 2004 and firewalls between commercial banks and securities firms were deregulated in 2009, increasing the ability of securities firms with affiliated commercial banks to cooperate more closely with them. As a result, securities subsidiaries of commercial banks and non-Japanese firms with increased competitiveness have been affecting the Nomura Group's 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, the Nomura Group has 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 the Nomura Group's market share in this increasingly fierce competitive environment, and the Nomura Group may lose business or transactions to its competitors, harming its business and results of operations.

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

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 the Nomura Group. 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 the framework of existing corporate groups and recent alliances with non-financial companies including emerging companies. The Nomura Group's competitiveness may be adversely affected if its competitors are able to expand their businesses and improve their profitability through such business alliances.

*The Nomura Group's global business strategies have not resulted in the anticipated outcome to date, and the Nomura Group may not be able to successfully rebuild them*

The Nomura Group continues 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, the Nomura Group will have to compete successfully with financial services firms based in important non-Japanese markets, including the U.S., Europe and Asia. For example, as a means to bolster the Nomura Group's international operations, the Nomura Group acquired certain Lehman Brothers operations in Europe, the Middle East and Asia in 2008. 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 European central banks, resulting in a decline in whole-market liquidity. Although, the Nomura Group has endeavoured to reallocate its management resources to optimise its global

operations and thereby improve its profitability due in part to the challenging environment facing these businesses, and it recognised an impairment loss of ¥81,372 million in the fiscal year ended 31 March 2019.

Accordingly, since April 2019, the Nomura Group have been working to rebuild its global business platform, under which it aims to simplify its operating model, transform its business portfolio and pivot towards client businesses and growth areas. However, it may be unable to successfully execute this strategy. Even if it is able to successfully execute this strategy, it 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 its business and results of operations. Moreover, the assumptions and expectations upon which this strategy is based may not be correct, which could lead to it realising fewer benefits than expected or could even harm its business and results of operations overall. For example, it may not correctly select business lines to streamline, which could lead to it missing or otherwise being unable to take advantage of a potential opportunity. Furthermore, to the extent it reduces compensation or headcount as part of this strategy, its ability to attract and retain the employees needed to successfully run its businesses could be adversely affected. It may also be unsuccessful in designing a streamlined management structure, which could harm its ability to properly control or supervise its many businesses across the world.

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

The Nomura Group faces the risk that its employees, directors or officers, or any third party, could engage in misconduct that may adversely affect its business. Misconduct by an employee, director or officer includes conduct such as entering into transactions in excess of authorised limits, acceptance of risks that exceed the Nomura Group's limits, or concealment of unauthorised or unsuccessful activities. The misconduct could also involve the improper use or disclosure of non-public information relating to the Nomura Group or its 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 the Nomura Group.

For example, on 5 March 2019, a researcher at Nomura Research Institute, Ltd. (**NRI**), NHI's 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 (**NIHK**), some of whom provided the information to their institutional investor clients. Although the provision of the information did not represent a violation of law, it was an inappropriate conduct and impaired the implicit trust placed in the Nomura Group and its employees by other market participants. Following a special internal investigation conducted by external experts, on 24 May 2019, NHI announced a remediation plan and the reduction of compensation of certain of its executives and those of NSC. On 28 May 2019, the Financial Services Agency of Japan (the **Japanese FSA**) issued a business improvement order to NHI and to NSC, requiring NHI 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, and on 28 August 2019, a fine of ¥10 million was imposed by Tokyo Stock Exchange, Inc. as a penalty. Although the Nomura Group have taken measures in line with the improvement plan to detect and prevent such misconduct in the future, including the establishment of the "Nomura Group Code of Conduct" on 3 December 2019, including ensuring its thorough dissemination throughout the group and ensuring thorough compliance with its terms, the measures it has implemented or may implement may not be effective in all cases, and the Nomura Group 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 the Nomura Group as a result of such misconduct, it may lose business opportunities for a period of time, even

after the sanction is lifted, if and to the extent that the Nomura Group's clients, especially public institutions, decide not to engage it for their financial transactions.

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

The Nomura Group may not be able to recover the financial losses caused by such activities and its reputation may also be damaged by such activities.

### **A failure to identify and appropriately address conflicts of interest could adversely affect the Nomura Group's business**

The Nomura Group is 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, the Nomura Group faces potential conflicts of interest in the ordinary course of its business. Conflicts of interests can arise when the Nomura Group's services to a particular client conflict or compete, or are perceived to conflict or compete, with its 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 conflicts or competes, or is perceived to conflict or compete, with a transaction with a particular client. While the Nomura Group has extensive internal procedures and controls designed to identify and address conflicts of interest on the basis of the Nomura Group Conflicts of Interest Management Policy, a failure, or a perceived failure, to identify, disclose and appropriately address such conflicts could adversely affect its reputation and the willingness of current or potential clients to do business with it. In addition, conflicts of interest could give rise to regulatory actions or litigation.

### **The Nomura Group's business is subject to substantial legal, regulatory and reputational risks**

Substantial legal liability or a significant regulatory action against the Nomura Group could have a material financial effect on the Nomura Group or cause reputational harm to it, which in turn could adversely affect its business prospects, financial condition and results of operations. Also, material changes in regulations applicable to the Nomura Group or to the markets in which the Nomura Group operates could adversely affect its business.

#### *The Nomura Group's exposure to legal liability is significant*

The Nomura Group faces significant legal risks in its 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 the Nomura Group's transactions, disputes with its business alliance partners and legal claims concerning its other businesses.

During a prolonged market downturn or upon the occurrence of an event that adversely affects the market, the Nomura Group would expect claims against it to increase. The Nomura Group may also face significant litigation. The cost of defending such litigation may be substantial and the Nomura Group's involvement in litigation may damage its 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 the Nomura Group's businesses limits its activities and may subject the Nomura Group to significant penalties and losses*

The financial services industry is subject to extensive regulation. The Nomura Group is subject to increasing regulation by governmental and self-regulatory organisations in Japan and in virtually all other jurisdictions in which it operates, and such governmental and regulatory scrutiny may increase as its 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 the Nomura Group, and often limit its activities and/or affect its 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, the Nomura Group's 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 organisations has increased substantially and the consequences of such investigations and proceedings have become more severe in recent years, and the Nomura Group is 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 securitised by some of the Nomura Group's U.S. subsidiaries prior to 2009. On 15 October 2018, the U.S. subsidiaries settled the investigation with the DOJ and agreed to pay USD 480 million. Although the Nomura Group has policies in place to prevent violations of such laws and regulations, it may not always be able to prevent violations, and it could be fined, prohibited from engaging in some of its business activities, ordered to improve its internal governance procedures or be subject to revocation of its license to conduct business. The Nomura Group's reputation could also suffer from the adverse publicity that any administrative or judicial sanction against it may create, which may negatively affect the Nomura Group's business opportunities and ability to secure human resources. As a result of any such sanction, the Nomura Group may lose business opportunities for a period of time, even after the sanction is lifted, if and to the extent that its clients, especially public institutions, decide not to engage it for their financial transactions. In addition, certain market participants may refrain from investing in or entering into transactions with the Nomura Group if the Nomura Group engages in business activities in regions subject to international sanctions, even if the Nomura Group's activities do not constitute violations of sanctions laws and regulations.

*Tightening of regulations applicable to the financial system and financial industry could adversely affect the Nomura Group's business, financial condition and results of operations*

If regulations that apply to the Nomura Group's businesses are introduced, modified or removed, the Nomura Group could be adversely affected directly or through resulting changes in market conditions. The impact of such developments could make it economically unreasonable for the Nomura Group to continue to conduct all or certain of its businesses, or could cause it 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 the Nomura Group will depend on the final regulations as they become ultimately adopted by various governmental agencies and oversight boards.

New regulations or revisions to existing regulations relating to accounting standards, regulatory capital adequacy ratios, liquidity ratios and leverage ratios applicable to the Nomura Group could also have a material adverse effect on its 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 (the **Basel Committee**) and the finalised 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 Japanese FSA identified the Nomura Group as a D-SIB and imposed a surcharge of 0.5 per cent. on its required capital ratio after March 2016 with a 3-year transitional arrangement. In addition, the 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 Japanese 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 the Japanese financial system if they fail. Based on the revised policy, in March 2019, the Japanese FSA published the notices and guidelines of TLAC regulations in Japan. According to these notices and guidelines, the Nomura Group will be subject to the TLAC requirements in Japan from 31 March 2021 although the Nomura Group is not identified as a G-SIB as of the date of publication on NHI's Form 20-F. These changes in regulations may increase the Nomura Group's funding costs or require it to liquidate financial instruments and other assets, raise additional capital or otherwise restrict its business activities in a manner that could adversely affect its operating or financing activities or the interests of its 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 the Nomura Group's operating results and financial condition*

The Nomura Group recognises deferred tax assets in its consolidated balance sheets as a possible benefit of tax relief in the future. If the Nomura Group experiences or forecasts future operating losses, if tax laws or enacted tax rates in the relevant tax jurisdictions in which it operates change, or if there is a change in accounting standards in the future, it may reduce the deferred tax assets recognised in its consolidated balance sheets. As a result, it could adversely affect the Nomura Group's financial condition and results of operations.

#### **Unauthorised disclosure or misuse of personal information held by the Nomura Group may adversely affect its business**

The Nomura Group keeps and manages personal information obtained from clients in connection with its 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, disclosed or misused.

Although the Nomura Group exercises care to protect the confidentiality of personal information and have in place policies and procedures designed to safeguard such information and ensure that it is used in compliance with applicable laws, rules and regulations, were any unauthorised disclosure or misuse of personal information to occur, its business could be adversely affected. For example, the Nomura Group could be subject to government actions such as administrative actions or penalties 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 unauthorised disclosure or misuse of their personal information (including leakage of such information by an external service provider). In addition, the Nomura Group could incur additional expenses associated with changing its security systems, either voluntarily or in response to administrative guidance or other regulatory initiatives. Moreover, restrictions on the Nomura Group's ability to use personal information collected from clients may adversely affect its existing businesses or to develop new ones. Furthermore, any damage to the Nomura Group's reputation caused by such unauthorised disclosure or misuse 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 its corporate or brand image or reputation.

#### **System failure, information leakage and the cost of maintaining sufficient cybersecurity could adversely affect the Nomura Group's business**

The Nomura Group's businesses rely on secure processing, storage, transmission and reception of personal, confidential and proprietary information on its systems. The Nomura Group has been in the past and may again become the target of attempted unauthorised access, computer viruses or malware, and other cyber-attacks

designed to access and obtain information on its systems or to disrupt and cause other damage to its services. For example, in June 2018, one of the Nomura Group's foreign subsidiaries experienced a spear phishing incident that resulted in the unauthorised access to the firm's desktop network, requiring the Nomura Group 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. In response to the COVID-19 pandemic, many of the Nomura Group's employees now work remotely using networking or other technologies, and these technologies have become even more critical to its business. The implementation of remote work arrangements may also increase the possibility that the Nomura Group will be subject to cyber-attacks and other information security breaches. 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, the Nomura Group could also be adversely impacted if any of the third-party vendors, exchanges, clearing houses or other financial institutions to whom the Nomura Group is interconnected are subject to cyber-attacks or other informational security breaches. Such events could cause interruptions to the Nomura Group's systems, reputational damage, client dissatisfaction, legal liability, enforcement actions or additional costs, any and all of which could adversely affect its financial condition and operations.

While the Nomura Group continues to devote significant resources to monitor and update its systems and implement information security measures to protect its systems, there can be no assurance that any controls and procedures the Nomura Group has in place will be sufficient to protect it from future security breaches. As cyber threats are continually evolving, the Nomura Group's controls and procedures may become inadequate and it may be required to devote additional resources to modify or enhance its systems in the future.

#### **Natural disaster, terrorism, military dispute and infectious disease could adversely affect the Nomura Group's business**

The Nomura Group has developed a contingency plan for addressing unexpected situations. However, disaster, terrorism, military dispute or infectious disease afflicting the Nomura Group's management and employees could exceed the assumptions of its plan, and could adversely affect its business. For example, COVID-19 has spread globally in 2020 and was declared a pandemic by the World Health Organization. The COVID-19 pandemic has led to successive widespread lockdowns, shelter-in-place orders and similar government action worldwide, including Japan, Europe, America and elsewhere. In response to the spread and lockdowns, the Nomura Group has activated contingency plans across global locations, and developed its capabilities for a remote working environment. In turn this increases potential unforeseen risk related to remote working including challenges in supervision. The continuation of such measures, even if limited to certain regions, will continue to impact societal and economic functions, which has and is expected to continue to adversely affect the Nomura Group's business and results of operations.

#### **NHI is a holding company and depends on payments from subsidiaries**

NHI heavily depends on dividends, distributions and other payments from subsidiaries to make payments on NHI's obligations. Regulatory and other legal restrictions, such as those under the Companies Act of Japan (the Companies Act), may limit NHI's ability to transfer funds freely, either to or from NHI's subsidiaries. In particular, many of NHI's subsidiaries, including NHI's broker-dealer subsidiaries, are subject to laws and regulations, including regulatory capital requirements, that authorise 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 NIHK, the Nomura Group's main broker-dealer subsidiaries, are subject to regulatory capital requirements that could limit the transfer of funds to NHI. These laws and regulations may hinder NHI's ability to access funds needed to make payments on NHI's obligations.

**The Nomura Group may not be able to realise gains it expects, and may even suffer losses, on its investments in equity securities and non-trading debt securities**

The Nomura Group holds substantial investments in equity securities including private equity investments and non-trading debt securities. Under U.S. GAAP, depending on market conditions, the Nomura Group may recognise significant unrealised gains or losses on its investments in equity securities and debt securities, which could have an adverse impact on its financial condition and results of operations. For example, in the fiscal year ended 31 March 2020, the Nomura Group recognised a loss of ¥ 16.4 billion related to its investment in American Century Investments and ¥ 16.6 billion on its investments in equity securities resulting from market declines arising from the COVID-19 pandemic. Depending on the market conditions, the Nomura Group may also not be able to dispose of these equity securities and debt securities when it would like to do so, as quickly as it may wish or at the desired price.

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

The Nomura Group has affiliates and investees accounted for under the equity method in its 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 the Nomura Group holds in such affiliates over a period of time, and it determines that the decline is other-than-temporary, then it recognises an impairment loss for the applicable fiscal period which may have an adverse effect on its financial condition and results of operations.

**The Nomura Group may face an outflow of clients' assets due to losses of cash reserve funds or debt securities it offers**

The Nomura Group offers many types of products to meet various needs of its clients with different risk profiles. Cash reserve funds, such as money market funds and money reserve funds are categorised 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 the Nomura Group determines that a stable return cannot be achieved from the investment performance of cash reserve funds, the Nomura Group may accelerate the redemption of, or impose a deposit limit on, such cash reserve funds. For example, Nomura Asset Management Co., Ltd., NHI'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 the Nomura Group offers may default or experience delays in the payment of interest and/or principal. Such losses, early redemption or deposit limit for the products the Nomura Group offers may result in the loss of client confidence and lead to an outflow of client assets from its custody or preclude it from increasing such client assets.