Platform Strategy to Support the Evolution of Financial Business

Nomura Research Institute, Ltd.

Ken Ebato
Senior Executive Managing Director, Representative Director, Member of the Board

June 29, 2022
# Introduction

**Ken Ebato**

Operational experience in multiple business fields within financial and industrial IT solutions, primarily for securities firms

<table>
<thead>
<tr>
<th>Date</th>
<th>Position</th>
<th>Responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apr.1987</td>
<td>Joined the Company</td>
<td>(Financial IT: approx. 22 years, Industrial IT: approx. 4 years, on assignment at a securities firm: approx. 2 years)</td>
</tr>
<tr>
<td>Apr.2015</td>
<td>Senior Managing Director</td>
<td>Deputy Division Manager of Capital Markets &amp; Wealth Management Solutions Division</td>
</tr>
<tr>
<td>Apr.2018</td>
<td>Senior Managing Director</td>
<td>Division Manager of Capital Markets &amp; Wealth Management Solutions Division</td>
</tr>
<tr>
<td>Apr.2019</td>
<td>Senior Corporate Managing Director</td>
<td>Division Manager of Capital Markets &amp; Wealth Management Solutions Division</td>
</tr>
<tr>
<td>Apr.2021</td>
<td>Senior Executive Managing Director</td>
<td>Head of Financial IT Solutions</td>
</tr>
<tr>
<td>Jun.2021</td>
<td>Senior Executive Managing Director, Member of the Board</td>
<td>Division Manager of Capital Markets &amp; Wealth Management Solutions Division</td>
</tr>
</tbody>
</table>
| Apr.2022   | Senior Executive Managing Director, Representative Director, Member of the Board | Supervising of Consulting  
Supervising of Financial IT Solutions  
Supervising of IT Platform Services  
Head of Capital Markets & Wealth Management Solutions  
Head of Asset Management Solution |
1. Our History in Financial Business Platforms
2. Financial Business Platform Strategy
3. Looking Toward Continued Growth
1. Our History in Financial Business Platforms
2. Financial Business Platform Strategy
3. Looking Toward Continued Growth
The Story of Our Growth in Financial Business Platforms

- “Strategic domains” and “non-strategic domains” for financial institutions have been increasingly divergent since Japan’s “Big Bang” financial markets liberalization reforms and the spread of the internet in the late 1990s.
- NRI provides industry-standard business platforms in non-strategic domains.
- With momentum from numerous institutional reforms, we expanded our client base in the first decade of the 2000s. Our infrastructure came to support industries.
- Going forward, we aim to evolve into financial business platforms that support the advancement of industries and society.

Shared online services
Main objective is sharing costs

Industry-standard business platforms

Financial business platforms

Become infrastructure that supports industries and society

Internet connectivity
Separation of strategic & non-strategic domains

Main services

Major systems

1974-
Retail securities

1987-
Wholesale securities

1993-
Asset management

1997
Bestway
Banks, etc.

2004-
e-JiBaI
Automobile liability insurance

2015-
“My Number” individual number management

1989 Introduction of consumption tax & capital gains tax

1996-2001 “Big Bang” financial markets liberalization

2003 Launch of the specified account system

2007 Enforcement of the Financial Instruments and Exchange Act

2009 Electronic stock trading

2014 NISA

2016 Introduction of integrated taxation on financial income

2016 “My Number” individual number system
## Our Financial Business Platforms Client Base in V2022

- **Capture the advantages of shifting to industry-standard business platforms in non-strategic domains** in V2022
- **Advance usage by major financial institutions, and successfully expand and gain deeper penetration in core areas**
- **Usage of My Number-related services is expected to grow even more as the cards become more prevalent**

<table>
<thead>
<tr>
<th>Major Shared Online Services</th>
<th>the end of Mar. 2016</th>
<th>the end of Mar. 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Back-office solution for retail brokerage firms</td>
<td>68 firms</td>
<td>+7 firms to 75 firms</td>
</tr>
<tr>
<td>Back-office solution for wholesale brokerage firms</td>
<td>26 firms</td>
<td>+3 firms to 29 firms</td>
</tr>
<tr>
<td>Back-office solution for asset management firms</td>
<td>73 firms</td>
<td>+6 firms to 79 firms</td>
</tr>
<tr>
<td>Back-office solution for mutual fund sales at banks</td>
<td>109 firms</td>
<td>+1 firms to 110 firms</td>
</tr>
<tr>
<td>My Number management services</td>
<td>–</td>
<td>Approx.31 million cases</td>
</tr>
</tbody>
</table>
Strengths of NRI’s Financial Business Platforms

- NRI has strength in the ability to provide everything from consulting with an in-depth understanding of regulations and systems to IT services and Business Process Outsourcing (BPO).

- Going forward, we will continue to sure-handedly accommodate regulations, systems, and client needs, and help drive the advancement of industries and society through financial business platforms.

Major systems & policies going forward: Amended Act on the Protection of Personal Information, Economic Security Promotion Law, Doubling Asset-based Incomes Plan, Individual Retirement Accounts, My Number cards (unified driver’s license/health insurance cards, etc.)
Changes in the Environment Surrounding the Finance Industry

- Facing major changes in the environment, including digitalization, global regulations and risks, and action to address social issues
- Financial institutions are under pressure to reallocate business resources, and re-examine their strategies and governance

### Major industry changes

**Diversification & digitalization of financial products**
- Securitization of real estate with security tokens, issuance of bonds

**Spread of ecosystems**
- Incorporating financial functions into industrial processes
- Expanding the economic zones that use financial functions

### Business challenges for financial institutions (tentative)

- Shifting business resources to link the process of digitalization with business expansion
- Advance business through partnerships that go beyond any particular business format
- Comply with global regulations

### Major social changes

**Structural changes domestically**
- Labor shortages due to Japan’s declining population and aging society

**Increasing complexity of global society**
- International regulations such as GDPR & FATF
- Trend toward greater instability in international politics

Operational efficiency
1. Our History in Financial Business Platforms
2. Financial Business Platform Strategy
3. Looking Toward Continued Growth
Positioning in V2030 (Framework)

- Our financial business platform strategy primarily supports "expansion and deeper penetration in core areas" and "evolution of DX business" in V2030 (framework): Our growth story from now until 2030.

[Diagram showing DX business evolution from DX1.0 to DX3.0, with stages for expansion & penetration in core areas, organic growth in Asia, establishment of business in Australia, and regional expansion in North America.]
## Framework of NRI’s DX Strategy

<table>
<thead>
<tr>
<th>Core Areas</th>
<th>DX1.0</th>
<th>DX2.0</th>
<th>DX3.0</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Infrastructure transformation</strong></td>
<td>Enhance infrastructure such as cloud, security</td>
<td>Digitalize actions for end users and Digitalize actions within client companies</td>
<td>Resolve social issues through co-creation with various partners</td>
</tr>
<tr>
<td><strong>Process transformation</strong></td>
<td>Digitalize actions for end users and Digitalize actions within client companies</td>
<td>Establish innovative digital services</td>
<td></td>
</tr>
<tr>
<td><strong>Business model transformation</strong></td>
<td>Establish innovative digital services</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Paradigm transformation</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
DX Strategy in Financial Business Platforms

- Provide solutions to financial institutions’ business challenges through financial business platforms

**Business challenges for financial institutions (tentative)**

- Shifting business resources to link the process of digitalization with business expansion
- Advance business through partnerships that go beyond any particular business format
- Comply with global regulations
- Operational efficiency

**Main actions**

- **DX1.0**
  - (1) IT services + more in-depth BPO
- **DX2.0**
  - (2) Incorporate GRCS’s services
  - (3) Handling digital assets
  - (4) Cross-industry financial intermediary services
- **DX3.0**
  - (5) More convenience for consumers with My Number as infrastructure
(1) IT Services & More In-depth BPO

- In addition to IT services, help boost the quality and efficiency of operational processes in their entirety by providing operations standardization integrated with the related outsourcing services.

- Successfully provide high-quality services for a broad range of operations by joining forces with group companies DSB and NRI Process Innovation with strengths in each respective field.

**For retail brokerage firms**
- Shared online service: THE STAR
- BPO services: DSB

**For asset management companies**
- Shared online service: T-STAR
- BPO services: NRI Process Innovation

**For financial institutions & business companies**
- My Number management service: e-BANGO
- BPO services: DSB

**Financial instruments trading**
- Orders, execution, and payments for stock exchanges
- Account management and money transfers

**Back-office tasks in securities**
- Printing, envelopes, document enclosures, shipping, etc.

**Middle & back-office operations**
- Standard price calculations for asset management companies
- Investment trust accounting operations
- Creating investment reports

**General My number management operations**
- My Number aggregation and registration
- My Number management and utilization
(2) Implement GRCS’s Services

① GRC: Governance, Risk, Compliance

- Timely and accurate understanding of information communicated by the authorities, the FISC, and others, and embed control and auditing requirements for financial institutions into services.

**Authorities, the FISC, etc.**

- Oversight guidelines, laws and regulations, guidelines
- FISC Security Guidelines (system risk management system)

**Financial Institutions**

- IT controls, information security
- Managing personal information
- Cybersecurity
- Contractor screenings, management, etc.

**Key points for incorporation in financial business platforms**

- Verifying and accommodating guidelines, laws, regulations, standards
- IT controls & information security
- Reports on exchanges of opinions and action policies to ensure effectiveness
DX Strategy in Financial Business Platforms

(2) Implement GRCS’s Services

② GRC: Governance, Risk, Compliance

- Provide AML/CFT Services to financial institutions as a measure for anti-money laundering and against the financing of terrorism

- NRI experts take a panoramic view of laws and regulations within the country and the operations of each financial institution, and propose improvements

AML/CFT Services

- Transaction data (outgoing, incoming, etc.)
- Client data (attributes, ratings, etc.)
- Enforcement agency data (MOF, OFAC, etc.)

Data integration

Transaction monitoring

Threshold according to client risk

Client management

Recalculate ongoing client risk

Client filtering

Case management

Disaster control websites

Financial institutions
(2) Implement GRCS’s Services

③ S: Security

Deliver sophisticated, formidable security against outside attacks

- Partner with NRI SecureTechnologies to deliver sophisticated security against outside attacks occurring through networks
- Redundant facilities with data centers located in both the Kanto and Kansai regions to counter natural disasters, operating nonstop around-the-clock 365 days/year
DX Strategy in Financial Business Platforms

(3) Handling Digital Assets

Provide platform services associated with digital assets via BOOSTRY

**BOOSTRY**

BOOSTRY, providing rights exchange services to a diverse range of participants for instruments such as digital bonds, was established with Nomura Holdings (NRI digital bonds scheme)

**History of major movements**

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020.03.30</td>
<td>NRI issues Japan’s first digital bonds</td>
</tr>
<tr>
<td>2021.04.01</td>
<td>ibet for Fin consortium established</td>
</tr>
<tr>
<td>2021.04.20</td>
<td>SBI Securities conducts Japan’s first STO for ordinary investors</td>
</tr>
<tr>
<td>2022.04.25</td>
<td>Mizuho Trust &amp; Banking joins consortium</td>
</tr>
<tr>
<td>2022.05.24</td>
<td>The Nomura Trust and Banking joins consortium</td>
</tr>
<tr>
<td>2022.06.01</td>
<td>Japan Exchange Group determines terms and conditions for issuance of Digitally Tracked Green Bonds, Japan’s first green bonds using a digital scheme</td>
</tr>
<tr>
<td>2022.06.21</td>
<td>Mizuho Securities joins consortium</td>
</tr>
</tbody>
</table>
DX Strategy in Financial Business Platforms

(4) Cross-industry Financial Intermediary Services

- Provide services with operations expertise for supporting intermediary operations, combined with IT functionality
- Support the financial business of financial instrument intermediaries, including non-finance businesses

Users

Nomura Securities

Clients

Trading Financing

Regional banks

Intermediaries

Wealth management Inheritance services Real estate Business succession & support

Clients

Intermediaries

Asset management

Middle Back Office Operations (THE STAR, etc.)

Nomura Securities

IT: NRI

Tools

Sales tools

Online services

Digital channels

Compliance

Marketing

Advisory fees

Client management

- Account management
- Client profile management, etc.

Intermediary management

- Services used by each company
- Organization > person in charge
- Client - person in charge

Platform infrastructure & connectivity with companies

Nomura Securities accounts

Insurance policies

Savings accounts

Financial Institution A Contract

Financial Institution B Account

Operations: Major financial institutions such as Nomura Securities

Sales resources

- Staff assignments on-site
- Remote staff assignments

Sales expertise

- Training
- Providing information

Marketing

- Digital marketing
- Inside sales, etc.

Compliance support

- Staff assignments
- Consulting

IT services + BPO

Digital assets

Cross-industry services

My Number
(5) More Convenience for Consumers with My Number as Infrastructure

- Primarily operate three services to promote use of the My Number system from the perspectives of citizens
- Help drive the prevalence of the My Number system as one of Japan’s largest services providers

**Number management service**
- Services to securely store and manage My Numbers in environments compliant with the security control measures specified in the My Number Act
- Managing 31 million records, the most in Japan, primarily of major financial institutions, etc.

**Identity verification service**
- Online identity verification and My Number collection services utilizing the electronic signatures stored in My Number cards
- Used broadly in both the private and public sectors, with the largest usage volume of any service in the private sector

**Digital platform linking private and public**
- Service for private companies and businesses to send notifications and other info to individuals electronically using the Mynaportal government services app
- Providing electronically-issued documents such as insurance premium deduction certificates needed for filing tax returns. Planning to expand the scope of applicable documents.
(5) More Convenience for Consumers with My Number as Infrastructure ②

Advancing initiatives for public services and government administrative procedures that deliver tangible convenience for consumers

Financial institutions

- Open brokerage and bank accounts
- Identity verification for funds transfers

**Save time and labor in procedures at financial institutions**

Government administrative procedures

- Applications for issuing documents such as deduction certificates electronically
- Submit applications to local governments (Yahoo! Kurashi, LINE)

**Save labor in government administrative procedures**

PayPay Bank account opening screen

Yahoo! Kurashi (living) usage screen

Use e-Ninsho

Save time and labor in procedures at financial institutions
DX Strategy in Financial Business Platforms

(5) More Convenience for Consumers with My Number as Infrastructure ②

- Support incorporation of the My Number system into society, and find ways to grow business opportunities in many different areas by creating usage scenarios in the areas of life where we are in position to gain this experience.

- Provide services that efficiently link governments with citizens, and work toward transforming society.

Strategically devise opportunities for digital experiences from the consumer’s perspective.
1. Our History in Financial Business Platforms
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Looking Toward Continued Growth

**Growth of Financial Assets and Number of Investment Accounts**

- Financial assets have grown as a result of systems and policies such as the Doubling Asset-based Incomes Plan and the revised pension system.
- The range of investors has grown as interest in investment management has grown among younger generations.

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**Future calculation of household financial asset balance**

| Through 2020 | [FY 2020] | ¥1,900  
| Through 2030 |  
| Through 2040 | [FY 2040] | ¥2,400 |

**Potential growth in the number of investment accounts**

<Change in the ratio of inexperienced investors (interested in asset management)>

**More investors in their 20s & 30s**

Source: Created by NRI based on the Bank of Japan’s “Flow of Funds Data” (2018)

Source: NRI “Questionnaire Survey of 10,000 Consumers (2016, 2019)
Looking Toward Continued Growth

More Financial Services Usage Scenarios

- Fueled by online investing, digital financial services are gaining prevalence, particularly among younger generations.

- The ratio of experienced investors which had previously increased along with age is now evening out due to the sudden rise among younger generations.

### New online investing services

- **Purchasing at high-frequency (daily) and/or in small sums**
- **Investing with credit or points**
- **Robo-advisors**
- **Remote financial consulting**

### Ratio of individual investors

Source: NRI “Questionnaire Survey of 10,000 Consumers” (2016, 2018, 2021)

More users due to sudden increase among younger generations.
Looking Toward Continued Growth

**Diversifying Instruments & Markets**

- Instruments have been diversifying and digitalizing in recent years, including securitization and issuing security tokens in real estate.
- Accompanying growth is therefore expected in physical assets/alternative markets and digital assets.

### Diversifying instruments & markets

<table>
<thead>
<tr>
<th>Traditional markets</th>
<th>Matching markets</th>
<th>Physical assets/alternative markets</th>
<th>Digital assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>JPX, PTS, etc.</td>
<td>OTC, etc.</td>
<td>ODX, etc.</td>
<td>BOOSTRY, etc.</td>
</tr>
<tr>
<td>Anticipated growth rate:</td>
<td>Anticipated growth rate:</td>
<td>Anticipated growth rate:</td>
<td>Anticipated growth rate:</td>
</tr>
<tr>
<td>Under 10%</td>
<td>15% or less</td>
<td>Approx. 20%</td>
<td>Approx. 40%</td>
</tr>
<tr>
<td>Tokyo Exchange</td>
<td>Lending of Japanese stocks</td>
<td>Real estate</td>
<td>Cryptocurrency</td>
</tr>
<tr>
<td>Mothet</td>
<td>Japanese structured bonds</td>
<td>Commodities</td>
<td>Rights</td>
</tr>
<tr>
<td>CX</td>
<td>Unlisted shares</td>
<td>Energy</td>
<td>NFT</td>
</tr>
<tr>
<td>PTS</td>
<td>Matching bonds</td>
<td>Emissions rights</td>
<td>ST</td>
</tr>
<tr>
<td>Japanet</td>
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</tbody>
</table>

Tabulated by NRI (larger circles indicate larger markets)
Looking Toward Continued Growth

**Evolution of Financial Business Platforms**

- Incorporate three growth drivers into the evolution of financial business platforms, expand clients’ business and turn it into business growth for the NRI Group.
- Achieve growth also outside the trajectories of existing business between now and 2030.

**Currently**

**Growth drivers (fueling change)**
- Growth of financial assets & number of accounts
- More usage scenarios for financial services
- Diversifying instruments & markets

**Transformation of clients, industries, and society**
- Translate the digitalization trend into business expansion
- Develop business through partnerships spanning industries & business types
- Compliance with global regulations & more operational efficiency

**Evolution of financial business platforms**
- All-inclusive services
- Schemes that are easy to link with peripheral services according to client strategy
- New earnings models & business schemes
Looking Toward Continued Growth

Ratio of Continuous Business in Financial IT Solutions

- We aim to increase the ratio of business in financial business platforms that brings in continuous earnings by 10 percentage points or more

Current

42%

Systems Integrators

2030

+10 pts. or more
Looking Toward Continued Growth

Profit Contribution in Group Vision 2030

- Aiming to increase our ratio of platform business and have it comprise 50% or more of profit in financial IT solutions.
In Closing

- Leverage the strengths of financial business platforms and of NRI’s personnel to expand into various industries
- Become an indispensable presence in society and boost earnings for NRI

Strengths of business platforms
- Client base
- Schemes that are easy to link
- Stable earning power

Strengths of NRI personnel
- Insight into new social paradigms
- Capabilities in shift to “as-a-Service” (Separating out universal requirements/variable requirements)
- Diverse human resources

Expand into various industries

Deliver both social and economic value
In Closing

Social Value Creation through Business Platforms

Co-create a thriving future society by driving new value.

Co-create an ideal society by effectively utilizing its resources.

Co-create a safe and secure society by advancing its infrastructure.

Work on incorporating My Number into society, promote digital government for government agencies, and help to make society more convenient overall.

Create a society that utilizes human and physical resources effectively by offering even better business platforms and making them more efficient.

Provide dependable services through compliance with global regulations and more advanced infrastructure including security.
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