

INVESTORS' DAY Q&A Session

Date: December 8, 2005
Place: Nomura Securities Co., Ltd. Nihonbashi Headquarters
Speakers: **Nomura Holdings, Inc.**
Nobuyuki Koga, President & CEO
Takashi Yanagiya, Head of Global Investment Banking
Kenichi Watanabe, Head of Domestic Retail
Takumi Shibata, Head of Asset Management
Yasuo Agemura, Head of Global Markets
Akira Maruyama, Head of Global Merchant Banking
Joinvest Securities Co., Ltd.
Masaki Fukui, President

Q: I would like to hear about your capital policy. In the first and second quarters of the current fiscal year you set a band for share buybacks and carried out the buybacks. However, you haven't set up a band for the third quarter. Please outline your policy regarding share buybacks. Also, as you can expect an improvement in earnings on the back of the stock market rally, please tell us how you plan to return profits to shareholders and outline your basic stance on dividends.

A: (Koga)
Our policy regarding share buybacks is to continue with our flexible approach. In regards to dividends, we announce our yearly target dividend amount at the beginning of the fiscal year. This year's target dividend is 24 yen per share (interim dividend of 12 yen and year-end dividend of 12 yen). We plan to determine the year-end dividend taking into account the earnings environment and payout ratio. We believe we will need to take into account the relationship between capital and return as well as optimal capital levels when conducting share buybacks and paying dividends.

Q: The megabanks are making progress selling foreign currency bonds through the securities intermediary business, but regional financial institutions are moving at a relatively slower pace. In today's Domestic Retail presentation you said there is huge future potential for the securities intermediary business. How fast do you expect this business to grow?

A: (Watanabe)

We basically respond in line with the strategies set out by the regional financial institutions. Because competition with the megabanks is intense and these institutions are looking to expand their revenue from commissions beyond the loan and deposit businesses, some institutions are taking an aggressive approach while others are not so aggressive. In general the business is expanding. Although we don't disclose figures, one example would be our Odawara branch established last year which has client assets of around 15 billion yen. The current scale for the securities intermediary business is above this level.

Q: You said you intend to sell more equity-linked bonds in Japan. Considering you currently sell about 700 to 800 billion yen's worth a quarter when including foreign currency bonds and structured bonds, what level will sales increase to?

A: (Agemura)

Taking domestic monthly sales of interest rate and foreign exchange linked structured bonds as 100, recent sales of equity-linked structured bonds would be just under 20, up from virtually nothing the year before. Equity-linked structured bonds only accounted for about 10 percent of all structured bond sales in the first half. However, contribution to revenue from sales of equity-linked structured bonds will depend on how much we can boost this over the second half.

Q: How much are you looking to expand the scale of your asset finance operations by? Please give us a numerical target if you can.

A: (Agemura)

We are involved in three types of businesses related to real-estate in asset finance: the J-REIT-related business, offering loans and financial advisory services for development projects such as the ones we worked on in Akihabara and Saitama, and advising on PFI projects such as the one to develop a hospital in Omihachiman city.

In terms of PFI, we have a network with regional financial institutions that gives us a presence. While we expect the market to grow, deals to date have ranged between about a few billion yen to around 10 billion yen. However, we should see deals in the scale of several hundred billion yen appear soon. We are positioning ourselves to win such deals. We are already seeing deals grow in size and have won some deals this

fiscal year that exceed 50 billion yen.

The size of the J-REIT market is over 2 trillion yen. Considering that Japan's real-estate market is about one third that of the US, the J-REIT market could possibly grow to around 10 trillion yen in two to four years. If we can maintain our current share of the J-REIT market, we can expect to have a fairly sizeable operation. Also, if the market for secondary offerings grows by several times, we can expect further growth.

Q: You said your loan-related business was around 500 billion yen. How many regional banks did you have transactions with?

A: (Agemura)

Loan origination in the first half of the year included just under 10 billion yen in loans backed by credit from marketable securities such as CBs and MPOs, over 100 billion yen in structured loans borrowed by Nomura Group, non-recourse loans of about 15 billion yen, and loan trading just shy of 100 billion yen. We work with a diverse range of clients including many regional banks, non-bank lenders and metropolitan financial institutions.

Q: You sold about 700 billion yen in foreign currency and structured bonds quarterly. I think it's hard to envisage that the extra sales in equity-lined structured bonds can be added without affecting this figure as you will probably see a shift away in part from interest rate and foreign exchange linked structured bonds. What are your thoughts on this?

A: (Agemura)

We will be pleased if we can add the extra sales from equity-linked structured bonds straight on top of the current level of interest rate and foreign exchange linked structured bonds. However, when determining their asset allocation, some customers will consider shifting from interest rate linked structured bonds to equity-linked structured bonds, while others will make new purchases. We assume that half our customers will opt to shift due to asset allocation reasons and the other half will opt to make new purchases.

Q: You gave us data on the size of transactions for the strategic businesses in Global Markets, but I would like to hear about profitability.

A: (Agemura)

Because profit equals volume multiplied by spread, I will explain in terms of spread. Spread differs for each product, whether it be structured loans, straight loans, or non-recourse loans. For instance, the business with the smallest spread is the buying and selling of issuers' loans. However, even in this instance we are able to make several times more profit than straight bonds. Although this business is done mainly through negotiations and requires a lot of work such as credit and cash flow analyses, we see a lot of potential. Structured loans are similar to interest rate and foreign exchange linked structured bonds. We supply these products as derivatives to clients and expect high profitability as we take on risk ourselves. In the area of non-recourse loans, we serve as a financial adviser through the process of proposing a variety of structures, originating and following through on the deal. While this business is not as profitable as structured loans, it does offer profitability. Equity derivatives bring in profits similar to normal interest rate and foreign exchange linked structured bonds.

Q: What is Nomura's competitive edge as new entrants increase?

A: (Agemura)

Affluent investors are the main clients for our equity-linked structured bond business. As such, we are not affected much by competition. For loans, metropolitan banks seem to be going on the offensive in regional areas, turning the previously complementary relationship into a competitive one. But we are not a part of this competitive relationship. We take deals from metropolitan areas to regional financial institutions. And as we are registered as a non-bank lender and have a thorough coverage of affluent investors and financial institutions through 60 branches nationwide in our Domestic Retail branch network, we don't see a certain level of new entrants as a problem.

Q: You said net revenue on client assets in Domestic Retail is 72 basis points. How will this change as client assets expand?

A: (Watanabe)

This has recently been 72 basis points, which we think is an appropriate level in terms of compliance. We are not considering raising this to 80 or 90 basis points. We want to increase revenue as we expand client assets on the way to attaining our target of 100 trillion yen in client assets.

Q: You mentioned four customer segments in the Domestic Retail presentation. How much revenue are you making from each segment?

A: (Watanabe)

We don't disclose revenue by customer segment. Revenue is high in the wealthy and affluent investor segments, while it is low for the asset builder segment. Our business is based on face-to-face consultations and various services such as call centers and Nomura Home Trade, and also offering customers the freedom of choice. On the other hand, one example of cost control measures is our decision to locate a call center for the Hotto Direct Service Department in Okinawa where operating costs are low. We can ensure profits by controlling operating costs in such ways.

Q: You said Domestic Retail annual revenue could be around 500 billion yen when client assets reach 100 trillion yen. That means net revenue on client assets will drop to 50 basis points. Considering the recent employment environment in Japan, won't it be hard to maintain even 50 basis points as improvements in productivity are not able to keep pace and cost increase?

A: (Watanabe)

Improvements to Nomura Home Trade and other IT investment raise costs. As our customer base increases, the question will be how to control costs and not raise the breakeven point. We have changed the employment status of financial advisers to lifetime in order raise loyalty and are looking to make personnel costs more variable. It is true that recruiting is becoming more of a challenge as financial institutions step up their hiring. We want to increase our number of financial advisers from the current 2,000 to between 3,000 and 4,000 while shifting compensation to a more variable structure to achieve economies of scale. By doing so, we aim to maintain our current net revenue on client assets. While it may not be possible to make a direct comparison between Japan and the US, the retail business in the US has net revenue on client assets of about 60 to 80 basis points.

Q: A Nomura Asset Management product was chosen as one of the investment trusts sold through Japan Post. What potential do you see for the postal savings channel and its customers?

A: (Watanabe)

The postal savings channel offers huge potential and some customers have a large amount of assets who would fall into our wealthy investor category.

(Shibata)

Postal savings offers huge potential for not only the securities industry, but the financial services industry as a whole. For instance, there is a potential market of 260,000 customers for asset management services in line with lifetime financial planning for post office workers. Other businesses could include syndicated loans and securitized products as investments of postal assets. There is also potential in terms of strategic tie ups as there is some 200 trillion yen in postal savings spread across 20,000 post offices. Nomura Asset Management's product accounts for 15 billion yen of the current 20 billion yen in sales of investment trusts at post offices, giving us an extremely high market share of 75 percent. Compliance and logistics issues for this business are now being dealt with carefully. There are currently 525 post offices offering investment trusts, but this may increase to 20,000 in future, offering potential for expanding investment trust sales.

Q: Please give us an overview of the current status of your investment banking and merchant banking businesses.

A: (Yanagiya)

The market for equity finance, one of the pillars of revenue at Global Investment Banking, declined by nearly 50 percent year-on-year in the first half due to surplus capital at Japanese corporates. We believe equity finance will increase from the second half on the back of the recovery of the Japanese economy and stock market rally.

Revenue from M&A and consulting in the first half was the highest since the year ended March 2002 and we expect this trend to continue through the second half. During the first half we had a lot of inquiries regarding hostile takeovers, but deals on normal corporate acquisitions and mergers are on the rise in the second half.

(Maruyama)

One recent trend is an increase in deals related to supplying capital for expansion, rather than the corporate revival oriented deals of the past. Merchant banking is poised to take root in Japan and grow. Competition will now focus on making proposals that improve added-value for corporates, rather than revitalization. Our

broad base of clients will play a key role here.

Q: Mr. Koga spoke about the online business. Are you planning anything new online such as using a proprietary trading system?

A: (Koga)

That could be possible in future, but we are currently focusing on using the internet as a means of doing business.

Q: Although your wholesale client base is two to three times larger than your competitors, profitability has been declining lately and I feel the revenue gap with the competition is shrinking. Why is this?

A: (Yanagiya)

I take it that what you are saying is that Global Investment Banking saw a widening gap from the competition in the first half. And that there is a gap with competitors in terms of underwriting equity financing deals and the M&A business. However, competition is intensifying, including with foreign competitors and bank-affiliated securities firms, and we need to increase our marketing efforts to ensure further profit growth. We reorganized our operations this month to do just that. Previously, we worked as one organization covering listed companies by sector, and unlisted companies as a whole, not divided into sectors. We have now divided unlisted companies into sectors and shifted to an organizational structure that covers both listed and unlisted companies by sector.

We have also set up an organization specializing on the real-estate sector. In addition, we established the Financial Sponsors Department to cover mainly private equity funds and non-banks. These moves will help us differentiate ourselves when going after overseas deals. We have worked as lead manager on such deals of Posco's listing on the Tokyo Stock Exchange in November and a global offering for ICICI Bank in December and will continue to focus on going after international deals.

(Agemura)

As for Global Markets, if you look only at last fiscal year and the first quarter of this fiscal year, the situation may seem to be as you pointed out. Trading in particular was good up to fiscal 2003, but dropped off last year. In fiscal 2004 interest rate and foreign exchange volatility declined, making it hard to produce revenue through

trading, even by selling derivative-related products. The decline in volatility bottomed out in the first quarter of this year, and the trend in volatility started changing in the second quarter.

We are also seeing the effects of last year's reorganization. Integrating Fixed Income and Equity has allowed us to originate products using interest rates, foreign exchange, credit and so forth. It has taken a year for this to produce results. Monthly sales of structured products this year have nearly doubled compared to last year. While sales of derivative-related products increased in the first quarter, trading revenue was weighed down by a drop in volatility and we weren't able to turn a profit. The second quarter recovered to a certain degree.

Q: How do you allocate capital to each business segment? How would you change this if you decided to?

A: (Koga)

We don't disclose exact figures regarding capital allocation. Domestic Retail and Asset Management are not capital intensive businesses, and are not businesses whereby revenue can be doubled by doubling capital input. Global Markets and Global Merchant Banking, on the other hand, require a lot of capital, and these two areas will form the main part going forward. However, it is not a case of the more the better. We are looking closely at how to build our business on a base of 1.8 to 2 trillion yen in shareholders' equity.

Q: Joinvest Securities is hiring people from outside the securities industry. How is this going?

A: (Koga)

We are looking for people for Joinvest Securities from both inside the company and outside.

(Fukui)

We are aggressively hiring people from outside who can handle not only online brokerage operations but also financial services and other businesses. Talented people from both the finance industry and internet-related industries are joining us.

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