

Nomura Investment Forum 2006 Presentation Q&A Session

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Place: Mandarin Oriental, Tokyo
Speaker: Nobuyuki Koga, President and CEO, Nomura Holdings, Inc.

Q: When will Nomura start using Instinet for electronic trading?

A: We are unable to comment on the exact timing as the deal has not closed yet. However, we are aiming to complete the deal some time early next year. Instinet is continuing its operations and will start working together with Nomura once the acquisition has gone through.

Q: Although assets in custody in your retail business are growing, revenue is not increasing. Does this mean that client assets are flowing from equities to investment trusts? How is individual investor sentiment towards equities?

A: Sentiment towards equities is not picking up much and the proportion of investment trusts and insurance in Domestic Client Assets is increasing. Our aim is to appropriately manage the assets of our customers.

Q: How much do you think you can increase your share of asset management for baby boomers?

A: Because many baby boomers are unfamiliar with investing, we try to act as a consultant to help them lead a fulfilling life in retirement. But it is too late if they only start thinking about this once they have retired. People need to start planning for their retirement while they are still working. To help smooth the transition to retirement, the proper infrastructure such as ESOPs needs to be put in place. We are working to build up this infrastructure while further promoting the concept of asset management in Japan.

Q: Nomura is topping the league tables but this is not flowing through to revenue. Is this due to a decline in fees and commissions?

A: Fees from traditional investment banking such as underwriting and other relatively straightforward deals are declining. However, by bringing new ideas to the table we believe we can prevent fees from dropping and that is what we are focused on.

Q: What are you doing to improve profitability in the Americas?

A: In our global operations, we are seeking to boost efficiency while maintaining the necessary functions. Lumping operations needed for Nomura's overall global business together with operations focused just on the US leads to a number of inefficiencies. For highly localized businesses such as real-estate securitization, we are looking to remove inefficiencies present when global and local businesses are lumped together. As such, we set this business up as a specialized entity.

Q: Nomura has increased the use of its own funds for risk-taking businesses. How are you managing risk and what are you doing to prevent conflicts of interest in joint investing?

A: Previously, the majority of risks we needed to worry about were related to the market. But now, because we are investing our own funds, operational and credit risks will become increasingly important factors that need to be managed. We must also manage reputational risk properly in order to ensure our portfolio is maintained smoothly.

Conflict management for joint investments will also become more important. As more people become involved, self-regulation needs to be tightened to prevent slipping into a situation where conflicts of interest may arise. We remain committed to properly addressing not only restrictions enforced by law, but also conflicts of interest including maintaining distinctions between entities.

Q: Do you think that investment flows out of Japan will start to flow back in with the declining value of the US dollar?

A: I think it is hard to imagine that the general flow of investment will be one-way into Japan. That said, I believe there is still room for growth in investment into Japan. For instance, M&A activity is below the level that should be expected, and there is room for the yen to gain in importance as a currency. I think investment into and out of Japan will grow together.

Q: Do you think cross-border M&A in Japan will increase after the ban on triangular mergers is lifted? Also, do you think yen carry trades will come to an end?

A: When it comes to M&A, there is no point to a merger if it doesn't bring synergies. So although I don't think we will see a sharp rise in M&A overall, I think that M&A deals involving companies from outside Japan will increase. Many Japanese companies can gain a positive effect by merging with foreign companies and I feel such M&A based on mutual agreement will increase.

Yen carry trades have increased as a result of a combination of Japan's ultra-low interest rate environment, a rare easing in global uncertainties, and stable foreign exchange rates. While I don't see this situation changing immediately, it is irregular and I think it will unwind at some point.

Q: How is China factored into your long-term strategy?

A: We feel that we need to make a stronger commitment to the growth of the market in China. Nomura first opened an office in China in 1982 and we have taken in over 1,000 exchange students from China over the years. I think our presence today is low in comparison to this heritage. Moving into next year, the Chinese government is expected to clarify its policy in regards to the securities industry and we will make a proper commitment in China based on this.

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