Presentation of Consolidated Results of Operations
Fiscal Year Ending March 31, 2009
Q&A Session

Date: July 29, 2008
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Q1 Where have you seen the most monoline-related losses due to a decline in the value of underlying assets?

A1 As you can see in the chart on page 7, our notional amount and gross exposure have not moved much since March. Because gross exposure increases when price deterioration of underlying assets occurs within the range of notional, the losses were not caused by movement in the price of underlying assets. It was more a case of a decline in the creditworthiness of the monolines themselves.

Q2 There has been a significant change in the value of your exposure to monolines you have classified as triple-A to date. Why did you decide to make this change even though there seems to be no problems with ratings and investment grade status in terms of creditworthiness?

A2 While we use external ratings and creditworthiness evaluations as important reference data, we also employ an internal ratings-based approach whereby we analyze publicly-available data from the ratings agencies and make management decisions while carefully discussion the most appropriate valuation to make based on current circumstances and the future outlook.

Q3 Why did you decide to take an impairment charge on your stake in Fortress?

A3 The corporate value of Fortress can be looked at from a number of angles. However, as it is a listed company, the market price of its shares is a major factor to be considered when valuing the company for accounting purposes. As the company's shares have performed below the book price of our original investment over the past six months, we decided to reflect this by taking an impairment charge.

Q4 After stripping out the major losses for the quarter, I would say you are probably at breakeven. How do you intend to boost revenue amid the current deflated market environment?

A4 In Domestic Retail and Asset Management, we will boost our top line by continuing to introduce new products that accurately meet the needs of investors. For our three wholesale business divisions, the international operations of Global Markets will be key. Setting aside the monoline-related losses, our domestic Global Markets business is generating revenue, but we are not satisfied with the current level. So our main priority is to increase the division's revenue while limiting the risk of losses overseas.

In investment banking, although the stock market remains unstable, we are starting to look into deals in the pipeline. Some Japanese companies are considering raising funds to use in future strategic moves. We aim to tap these needs. In M&A, we don’t feel there has been a marked decline year on year in the value or number of deals, and we believe activity will remain at a high level. For the time being, we will focus on limiting the causes of losses and increasing our top line.

Q5 What has happened to your monoline-related exposure that loss limit operations and provisions had been made for at the end of March and the CDS protection on that?

A5 For the portion not shown as having been provided for, the figures for exposure change due to the impact of price volatility of the underlying assets, but reserves move at the same time meaning there is no impact on our profit and loss statement. We will unwind the CDS protection while keeping an eye on market conditions.

Q6 You still have CDS protection outstanding for the gross exposure that had been fully provided for at the end of June. Is this because you are trying to cover risks that credit spreads may widen and your gross exposure increases?

A6 We have already started unwinding our CDS protection as part of our actions to address the losses this quarter. But because liquidity for CDS depends on prevailing circumstances, we are unwinding while watching how the market moves.

Q7 Your outstanding balance for leveraged finance in Europe is increasing. Is there a chance that provisions will need to be made for this in future, or will you be able to avoid this because you have valued the position conservatively amid the tough market environment?

A7 We should be able to avoid it due to our conservative valuations.

Q8 How are you making allowances for exposure to the four monolines over the first quarter and the fourth quarter of last year?

A8 We have basically hedged reference assts in order to limit losses. For instance, if there is a portfolio that references commercial mortgage-backed securities, we look at the effectiveness of hedges and take out the most effective hedge position for that asset such as a CMBX hedge. We always look closely at the effectiveness of hedges. However, there is a chance of slight fluctuations due to basis risk.

The main causes of volatility in relation to our exposure to monolines are deterioration in the creditworthiness of the monolines and a decline in the value of underlying assets. As the size of the notional also comes into play, we prevent this from impacting results and so basically there is no impact on profit and loss.

Q9 What is the purpose of the retail channel overhaul in Domestic Retail?

A9 The needs of our customers are changing significantly and becoming increasingly diversified. As such, we have undertaken considerable discussion on what is the best structure to deliver services from the point of view of our customers. As part of these discussions, we decided to create a structure that allows us to offer services and products matched to each customer segment covered by four channels: Financial Consulting, Financial Services, Wealth Management, and Financial Advisers. This is a major reorganization which presents a significant challenge. But it will allow us to conduct marketing efforts more in tune with each customer segment.

Q10 US investment banks are reporting their Basel II Tier 1 ratio to the SEC. Does Nomura report its Tier 1 ratio to any regulatory authority? Or is there a possibility that you will be subject to regulations such as consolidated supervised entities overseas?

A10 We don’t disclose this information as we have not adopted Basel II. However, our strategy remains to conduct business globally and we believe that as a globally active financial institution we will need to disclose more detailed information regarding capital going forward. This is something we will consider.

Q11 Your chart shows you have exposure of US$174m net of reserves for four monoline insurers rated single-A or higher. If these four companies were to be downgraded to below single-A, would your maximum loss simply be the $174m providing gross exposure doesn’t change?

A11 Theoretically, yes. That would happen if our gross exposure remained unchanged and all four companies were downgraded to non-investment grade.

Q12 Why did you book significant unrealized losses on private equity investments even though the Topix didn’t move much during the quarter?

A12 The stock market is a leading indicator of economic conditions. While this one factor, our investments are in unlisted companies so our valuations are based on future cash flows determined by analyzing the current operating environment of each company and the future outlook. The biggest impact came from increased concerns over the effect of credit uneasiness on the real economy and an economic downturn from April onwards. In addition, the environment changed rapidly in late June when problems such as those surrounding government sponsored enterprises in the US sparked renewed fears over the financial environment. We revalued our positions based on these circumstances and the outlook for the future, and decided to make the write downs.

Q13 I know the macroeconomic environment was bad, but how could there be such a huge gap with your previous assumptions in just three months? Did something happen in a certain industry?

A13 There are numerous companies in our investment portfolio and we have checked the valuation of each company. Not all factors are the same for each company in terms of industry and operating environment. We review the operating plan of each investee company as needed and our valuations are based on these plans. However, because assumptions can change and industry-specific factors can arise, we revalue our investments taking into account individual circumstances.

Q14 You said you also want to pursue inorganic growth. I think there is a strong possibility that the US and European investment banks will deleverage further and we will see many changes. Are you more interested in buying assets or whole companies?

A14 Both. Buying a whole company is an option on the table. But buying a company isn't the only option, and we will look at each situation in line with prevailing circumstances. In terms of assets, we are already seeing a movement towards removing assets from balance sheets and we expect balance sheet downsizing to continue for some time. This will reduce prices across the market. Some assets on sale in the market are attractive in terms of pricing and what they offer. We will take a good look at such assets.

Q15 Are the additional losses on your exposure to monolines due to wider credit spreads or downgrades? What is the impact on revenue of widening credit spreads and downgrades?

A15 The main reason for the monoline-related losses this quarter is downgrades to monolines. As you can see on page 7, our gross exposure at the end of June was US$314m, our counterparty risk reserves were US$140m, and our net exposure was US$174m.

Q16 Page 23 shows a US commercial mortgage-backed securities position of US$1.3bn. Aside from monolines, did anything happen to this position over the last three months? For example, could you comment on whether you book any losses here?

A16 First, our US CMBS-related business position in March was virtually the same as it is now, meaning our exposure hasn't changed over the last three months. We carried out some hedging operations and booked a small loss on hedging error. However, this had a minimal impact on our total exposure of US$1.3bn.

Q17 Was that a mark-to-market loss, or a realized loss?

A17 Mainly mark-to-market.

Q18 What risks and losses do you expect as redemptions start in your US CMBS-related business?

A18 We revalue our US CMBS-related business portfolio each quarter, but the answer to your question depends on market conditions, in particular the credit market, and asset quality.

Q19 How much of your US CMBS-related business position has been hedged? Also, what is your net exposure?

A19 The breakdown of our US CMBS-related business position is two-thirds whole loans and one-third secondary bonds. Most of the secondary bonds are fully hedged. It is harder to hedge whole loans, but we are hedging cautiously and flexibly. In terms of our entire position, about 60% to 70% is hedged.