

## **Presentation of Consolidated Results of Operations Second Quarter, Fiscal Year Ending March 31, 2010 Q&A Session**

Date: October 28, 2009  
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**Q: How will next year's revisions to calculating trading under Basel II affect you? What is your target Tier 1 capital ratio after the changes?**

A: We are starting to get an idea of the direction of the tighter capital regulations for trading positions, but overall it is not clear yet so we are unable to comment. We are making estimates using assumptions on the parts that are still unclear.

**Q: Given that the capital regulations have not been finalized yet, what is your timeframe in regards to taking on risk and how much do you think you can take?**

A: As there are still uncertainties, we won't rapidly take on risk. We expect the tighter regulations to be phased in over the next three years and we aim to build momentum over this timeframe in order to grow in the medium to long term. We will look at taking on risk and using our balance sheet to grow. We will need to manage our capital policy taking into account our capital ratio.

**Q: Please provide a breakdown of revenues from client commissions and position mark ups in fixed income and equities trading.**

A: It's hard to be precise but I'd say in fixed income about 70 percent from clients and 30 percent from positions and in equities about fifty-fifty.

**Q: Net asset inflow in Retail shown is quite high at 2 trillion yen for the quarter. Please provide a breakdown of this.**

A: A significant part of this is stock certificates held in custody for corporate clients.

**Q: I guess you paid virtually no tax in the second quarter because both domestic and international operations were profitable. Will this show up in the future?**

A: The main reason for the effective tax rate was profitability in our overseas operations. Another reason is the quarterly revision of our tax schedule. In the second quarter, due to improved revenues, tax expenses decreased in Japan too which had a significant impact.

**Q: Why is there a discrepancy in the quarter-on-quarter comparison for fixed income and equity trading revenue on page 46 of the presentation materials and page 20 of the financial highlights document?**

A: It's not a case of simple addition, you need to consider net interest revenue when comparing trading revenues with segment figures. We disclose segment revenues which give you a better understanding of the underlying business.

**Q: Guaranteed bonuses in the quarter were about 20 billion yen. If performance in the third quarter is similar, will you book that amount again or is it too much?**

A: Personnel expenses are shown on page 27. The ratio of personnel expenses to revenues is around the same level in the first and second quarters. This figure is a key indicator for managing compensation and benefits. Employees whose guarantees have finished are now moving to a discretionary basis. A significant amount of compensation and benefits is linked to performance. Provisions have been made for guarantees and this will decline in the third and fourth quarters. However, because this is being shifted to discretionary compensation, we will manage using the ratio of compensation and benefits to revenue.

**Q: You've said you will use some of the capital raised recently for IT investments. IT costs formed a large part of your 100 billion yen in cost reductions. Has something changed in relation to IT costs around the time of the capital raise?**

A: IT costs consist of two parts: areas that we want to reduce, and areas where we want to invest for growth. Net IT costs declined only slightly in the first half of the fiscal year. But in terms of cost reductions, we made some quite deep cuts in the area of IT. Looking ahead, we have to set up our US platform and invest in other areas of our wholesale business, while investing in our Retail operations in Japan. So we will continue to make IT investments. We will cut costs as much as possible, but on a net basis it won't be a lot.

**Q: In the first quarter you showed Global Markets revenue by region. What are the figures for the second quarter?**

A: To give you a breakdown of Global Markets revenues excluding Japan, about 70 percent are from Europe, 30 percent from Asia ex-Japan and a few percent from the US.

**Q: Investment Banking is still in the red. How will you improve revenues in the second half? If revenues don't flow through, will you consider restructuring to cut costs?**

A: The Investment Banking pipeline looks good. It takes time for deals to be executed. Depending on the market environment, deals coming through the pipeline in the first half of the year should be executed going forward. So revenues should improve in the second half.

We'll also need the organization and scale to execute and source new deals. We won't go below critical mass. We've cut but our Investment Banking structure a lot since the acquisitions. We'll build up the US to a degree. So we're near critical mass now and aren't considering significant headcount reductions.

**Q: Can you increase trading revenues? You've on-boarded all Lehman cash clients but only half of derivatives clients. Are most of the revenue increases due to Lehman cash clients?**

A: Cash client on-boarding is not complete so there's still room for growth. We want to increase derivative client on-boarding as quickly as possible. We're also developing new client relationships, not just former Lehman clients. On-boarding for derivatives clients involves a lot of paperwork so it takes several months. It's hard to say when we'll be at 100 percent, but as soon as possible.

**Q: You've said you will use some of the capital raised to expand fixed income trading. How much will you expand by? For example, do you have a target for adjusted leverage after the capital raise?**

A: Adjusted leverage and gross leverage are likely to be subjected to tighter regulations so we need to pay attention to both. The figure being spoken about for gross leverage, 25x, is not clearly finalized yet, but we think that it is a possibility. So we are looking to operate at around 20x after the capital raise. Currently, gross leverage is at 14x after taking into account the capital raise and adjusted is 9x. So we'll run the US at about 10x.

**Q: What is the outlook for the second half of the year?**

A: We aim to further increase active client numbers in Global Markets and increase business with each client. To do so we are increasing our product offering. So we expect further results in the second half. In Investment Banking, revenues should improve in the second half given the pipeline. And with our domestic operations delivering stable revenues we are well positioned for the second half of the year.

**Q: Please provide a breakdown of the target 100 billion yen cost reduction. What are your views around the compensation ratio?**

A: About 50 percent of the total cost reduction is from personnel expenses, with the remaining 50 percent from non-personnel expenses. Of non-personnel expenses, about 50 percent is IT-related and the remainder from other items.

Regarding personnel expenses, the ratio of personnel expenses to revenues will be a key indicator in controlling expenses.

**Q: Within the business segments breakdown, what are the main items in the “others” section.**

A: The losses in the “others” section totalled 22.4 billion yen. The main items in this category are our own-credit value adjustment of 7 billion yen, and the costs related to conversion of our CBs to common shares during the quarter.

**Q: In private equity and merchant banking, are there likely to be any further realizations?**

A: The merchant banking division is currently focusing on increasing the value of existing positions in Japan as well as Europe. No significant exits are expected in the third or fourth quarters, however, this will also depend on market conditions.

**Q: Going forward, do you expect the cost per headcount to increase?**

A: As Nomura manages personnel expenses on a pay-for-performance basis, namely a payout ratio tied to revenues, this will be dependent on the growth in revenues in the future.

**Q: What was the reason for the decline in Nomura Securities’ balance sheet?**

A: The primary reason for the decline was the reduction in repo positions at the end of the quarter.

**Q: Did the growth in second quarter fixed income trading profits come from Europe, or the other regions?**

A: About 60 percent of the fixed income division’s revenues came from Europe last quarter, about 30 percent from Japan and 10 percent from non-Japan Asia. Europe in the first quarter generated 45 percent of revenues, Japan 48 percent, non-Japan Asia 6 percent and the US 2 percent.

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