

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

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Q: Global Markets is doing well and is not down as much as your global peers. Could you please provide a regional breakdown of revenues for both Global Equities and Global Fixed Income? Your peers said that trading spreads are tightening, how was it for you in the third quarter?

A: We don't disclose actual figures, but to give you a rough idea, in Global Fixed Income, Europe made up over 50 percent of revenues and Japan about a quarter. Then comes Asia and the US started generating revenues in the third quarter. Global Equities is more diversified: Asia-Pacific, which includes Japan, accounts for over half followed by Europe. The US is being built up and we are gradually starting to generate revenues there.

Fixed income spreads are tightening compared to the first half of the year when trading was very good, but not to levels seen before the financial crisis.

Q: Page 24 of the presentation materials shows that securitized products such as leveraged loans, whole loans, and mortgages increased compared to the second quarter. I assume that is due to the US securitization-related businesses, but what products specifically have increased? Also, do you plan to branch out into securitization origination?

A: Our US securitization business and products are mainly agency so they are highly liquid and shown on our balance sheet as bonds and agency bonds. Leveraged loans have increased due to growing business in Europe. For instance, recently we acted as sole M&A advisor to KKR on its acquisition of Pets at Home and led the financing as bookrunner and mandated lead manager. We scrutinize each deal and with the recovery in mandates we expect to increase leveraged loans a bit. However, much of this business is fairly illiquid so we will carefully manage the business overall.

Q: In December, the Basel Committee announced consultative proposals to strengthen the resilience of the banking sector and the so-called “Volcker Rule” was announced in the US. Could you please outline your stance to risk taking and your capital policy?

A: We are not yet sure of the details of the TARP fee or the Volcker Rule so it is hard say. Generally speaking, these moves could narrow the freedom of businesses to operate. In any case, we won't know until we hear more details so we will keep a close watch on how the situation develops.

Q: A detailed draft is out from the Basel Committee that I think is not much different from what you expected around the time of your last capital raise. Do you still think you can meet the requirements with your current level of capital?

A: We weren't very surprised over the general direction of the proposals, but some aspects are of concern. For example, some proposals could have a negative impact on both the primary and secondary markets. We will express our concerns over this through the public comment process. We are currently looking into the impact that regulatory changes will have. That said, we are comfortable with our current level of capital.

Q: The UK bonus tax will be levied as of the end of March. For Japanese companies, will it be recognized in the fourth quarter or in the first quarter of next fiscal year?

A: The legislation hasn't passed yet so we can't be sure, but if Nomura is subject to it, then it will probably be booked in either the fourth quarter of the current fiscal year or in the first quarter of next fiscal year.

Q: Your compensation to net revenue ratio is over 40 percent, but it was slightly higher before due to one-offs such as guarantee fees. Net revenue is subject to various adjustments such as not being able to apply hedge accounting to MTN hedge losses. So if the 40-plus percent is in relation to this net revenue, what level do you think the compensation ratio will be at going forward?

A: Compensation is managed relative to business segment revenues which are before adjustments such as credit valuation adjustments, public offering fees, and convertible bond expenses. We make sure it doesn't fluctuate due to the reason you mentioned.

Q: Please provide a breakdown of Global Markets quarterly revenue trends by region and business segment.

A: In Global Fixed Income, Europe accounted for over half in the second and third quarters and just under half in the first quarter. The US is gradually increasing. Japan was close to Europe in the first quarter but slowed down in the second and third quarters.

Global Equities, meanwhile, booked the most revenues in Asia-Pacific in the third quarter on commissions received for public offerings by Japanese corporates. The contribution from Asia-Pacific was lower in the first and second quarters. Europe was the opposite. The US is still small but gradually increasing.

Q: Are Japan-related deals included in Investment banking net revenue shown on page 12?

A: For sales outside Japan by our local subsidiary of public offerings by Japanese issuers, revenue is booked under Investment Banking. Sales commissions show up under Global Equities within Global Markets.

The growth in Investment Banking revenues comes from growth in deals outside Japan related to ECM and DCM as well as the solutions business.

Q: The Basel Committee proposals announced on December 17 include a liquidity ratio which would restrict netting out of repo transactions. If this goes through, your gross leverage will increase, so please tell us the accounting impact if netting is no longer allowed.

A: This is a fairly tough proposal as it would considerably limit repo netting. However, this is still at the proposal stage and public comments are currently being sought. A quantitative impact study will now be conducted and details will be finalized by year-end following the results of the survey. So we can't comment on the impact at the moment.

In any case, we will manage our balance sheet by focusing on maintaining high liquidity so we can respond to various scenarios.

Q: Your US and European competitors reported softer fixed income revenues from the second quarter into the third on a slump in overall market order flow. Although some effects were seen at Nomura on certain desks, were your revenues less sluggish than your competitors because your market share is increasing? If so, can you benefit from the recent return of order flow?

A: As with our peers, order flow was affected on some desks and strategies, but order flow has returned and recent performance is good.

Q: Global Markets is hard to understand so I'd like to ask on a financial accounting basis. Actual net gain on trading, adding in net trading gains and net interest income and deducting MTN hedging losses, was about 110 billion yen. This increases to 140 billion yen when the CB expenses and CVA are added back. The same calculation for the first two quarters gives about 150 billion yen so I don't think trading is down that much. But your US and European competitors have seen a drop in fixed income order flow so trading for them is down quarter on quarter. Have you maintained trading levels even as the market drops because you are gaining market share, or because the CB costs and CVA are booked somewhere else than net gain on trading?

A: Net gain on trading is for Global Markets as a whole so it is the sum of Global Equities and Global Fixed Income. The drop off was softened by the contribution from commissions in Global Equities. The decline in flows was more prominent in Global Fixed Income than Global Equities. Looking at the impact from credit valuation adjustments and net interest income, third-quarter fixed income trading was slower than the second quarter. Spread tightening has also had an impact.

Q: Headcount in the US is up by 175 from the end of September and Asia ex-Japan has increased by about 200. What is your outlook for headcount?

A: Asia has increased in India (Powai), our IT and operations offshoring platform. Business line headcount hasn't increased. In the US from the second quarter into the third, we have been hiring mainly traders and have hired our original plan of 300. We may hire several dozen more people during the fourth quarter. We are currently working on the budget for next fiscal year and we may increase this by slightly more depending on the start up of our US business. But nothing has been decided.

Q: Your third-quarter effective tax rate was 43 percent. And you said overseas revenues were strong. So let's say profit levels remained the same, I would think that your effective tax rate should decline as you won't need to pay that much tax overseas because you have loss carry forwards. What is your forecast for tax?

A: The basic structure remains the same whereby the more profit we book overseas, the less tax we pay. The overseas portion of internal profit for the third quarter was smaller than the third quarter. It's better to look at the effective tax rate on an April to December accumulated basis rather than on a quarterly basis. This averages out to just shy of 36 percent and if overseas revenues grow this should decline to around 30 percent on a full-year basis.

Q: Please provide a breakdown of revenues from flow businesses and prop trading in both Global Fixed Income and Global Equities.

A: In Global Fixed Income, trading was 30 percent and flow business 70 percent, while Global Equities (excluding Instinet) was about 50-50.

Q: As you aim for your medium term target of 500 billion yen in pretax income, what are your internal targets for next year?

A: We don't provide earnings guidance.

Q: When do you expect, or are you doing anything, to have a rating agency upgrade you from BBB to something a little better?

A: The timing of any action taken by the rating agencies is a decision for them to make so. It isn't possible for me to tell you the timing. But we are going to continue to show profitability each quarter, and that is the most important thing we need to do. The ratings agencies are still keen to see stable performance. That is the most critical aspect.

Q: Let's just assume your rating improves by one notch, how much will you save on financial expenses?

A: At this moment, it is rather hard to tell how much of an impact there will be on the funding side as well as the business side, but I'm quite sure that even if we were to be upgraded by one notch, it would have a rather big impact on our business, both in terms of expanding our business and on the funding side.

Q: What is your outlook for the equity finance pipeline in Japan going forward? Do you see a lot of financing coming ahead in this quarter or in the next two quarters?

A: As for the fourth, or current, quarter we do not expect as many ECM transactions as we had in the third quarter. As for next fiscal year, I don't have a full-year forecast, but we are now trying to build up possible transactions in our pipeline. At the moment, it is hard to say that the volume of primary market transactions in Japan for next fiscal year will be more than this year or almost the same level as this year.

Q: What is your take on the new Tokyo Stock Exchange arrowhead system? Is there a difference in transaction volume or is that mainly linked to the performance of the Nikkei index? Did the upgrade to the new arrowhead system have an impact on trading volume for the beginning of the year?

A: As you know, the arrowhead system just started in January so it is too early to see the impact on business, but it should help us to increase our trading volume. Theoretically, the high velocity engine should bring us benefits.

Q: Theoretically, what are the benefits?

A: To utilize the arrowhead system, each broker needs to have its own system that it can connect to the arrowhead system. So large broker-dealers like ourselves should be able to take advantage because we have already invested in a new system and we are ready to utilize the arrowhead system.

Q: Could you give us more detail on what the third quarter economic hedge related charge is for and what you expect it will be in the fourth quarter?

A: This is rather difficult to answer, but for the third quarter we included the credit value adjustment on our own credit in this number. At the moment, it is hard to estimate for the fourth quarter.

Q: What trend do you see for the fourth quarter?

A: As far as January is concerned, we have had a rather good start to the fourth quarter. Last quarter, particularly in the second half of November and through December, trading volume with clients declined significantly, but in the beginning of January the flow business volume turned up again and our trading and retail business in Japan has been doing reasonably well.

Q: The consensus from Bloomberg from March is 94 billion yen for net income adjusted. How is management feeling about that?

A: As you know, we don't disclose forecasts or estimates, but as I said we have had a good start to the fourth quarter in January.

Q: I would like to ask a question about fixed income trading profit on your income statement. Sequentially, it went down substantially due to the narrow spread and lower client volume, but were there any one-off losses?

A: First, I would like to tell you that if you look at just the fixed income trading P&L as you mentioned, it looks like it declined sharply compared with the second quarter. However, if you take the own credit value adjustment and other accounting adjustments, the trading P&L for Fixed Income declined, but not as sharply as you have seen. The main reason why the fixed income trading profit declined compared to the second quarter was the decline in client activity level and then we also had a tightening of the trading spread and these were the two main reasons.

Q: The hedge loss in your segment reporting was 25 billion. You said that it included 18 billion yen of credit value adjustment. Were there any other one-offs in the 25 billion yen?

A: Not all the 18 billion yen but around 14 billion yen was included. And the remaining 11 billion yen was other losses.

Q: Did the factors such as credit valuation adjustment negatively impact fixed income profit in the income statement?

A: If you are talking about the number of the segment information, it was not included, but if you look at the financial accounting number then it is included in the trading as a negative number.

Q: Segment pretax income on page 6 says 77 billion yen, but on the release financial summary it is 87 billion yen, what is the difference?

A: The number in the earnings release of 87 billion yen does not include the headquarters number. The 77 billion yen includes the headquarters number. This is the gap between these two numbers.

Q: Is that gap unallocated costs?

A: Yes, that is right.

Q: I was curious if the compensation to revenue was higher than many of your global peers at 46 percent and if this might decline in the fourth quarter as is commonly the practice in the industry. What we should look for in the year ahead in the compensation ratio?

A: On compensation versus net revenue, as you said our 46 percent is not the lower range of our competitors. But for the time being, we would like to manage the compensation level around 45 percent. At the same time we will also look at risk-adjusted profit in order to decide the fair and appropriate level of compensation. We are going to decide this year's compensation level in the next few months, having the full-year results in March. The compensation ratio will fluctuate in the next few quarters because there are still some uncertain factors in the regulation area.

Q: In regards to cost cutting in general, can you talk about any further cost cutting initiatives?

A: Yes, we are doing further cost cutting initiatives. Since the beginning of the year we have been attacking all possible items of cost cutting including IT, real estate and even small items, but one of the main areas that we would like to focus on is utilizing our resources in Powai, an operating services platform within Nomura Group, for front office as well as the middle and back office operations. We are sure that we can increase efficiency. We are starting an offshore link project in each business line to maximize the utilization of Powai resources.

Q: In Investment Banking, you said that overseas revenue was 16.6 billion yen, can you give me a sense of if this is breakeven yet on the overseas portion of the investment banking segment?

A: The overseas operations, if we look at the net numbers, are still below breakeven. That is why we hope the overseas investment banking business will be able to increase revenues from clients not only in Europe, but also in US.

Q: After you acquired parts of Lehman Brothers, you had to come up with a pipeline from a scratch. When is it going to translate into overseas investment banking revenue?

A: As you can see, overseas investment banking revenue has started to grow, particularly in the third quarter. We have seen some contribution from the solutions business, which is not an ECM or DCM type of business, but tailor-made business for corporate clients. By expanding the US business platform, we expect that the top line will increase. In the fourth quarter we hope more transactions will be executed, then we should be able to improve the investment banking performance.

Q: Where is the 16 billion yen cost for your own public offering fee booked?

A: This is a fee related to our own capital raise last October. Nomura Holdings was the issuer and Nomura Securities Co., Ltd. was the broker-dealer, and another overseas subsidiary the underwriter. Nomura Holdings paid the fee to these group companies. So this is just an inter-company transaction and not a loss.

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