

FY2023/24 4Q Financial Results Conference Call Q&A

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Speaker: Takumi Kitamura, Chief Financial Officer, Nomura Holdings, Inc.

Q1: What happened with the 14 billion yen loss provision arising from settlement failures with a broker counterparty in EMEA? You have been enhancing risk management for the past three years since the US client incident. Was it difficult to avoid these settlement failures?

A1: This occurred in February 2024 when a Nomura subsidiary in the UK accepted an order for a stock brokerage transaction from a UK broker and settlement failures occurred at the broker. All transactions with the broker have since been unwound and closed, and we booked a loss arising from the transactions in our fourth quarter results. We are currently conducting investigations with a view to recovering our losses and we have also implemented the necessary operational measures.

These types of failures are not rare in international markets and the scale of the transactions is not unusual when we face broker counterparties which often conduct various transactions. However, it is quite rare that a failure by a broker should be closed by unwinding of trades. The broker in this case was a professional investor registered with the regulators, and the situation is completely different to the US client incident of three years ago.

Q2: Leveraged loan transactions contributed to fourth quarter Investment Banking revenues in the Americas. With interest rates remaining high in the new fiscal year, do you expect revenues from these transactions to continue? Also, in the third quarter, the share offering by Denso contributed to revenues across the Group including Retail, while sales of shareholdings boosted Equities revenue in the fourth quarter. Will sales of strategic shareholdings grow in the future and contribute to revenues?

A2: The leveraged finance market is finally showing signs of improvement and we executed a number of transactions in March. Financial sponsors are gradually becoming active and although the pipeline is yet to grow, we expect a steady recovery.

We have strong expectations for sales of strategic shareholdings. As Japanese corporates sell them off due to the strengthening of the Corporate Governance Code, we believe there is a strong possibility for us to be involved in these transactions given the strength of our Japan franchise.

Q3: Excluding the 14 billion yen loss provision, Wholesale cost-to-income ratio was 86 percent, which is a good result compared to recent quarters. Could you please explain in more detail why that was? Is it simply because revenues were higher so the cost-to-income ratio was lower?

A3: In addition to the 14 billion yen loss provision, we booked higher expenses related to deferred compensation for certain employees and executives due to a strong rally in our share price during the fourth quarter. Expenses also increased due to decommissioning IT and other intangible fixed assets. Excluding all these factors, we calculated that our cost-to-income ratio dropped would have been the low 80 percent range. The stronger revenues also played a large part in lowering our cost-to-income ratio. That said, it is the result of a group-wide effort to control our cost base.

Q4: You said that clients are increasingly interested in investing. What are management's thoughts on the opening of 99,000 new accounts during the fourth quarter? Is that a good number given it is up 14 percent versus the third quarter figure of 87,000 or should it have been higher given the strength of the market?

A4: We are very pleased that new clients are opening accounts and we don't focus just on the number. We focus on clients with potential and are satisfied with the result of 99,000.

Q5: In regards to NISA accounts, do the 22,000 accounts you get when subtracting the December 2023 figure from the end of March figure represent a net increase due to the start of the new NISA scheme? When you subtract the end of September figure from the December figure you got an increase of 59,000 during that period.

A5: Simple subtraction does not equate to the number of new accounts opened. Also, we asked clients to open accounts in advance in order to be able to buy from January so the September to December difference is bigger.

Q6: Fixed Income revenue growth was driven by mortgage-related products. Can you maintain this level of revenues as US rates remain higher for longer? Why did Other revenue in Fixed Income increase by so much?

A6: Agency mortgage revenues included a gain in market value so we need to keep watching for a bit longer. However, issuance of mortgage-related products continues to grow and if interest rates are broadly on a declining path we expect improved performance will continue. The market recovered into the end of March with inventory dropping sharply. So if client activity picks up we are well placed to take on risk in a flexible fashion.

The main drivers behind the increase in Fixed Income Other revenue are the Client Financing business done together with Investment Banking and growth in our International Wealth Management business. There was also a technical factor whereby a year-end adjustment was made to the over-charging of unsecured funding.

Q7: Why was net income attributable to non-controlling interests higher than usual at 6.9 billion yen?

A7: Some funds that Nomura Asset Management invests in are consolidated as variable interest entities. When accounting for these we first take in 100 percent of the profits and then subtract the non-controlling interest. In the fourth quarter, profits from the funds were relatively high and the non-controlling interest portion was higher than normal.

Q8: Does that mean the change in market value of the funds was significant or there was a large profit contribution from the core business?

A8: The funds performed well, resulting in larger non-controlling interest.

Q9: You said that your fourth quarter Wholesale results provide encouragement that you can significantly beat your medium-term target of 160 to 180 billion yen in income before income taxes and that the trend has continued into April. Is this level sustainable and is there further upside?

A9: Wholesale revenues were very good. Macro Products, in particular Rates, improved after facing tough conditions for a while. Our focus areas for the past few years of Equity Products, Securitized Products and Credit continued to grow steadily. We expect this momentum to continue. Our International Wealth Management business is growing steadily and we expect it to start contributing to revenue growth.

The past two years have been challenging, but fourth quarter revenues were slightly above the level of two years ago even in a US dollar basis and we are keeping pace with our peers. Our high breakeven point remains an issue and we continue to control our cost base. By growing the product lines I just mentioned and recovery in our Rates business, we think it will be sustainable.

Q10: EMEA seems to be struggling even when you exclude the loss provision. Could you please explain again the positioning of your EMEA business?

A10: EMEA is a hub for our global business and we intend to maintain it at a certain size. The key revenue driver in the region has been limited to the Rates business, which has been sluggish for a while resulting in the slow performance. We have hired a new head of the European government bond business to beef up the team and the results of this showed up in our fourth quarter results.

We expect performance to gradually improve as we look to increase revenue drivers by operating globally consistent business that have proved successful in the US such as the Equities business and Securitized Products.

Q11: The Wholesale revenue/modified RWA ratio was high at 7.9 percent. Given you don't use much VaR, you could allocate more resources to pursue revenue opportunities. Could you give us some color on how you will use risk-weighted assets from the viewpoint of gaining earnings upside?

A11: We have to constantly keep an eye on profitability versus resource usage. While our earnings presentation show revenue divided by modified risk-weighted assets, we allocate resources from various angles including leverage exposure and unsecured funding. We are considering temporarily allocating resources when there are short-term business opportunities, but the most important thing is to ensure disciplined resource management.

Q12: Today's Bank of Japan press conference hinted that rates could be lifted toward levels deemed neutral to the economy. If money market funds are reintroduced, you should be able to capture a decent amount of funds. How high do short-term rates have to go for money market funds to be revitalized? As these funds form the basis for cross-selling and upselling, how hopeful is Wealth Management about the potential for money market funds?

A12: It requires a certain level of interest rates for money market funds to pick up, but at this stage we can't say exactly what that level is. However, in a world with interest rates, it is easier to place idle funds in MMFs or Nomura Trust and Banking deposits. We expect clients will have

more flexibility such as by purchasing products that fluctuate in value or parking idle funds within Nomura.

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