Q1 Looking at the documents from your recent earnings announcement, I notice that revenue after stripping out one-off losses is about 140 billion yen and expenses are at about 240 billion yen, giving a difference of around 90 billion yen. You said you will cut costs by about 20 billion yen a quarter, but how do you intend to expand top line revenues?

A1 Naturally we need to close this gap by cutting costs and more importantly expanding revenue to turn a profit. We expect the Lehman acquisitions to make a significant contribution here. We have already started seeing results in both our Global Markets and Investment Banking operations and in businesses that overlap both divisions. There will also be synergies with our retail platform. We must boost revenues as soon as possible. We are particularly looking to increase revenues by expanding our client bases in flow businesses and global cross-border businesses.

Q2 Should you decide to use your balance sheet to expand your business, would you consider tapping a deposit base as a stable source of funding such as Goldman Sachs is doing?

A2 I don’t think the investment banks that want to pay back public funds intend to rely on deposits. That said, there are some investment banks that seem to be looking to use deposits as a funding base. Nomura’s business model is not founded on using deposits as a stable funding base to take risks. In Japan, if we were to use deposits as funding to take on risk we would be seen to be letting down our stakeholders.

Q3 Your ratio of funding via repurchase agreements has always been high. Do you intend to increase business for securities that can be used in repurchase agreements?

A3 Our business is mainly focused on highly liquid products. We have a strong preference for cash and operate with liquidity of over 2 trillion yen.

Q4 You have never generated significant revenues from foreign exchange aside from the forex revenue related to structured bonds. Are you entering new businesses and increasing revenues?

A4 New types of foreign exchange businesses for us are increasing with new clients. Also, as you can see in the presentation materials, forex transactions related to M&A deals are increasing so we can expect to generate revenues from forex in new ways.
Q5 Before the market went into turmoil, you generated trading revenue of about 40 billion to 50 billion yen. As the Lehman businesses come on line over the next year, what level do you see trading revenue at? Also, when do you expect to be profitable?

A5 We’ve closed most of our proprietary trading operations. Regarding the 40 billion to 50 billion yen level, while it’s hard to give an exact figure, we expect to generate a certain level of revenue. Recently, the business has been coming on line smoothly and we are starting to see results as progress has been made in opening institutional investor client account in February and March. However, we can’t comment yet on specific revenue levels.

Q6 Now that headcount reduction in wholesale has run its course for the time being, even if there is a slight reduction in the first and second quarters will that be the end?

A6 The situation regarding headcount is different for each business division. In our investment banking and trading operations we are not simply cutting headcount as we were six months ago. Instead, we are increasing and decreasing as needed, currently resulting in a net reduction. Naturally, we are reducing in some areas, but that is not the whole picture.

Somewhat related to an earlier question, first in terms of expenses related to the Lehman acquisitions there was 60 billion yen in the third quarter for guaranteed bonuses. This declined to 53 billion yen in the fourth quarter. Adding in other cost increases, the fourth quarter was about 100 billion yen. When revenues rise, reserves for bonuses increase making it difficult to notice any declines. As such, it’s not easy to give figures, but increases in one-off expenses will decline.

Q7 On page 35 of the handout it says that expenses excluding one-off factors were 865 billion yen last fiscal year. So, if there are no one-off factors do you intend to add on the reserves for bonuses to this level and use that as a base to reduce expenses by 100 billion yen?

A7 We expect our base for expenses in the current fiscal year excluding one-off factors such as the Lehman acquisitions and without any cost cutting efforts to be around 1 trillion yen. We aim to reduce this by 100 billion yen.

Q8 Is there a figure that you are using as a benchmark for your Basel II capital ratio? Will you take on risk if that benchmark is higher than your target or will you look to return profits to shareholders? What about if it is lower?

A8 As with the megabanks, we are part of a supervisory college set up following a proposal by the Financial Stability Forum. We started applying Basel II in order for comparisons to be made under the same standards. Internally, we have set a level of 10% but remain cautious considering the current financial market and environment for financial institutions. We don’t intend to expand our balance sheet just because we have the room to do so.
Q9 In regards to IT systems how is your relationship with NRI developing?
A9 The reason for the recent sale to NRI was to have NRI commit to our Retail division. By selling the platform to NRI we will be able to turn a fixed cost into a variable cost and NRI will be able to offer its clients better services.

Q10 How are Instinet and Chi-X positioned within the group following the Lehman acquisitions? Has there been any change?
A10 These are growing businesses in Europe and the US where there is a strong need for execution. In Europe, where unbundling has taken place, fair competition is underway with the exchanges. We are currently looking into how we could best respond while talking into account our relationship with the exchanges if a similar movement were to take off fully in Japan and the rest of Asia.

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