Q1: You mentioned you expected changes in traditional business model to accelerate and reviewed outlook to future profitability of the business conservatively, which led to impairment of goodwill. Can you talk a bit more about the changes in your perception?

A1: The outlook for long-term structural changes and trends itself hasn’t changed since we spoke at the CEO Forum last December. That said, while transformation of our business structure was still half-way through, impact from the structural changes emerged earlier than expected as we got caught up by global selloff during 1Q-3Q. In the goodwill impairment test, we completely eliminated elements of optimism regarding future projections.

Q2: How do you evaluate performance of your Fixed Income business, which underperformed the five U.S. banks?

A2: As I said before, I think to a large part our sluggish performance was owing to difference in customer base and regional mix. As a result of our high dependence on the Rates business and other macro products, our Fixed Income business remained vulnerable to market swings.

Q3: On conference calls of other U.S. banks, they said that “management of warehouse loans associated with CLO’s arrangement has changed.” What about your loan balance and risk management policy?

A3: The quarterly report disclosed a balance of 81 billion yen as of the end of September 2018, and the position itself is not large. There was no significant markdown from the CLO positions which was tightly controlled by Wholesale Division.

Q4: Are warehousing loan positions limited? Some of the U.S. banks said that they underwent inventory buildup in December but that is not the case of your company, am I correct?

A4: That’s right.

Q5: How did Fixed Income’s client flow revenue look like compared to the previous quarter?

A5: Client revenue was not that bad. There was a summer dry during 2Q, so I think it was a little better than 2Q.
Q6: Even if you lose money in the second half, can we expect a year-end dividend of 3 yen? Why didn't you set up another share-repurchase program for this time?
A6: We have stated that guidance of our consolidated dividend payout ratio is 30%, but that should be determined based on a comprehensive assessment from various perspectives, and we cannot promise that level is going to repeat at this time. We are currently in the process of reviewing our business and will discuss the allocation of capital, including returns as well.

Q7: Is Wholesale Division structurally making pretax losses unless it earns around 150 billion yen per quarter?
A7: Our cost level in Wholesale is around $5.2 - 5.3 billion, or less than 600 billion yen per year, so you are right that we will be in the red if we cannot generate 600 billion yen of net revenue for the full year or close to 150 billion yen per quarter.

Q8: Does that mean that the business structure has not changed as much as expected, or is it because the environment is changing too rapidly?
A8: Having been working on cost reduction and digitization in the flow business, we understand changes in environment were radical when we look back situations. We must further reduce our break-even point and promote selection and concentration. We believe it is necessary to speed up the measures we are considering and review strategies and business portfolios in more comprehensive fashion.

Q9: You have reported loss of investments in American Century Investments (ACI) of approximately 10 billion yen. Could you please show me breakdown of its base revenue (operating revenue of the company) and valuation losses?
A9: Cumulative valuation loss on ACI during 1-3Q was about 10 billion yen, and 8.3 billion yen in 3Q alone. The biggest reason for large valuation loss was that the assets under management balance of the company fell as a result of a sharp decline in U.S. stocks. This is due to the fact that growth prospect of the asset under management was factored into the valuation. Sorry but we do not disclose underlying revenue of ACI.

Q10: I understand that Wholesale is in a tough situation, but have you changed your view and come to understand that the current market environment is tough unless you streamline your business to some extent?
A10: We rationalized our operations in April 2016, and we were able to make solid profits in the fiscal years ended March 2017 and March 2018. We also made overseas turn black. However, we cannot deny that the environment is changing more rapidly than expected and that there is still a mismatch between our portfolio and the environment. We do not have an optimistic outlook basing an assumption that the current market environment will continue for the time being. Therefore, we have come to the conclusion that some rationalization is necessary.

Q11: What is the regional breakdown of goodwill impairment losses?
A11: Approximately 67 billion yen related to Instinet, 14 billion yen related to Lehman Brothers. Instinet’s 67 billion yen was booked in the Americas. Impairment related to Lehman Brothers was booked approximately 9 billion yen in Europe, and approximately 3 billion yen in Asia and Oceania.
Q12: Excluding goodwill impairment losses, were the Americas and Europe better than in Q2?
A12: Except for those factors, they weren’t as bad as they looked.

Q13: You reported valuation losses of investment equity securities held for business purposes of 10 billion yen. Was that related to ACI?
A13: Valuation gains and losses on ACI is attributed to Asset Management Division. The 10 billion yen losses reported was so called equity securities held for relationship purpose. Compared with other Japan's financial institutions, our holdings are small and they are mark-to-marketed. In Q3, the Nikkei Stock Average fell sharply, and as a result, valuation losses of 10 billion yen came out.

Q14: Net inflow of cash and securities in Retail Division was very strong, but what if we split them into those were tied to IPOs and offerings and those from fundamental inflow?
A14: This was our highest-ever net inflow. Softbank's contribution amounted to approximately 1.5 trillion yen. This was due mainly to the large-scale subscription with cash, as well as the large deposits of stocks. JGBs for individuals contributed to the rest of the inflows as well.

Q15: What is the regional breakdown of Fixed Income and Equity revenue?
A15: For the Fixed Income, about 30% in Japan, a little over 40% in EMEA, a little less than 10% in the Americas and 20% in AEJ. Equity was 40% in Japan, a little less than 10% in EMEA, a little more than 50% in the Americas and lower single digit in AEJ.

Q16: I think Japan Fixed Income was bad for both Credit and JGB. Owing to The Bank of Japan's monetary policy, liquidity dried up, but should this trend continue for the time being?
A16: We had a weak quarter with low volatility and few new deals. In 3Q, credit spreads widened and some positions were marked down. Both retail and corporate clients were weak. To be honest, it is difficult to predict that the monetary policy of the Bank of Japan will soon reach a turning point, as the consumption tax will be raised in early autumn, so I think the current monetary policy will continue for the time being.

Q17: What was the U.S. Fixed Income? Is there any possibility of reversal of valuation losses?
A17: As credit spreads widened, we struggled with inventory management and made some losses in Latin American positions as well. It is difficult to draw a line between valuation gains and realized profit, but there are things that naturally go down, and if you keep that position, you may reverse it. Since the beginning of January, the credit spread movement has been reversed, so please keep an eye on it.

Q18: Equity was better in the Americas, but it seems to have dwindled in October, November, and December. I want to know the future prospect, so please tell me the variation of 3 months revenue.
A18: We do not have figures for the Americas Equity specifically, but in terms of global Equity, earnings in October were favorable with 40%, November 30% and December 30%. Overall, good quarter.
Q19: Is it sustainable?
A19: U.S. stocks remained relatively volatile, contributing to the Equity business. We have significant market share in Equity Derivatives in the Americas and we hope to make them sustainable.

Q20: What is the reason for the significant decline in earnings from affiliate companies?
A20: We do not disclose details, but some of our equity-method affiliate companies hold marketable securities. As a result of the decline in stock prices in 3Q, there were some mark-to-market impacts at these affiliates.

Q21: Pretax income of the Retail Division used to be around 20 billion yen per quarter, but now it's around 16 billion yen. What would be run rate when Softbank IPO disappears?
A21: Our marketing activities for the Softbank IPO started about 3 weeks ahead of the normal lead time. As a result, we have spent a lot of time on this offering, and we have been spending a lot of time on this matter for almost a month. In short, I think we would have more time to propose other investment products such as investment trusts and other consulting businesses if we didn’t have Softbank deal, but it is difficult to come up with a what-if number.

Q22: When you review your strategy, do you also review your business portfolio, way you deploy your capital and some structural shapes of your business as well? Are the measures organic or are you going to have discussions that include in-organic measures?
A22: The portfolio review comes in scope of review of course. I don't think I have ever denied using in-organic measures, but because of current operating environment, what we can do by ourselves is very limited. Our Company does not deny that the missing pieces are filled up by alliances and in-organic measures such as mergers and acquisitions.

Q23: Are your investments in affiliates and other investment securities also in scope of review of corporate strategy?
A23: From a company-wide perspective, we will consider whether there is synergy in each of investments as well.
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