

## FY2023/24 3Q Financial Results Conference Call Q&A

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

**Q1: Investment Banking deals related to strategic shareholdings and delistings are increasing. How do you see the fee pool for these transactions over the medium to long term from both a structural demand perspective and short-term sustainability in the fourth quarter and first quarter next fiscal year?**

A1: We have a robust deal pipeline mainly in Japan. Corporate governance reforms are prompting managers to think more actively. The trend of funds tied to strategic shareholdings being redirected to capital investments and growth-oriented investments and delistings such as through management buyouts, is expected to continue.

Overall strategic shareholdings stand at around 50 to 60 trillion yen. While it might not be constant each quarter, we expect to see continued strong demand for unwinding of strategic shareholdings and dissolution of parent/subsidiary listings.

**Q2: I have calculated that you have 700 billion yen in surplus capital based on disclosed information about the impact of the finalization of Basel III rules. Why did you decide now to announce a share buyback program with an upper limit of 100 billion yen? Given the level of surplus capital, you had the option to make the buyback bigger. Were you trying to keep it within profit levels?**

A2: We discussed at the CEO Forum that we have been able to more accurately estimate the impact of Basel III finalization and have a clearer picture of surplus capital. We decided to do it now because we are making progress with our strategic initiatives and performance is picking up as the business environment improves. As a financial institution, we hold corporate information and we can't set up such programs at any time. We set it at 100 billion yen because our businesses haven't used up all available capital and we took into account business and growth investment opportunities.

**Q3: You also sold off strategic shareholdings. What was your policy on this and what did you sell?**

A3: As you can see from offsetting of realized and unrealized gains/losses, we sold some strategic shareholdings in the third quarter. We will announce the companies in our securities report to be issued in June. We have been regularly monitoring the rationale for our strategic shareholdings and worked to reduce them. The number of holdings has declined significantly and as of March 2023 they represented only 2.7 percent of Tier 1 capital. We have committed to further reducing shareholdings and we are proud that we have been one of the most active financial institutions to do so.

**Q4: Why did Retail revenues increase quarter on quarter even though total sales were lower?**

A4: Although secondary sales slowed in the third quarter, an increase in primary transactions contributed to revenue growth.

**Q5: Net inflows of cash and securities in Retail was positive 1,200 billion yen. Why didn't net inflows into investment trusts, discretionary investments and recurring revenue assets increase so much? Will the increase in net inflows of cash and securities be a tailwind for the business going forward?**

A5: Net inflows of cash and securities includes the receipt of stock certificates so it is difficult to match with net inflow items. We don't generate revenues by just receiving cash and stock certificates from clients. Considering there is a high chance that clients will take their next action, the increase in net inflows of cash and securities is a positive for the business.

**Q6: Global Markets revenues have bottomed out and 171.6 billion yen is not bad. Is there room for further growth?**

A6: Equities is a relatively stable business and we expect it to remain solid. In Fixed Income, we are focused on core products, and because macro products such as Rates and FX/EM are a large proportion of our business, we have struggled to boost revenues as client flows have weakened over the past year due to unprecedented rate hikes. We believe the rate hiking cycle is over the peak and the business environment has improved. Our Global Markets platform is in place and we now look to monetize it.

**Q7: I understand it may depend on the Bank of Japan's actions, but how do you see the outlook for Japan Fixed Income?**

A7: Our house view is that negative interest rates and yield curve control will end in April this year. Despite recent signs of a slow down in the move to normalize monetary policy, it is better than a few years ago as we expect market speculation to increase so market conditions should be good.

**Q8: In Wholesale, international revenues increased and you controlled costs, resulting in a marked improvement to your cost-to-income ratio. Is this sustainable in the fourth quarter and next fiscal year? What is the outlook for compensation and benefits?**

A8: Even with headcount reductions, compensation and benefits doesn't fall straight away. Compensation and benefits was high in the second quarter because it included both personnel expenses and severance-related expenses, which were no longer included in the third quarter and we started to see the benefits of cost reductions. We constantly review our headcount and we have taken steps for structural reform from the fourth quarter onwards. CIR of 89 percent is still high and we will work on this.

**Q9: Interest rate related value at risk is down. Do you have a risk management system in place to turn shifts in the interest rate environment this year into trading revenues?**

A9: While we have limited trading positions due to the market environment and VaR at the end of December remained low in line with the end of September, this quarter we aim to capture business opportunities. Since the large loss a few years ago, we have taken a Groupwide approach to strengthening our risk management framework. Our risk enhancement project

is now embedded in business as usual and as such we will boost revenues while managing risk. At the same time, we are working to grow our risk light businesses.

**Q10: What was the monthly trend for Fixed Income revenues? Why did Spread Products improve from last year?**

A10: October was challenging, accounting for just over 20 percent of revenues, while November and December both accounted for about 40 percent. Spread Products performance is improving. Credit was relatively solid as spreads tightened, while Securitized Products improved significantly. The improvements can be attributed to higher bond issuances in December leading to secondary trading and a market rebound.

**Q11: At your investment forum last November, you announced plans to reduce the Wholesale cost run rate to 5.1 billion dollars. What was the run rate in the third quarter and could cost levels change as the outlook for the business changes?**

A11: Some of it is proportionate to the size of revenue, but we will continue to reduce fixed costs through structural reforms and other measures. In terms of the third quarter run rate, there hasn't been any tangible based on results yet since the forum was held in November.

**Q12: US rates remain high. Is it okay to say that bond issuance and other activity will return?**

A12: While it is not yet a full-blown recovery, the outlook is good and this is having a positive effect on client sentiment and activity.

**Q13: Was there anything that stood out in terms of Retail client activity in the corporate, high net worth and mass affluent segments? Also, what should we be looking at in relation to NISA activities?**

A13: We saw strong client activity across all segments with high net worth, where we increased headcount, being particularly strong. The trend has continued in January.

In just three weeks, NISA sales are at about one third of total sales from last year, underscoring the strong sentiment among clients. If we can create successful experiences through NISA, it will lead to further business in the future. We will continue to focus on our area of strength on providing detailed consulting services in order to have clients diversify their portfolio across stocks, bonds and investment trusts and to invest for the long term.

**Q14: Although all international regions were profitable your tax rate remains high. How will you approach tax if this continues in subsequent quarters?**

A14: The third quarter includes some technical factors that make it look high. If the profit trend continues the tax rate should come down.

**Q15: Can we say you've mostly reached your recurring revenue assets target of 21.6 trillion yen or is there still work to do when you factor in the market impact?**

A15: Our third quarter recurring revenue cost coverage ratio was 55 percent and we aim to lift that to 80 percent by March 2031. To reach that target it is essential that we continue to build up recurring revenue assets as they are the key driver.

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