NOMURA HOLDINGS INC
Form 6-K
July 27, 2004
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U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of

the Securities Exchange Act of 1934

Commission File Number: 1-15270

Supplement for the month of July 2004.

NOMURA HOLDINGS, INC.

(Translation of registrant s name into English)

9-1, Nihonbashi 1-chome

Chuo-ku, Tokyo 103-8645

Japan

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F x Form 40-F ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ____

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ____

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ¨ No x

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-____

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NOMURA HOLDINGS, INC.

Date:	July 27, 2004	By:	/s/ HIROSHI TANAKA
			Hiroshi Tanaka Senior Managing Director

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On June 29, 2004, Nomura Holdings, Inc. filed its Annual Securities Report for the year ended March 31, 2004 with the Director of the Kanto Local Finance Bureau of the Ministry of Finance pursuant to the Securities and Exchange Law of Japan.

Information furnished on this form includes;

I. Executive summary of the Annual Securities Report, and

II. English language translation of certain items disclosed in the Annual Securities Report.

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EXHIBIT I

Annual Securities Report Pursuant to The Securities and Exchange Law of Japan For The Fiscal Year Ended March 31, 2004

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Note: 1. Translation for the underlined items are attached to this form as below.

2. The U.S. dollar amounts, which are not displayed in the Annual Securities Report, are included on the consolidated financial statements, and those notes on this form solely for the convenience of the reader and have been translated at the rate of ¥104.18 = U.S. $1, the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York on March 31, 2004. This translation should not be construed to imply that the Yen amounts actually represent, or have been or could be converted into, equivalent amounts in U.S. dollars.

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EXHIBIT II

PART I Corporate Information

Item 1. Information on the Company and Its Subsidiaries and Affiliates

1. Selected Financial Data.

(1) Selected consolidated financial data for the latest five fiscal years.

Accounting Principles	**Japanese GAAP**			**U.S. GAAP**		
Year ended March 31,	**2000**	**2001**	**2002**	**2002**	**2003**	**2004**
Revenue (Mil yen)				1,825,399	840,919	1,099,546
Operating revenue (Mil yen)	1,089,416	1,299,399	1,121,743			
Net revenue (Mil yen)				1,321,351	566,274	803,103
Net operating revenue (Mil yen)			705,346			
Income before income taxes and cumulative effect of accounting change (Mil yen)				172,972	47,409	282,676
Ordinary income (Mil yen)	318,031	302,084	192,255			
Net income (Mil yen)	146,298	181,666	102,756	168,046	119,913	172,329
Shareholders equity (Mil yen)	1,420,433	1,642,408	1,704,988	1,604,929	1,642,328	1,785,688
Total assets (Mil yen)	18,821,897	20,529,135	18,177,716	17,758,273	21,169,446	29,752,966
Shareholders equity per share (Yen)	724.75	836.70	867.38	816.48	846.40	919.67
Net income per share (Yen)	74.55	92.54	52.32	85.57	61.26	88.82
Net income per share diluted (Yen)	74.24	92.29	52.22	85.32	61.26	88.82
Shareholders equity as a percentage of total assets (%)	9.3	9.4	9.4	9.0	7.8	6.0
Return on shareholders equity (%)	10.74	11.86	6.14	11.05	7.39	10.05
Price/earnings ratio (times)	44.93	24.31	32.49	19.87	20.16	21.34
Cash flows from operating activities (Mil yen)	688,441	95,817	(369,530)	(1,303,384)	34,113	(1,825,894)
Cash flows from investing activities (Mil yen)	(178,873)	(24,213)	(146,175)	(52,182)	134,053	45,471
Cash flows from financing activities (Mil yen)	(280,102)	(200,311)	484,315	1,195,507	(24,612)	1,945,536
Cash and cash equivalents at end of the year (Mil yen)	526,942	376,329	356,634	356,635	491,237	637,372
Number of staffs	12,650	12,198	12,373	12,373	12,060	13,987
[Average number of temporary staffs, excluded from above]	[2,931]	[3,326]	[3,157]	[3,157]	[3,062]	[3,107]

(Notes)

1 The selected financial data as of March 31, 2003 and 2004, and for the year ended March 31, 2003 and 2004 were stated in accordance with the accounting principles generally accepted in the United States of America (U.S. GAAP). And the selected financial data as of March 31, 2000, 2001 and 2002 and for the year ended March 31, 2000, 2001 and 2002 were stated in accordance with Japanese GAAP. The U.S. GAAP selected financial data as of March 31, 2002 and for the year ended March 31, 2002 were also stated.

2 The consumption tax and local consumption tax on taxable transaction are accounted for based on the tax exclusion method.

3 Above ratios were calculated based on following formula.

$$\text{Shareholders equity as a percentage of total assets as of March 31, 2003 and 2004} = \frac{\text{Shareholders equity total}}{\text{Liabilities and shareholders equity total}} \times 100(\%)$$

$$\text{Shareholders equity as a percentage of total assets as of March 31, 2000, 2001 and 2002} = \frac{\text{Shareholders equity total}}{\text{Liabilities (*), minority interest and shareholders equity total}} \times 100(\%)$$

(*Guarantee securities received and Securities borrowed, etc were excluded as of March 31, 2001 and before.)

$$\text{Return on shareholders equity} = \frac{\text{Net income}}{\text{(Previous fiscal year end shareholders equity total + fiscal year end shareholders equity total) / 2}} \times 100(\%)$$

$$\text{Price/earnings ratio} = \frac{\text{Share price}}{\text{Net income per share}}$$

4 Net operating revenue was stated for the year ended March 31, 2002 by the amendment of the Uniform Accounting Standards of Securities Companies (Japan Securities Dealers Association, September 28, 2001).

5 The number of staffs includes Financial Advisor with fixed-term employment contract and Saving Advisor for the year ended March 31, 2004. The number of staffs was 1,915 in total, including 60 staffs, who joined us as Financial Advisor at April 1, 2004 after quitting Saving Advisor at March 31, 2004.

6 In addition to above, the number of staffs in investee companies of private equity investment which were consolidated as subsidiaries on consolidated financial statement as of March 31, 2004 were 2,711 and average number of temporary staffs in those investee companies were 90.

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(2) Selected stand alone financial data for the latest five fiscal years

Year ended March 31,	2000	2001	2002	2003	2004
Operating revenue (Mil yen)	624,689	575,837	269,122	102,633	135,341
[Commissions]	[443,130]	[299,757]	[110,523]	[ ]	[ ]
Ordinary income (Mil yen)	303,314	244,114	68,186	10,742	39,448
Net income (loss) (Mil yen)	144,176	131,557	(37,212)	(12,825)	33,374
Common stock (Mil yen)	182,795	182,796	182,799	182,799	182,799
Number of issued shares (1000 shares)	1,962,977	1,962,977	1,965,919	1,965,919	1,965,919
Shareholders equity (Mil yen)	1,367,398	1,526,606	1,441,634	1,342,035	1,367,005
Total assets (Mil yen)	11,718,403	12,204,943	2,023,909	2,121,113	2,469,719
Shareholders equity per share (Yen)	696.59	777.69	733.40	691.21	703.76
Dividend per share (Yen)	15.00	17.50	15.00	15.00	15.00
[Interim dividend per share] (Yen)	[ ]	[ ]	[ ]	[ ]	[7.50]
Net income (loss) per share (Yen)	73.44	67.01	(18.94)	(6.70)	17.19
Net income per share diluted (Yen)	73.15	66.87			17.19
Shareholders equity as a percentage of total assets (%)	16.9	17.6	71.2	63.3	55.4
Return on shareholders equity (%)	11.05	9.09	(2.51)	(0.92)	2.46
Price/earnings ratio (times)	45.61	33.57			110.20
Payout Ratio (%)	20.42	26.11			87.30
Dividend on shareholders equity (%)	2.15	2.25	2.05	2.17	2.13
Capital Adequacy Ratio (%)	430.4	317.2			
Number of staffs	8,396	8,064	5	5	7
[Average number of temporary staffs, excluded from above]	[1,499]	[1,834]	[1]	[0]	[ ]

(Notes)

1 The consumption tax and local consumption tax on taxable transactions are accounted for based on the tax exclusion method.
2 Above ratios were calculated based on following formula:

$$\text{Shareholders equity as a percentage of total assets} = \frac{\text{Shareholders equity total}}{\text{Liabilities (*)and shareholders equity total}} \times 100(\%)$$

(*Guarantee securities received and Securities borrowed, etc were excluded as of March 31, 2001 and before.)

$$\text{Return on shareholders equity} = \frac{\text{Net income}}{\text{(Previous fiscal year end shareholders equity total + fiscal year end shareholders equity total) / 2}} \times 100(\%)$$

$$\text{Dividend on shareholders equity} \quad \frac{\text{Total dividend}}{\text{Shareholders equity}} \times 100(\%)$$

Price/earnings ratio = Share price

Net income per share

3 Number of staffs represent staffs at work.

4 Treasury stocks are deducted from shareholders equity and total number of issued shares in calculating shareholders equity per share and net income (loss) per share as of March 31, 2002 and after.

5 The Nomura Holdings, Inc. (hereinafter the Company) transferred its securities and securities-related business to Nomura Securities Co., Ltd. (former Nomura Securities Spin-off Preparation Co., Ltd.) Therefore the Capital Adequacy Ratio for March 31, 2002 and after are not stated.

6 On October 1, 2001, The Company completed its reorganization and adopted a holding company structure. The selected financial data for as of March 31, 2000, and 2001 are data when the Company was engaged in securities and securities-related business; the data for as of March 31, 2002 include six months results of securities and securities-related business.

7 The Company adopted Accounting Standard for Earning per Share (the Accounting Standards Board of Japan (the ASBJ), Financial Accounting Standard No. 2, September 25, 2002) and Implementation Guidance for Accounting Standard for Earning per Share (the ASBJ, Financial Accounting Standards Implementation Guidance No. 4, September 25, 2002) from the year ended March 31, 2003.
The effects of adopting the standard above is noted on Per Share Information of Notes to Financial Information in Item 5. 2. Stand-alone Financial Statements.

8 Net income per share diluted for as of March 31, 2002 and 2003 are not stated as net loss per share is recorded.

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3. Business Overview.

Nomura Holdings, Inc. and its consolidated subsidiaries and variable interest entities (VIEs) of 133 and affiliated companies accounted for under the equity method of 13 primarily operate investment and financial services business focusing on securities business as their core business. Nomura provides wide-ranging services to customers for both of financing and investment through the operations in Japan and other major financial capital markets in the world. Such services include securities trading and brokerage, underwriting, distribution, arrangement of placement and distribution, arrangement of private placement, asset management and other broker-dealer business and financing.

Organizational Structure

The following table lists Nomura Holdings, Inc. and its significant subsidiaries and affiliates.

Nomura Holdings, Inc.

Domestic Subsidiaries

Nomura Securities Co., Ltd.

Nomura Asset Management Co., Ltd.

The Nomura Trust and Banking Co., Ltd.

Nomura Babcock & Brown Co., Ltd.

Nomura Capital Investment Co., Ltd.

Nomura Investor Relations Co., Ltd.

Nomura Principal Finance Co., Ltd.

Nomura Funds Research and Technologies Co., Ltd.

Nomura Pension Support & Service Co., Ltd.

Nomura Research & Advisory Co., Ltd.

Nomura Business Services Co., Ltd.

Nomura Satellite Communications Co., Ltd.

Nomura Institute of Capital Markets Research

Overseas Subsidiaries

Nomura Holding America Inc.

Nomura Securities International, Inc.

Nomura Corporate Research and Asset Management Inc.

Nomura Asset Capital Corporation

The Capital Company of America, LLC

Nomura Derivative Products, Inc.

Nomura Global Financial Products, Inc.

Nomura Securities (Bermuda) Ltd.

Nomura Europe Holdings plc

Nomura International plc

Nomura Bank International plc

Banque Nomura France

Nomura Bank (Luxembourg) S.A.

Nomura Bank (Deutschland) GmbH

Nomura Bank (Switzerland) Ltd.

Nomura Italia S.I.M. p.A.

Nomura Asia Holding N.V.

Nomura Investment Banking (Middle East) E.C.

Nomura International (Hong Kong) Limited

Nomura Singapore Limited

Nomura Advisory Services (Malaysia) Sdn. Bhd.

Nomura Australia Limited

Nomura Funding Facility Corporation Limited

Nomura Global Funding plc

Nomura Europe Finance N.V.

Nomura Principal Investment plc

PT Nomura Indonesia

Affiliates

Nomura Research Institute, Ltd.

JAFCO Co., Ltd.

Nomura Land and Building Co., Ltd.

Capital Nomura Securities Public Company Limited

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Item 2. Operating and Financial Review

1. Operating Results.

(1) Operating results

You should read the following discussion of our operating and financial review together with the consolidated financial statements included in Item 5. Financial Information. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements.

Business Environment

Japan

The Japanese economy, after breaking free of the IT slump in early 2002 and heading toward recovery, became stagnant again in mid-2002, due to a combination of weaker domestic and external demand. The chances of a recovery thus seemed poor, but since around summer 2003, the economic outlook has rapidly brightened, assisted by brisk exports to Asia and an upturn in private-sector capital expenditure, which have been driven in turn by recovering corporate earnings. While in April 2003 the International Monetary Fund was forecasting 0.8% GDP growth in Japan, its forecast as of April 2004 was 2.7%.

Despite the lack of vigor in Japan s macro economy, many Japanese companies reported improved results in the year ended March 31, 2003, reflecting their efforts to fundamentally reform their earnings structures. That positive tone looks to have been sustained in the fiscal year ended March 31, 2004, due to the robust economies in the United States and China and improvement in the macro environment later in the year in the form of a domestic economic turnaround. We expect corporate earnings to increase for the third consecutive year in the fiscal year ending March 31, 2005, albeit at a more moderate pace.

Share prices in Japan continued to fall in 2002 despite a sharp rebound in corporate earnings, as the market suffered from adverse supply-demand conditions. From the latter half of 2003, however, share prices increased substantially. The key TOPIX index, for example, had dropped from 1,060.19 points as at the end of March 2002, to 788.00 points a year later (a 26% decline), but by the end of March 2004 had surged 50%, to 1,179.23 points. Similarly, the Nikkei average, which had fallen 28% between March 2002 and March 2003 (from 11,024.94 points to 7,972.71 points), stood at 11,715.39 points as at the end of March 2004 (up 47% year on year).

The yield on newly issued 10-year Japanese Government bonds, or JGBs, which in early 2002 was around 1.5%, shrank to just above 0.4% at one point in June 2003, driven down by a combination of weak domestic demand for funds, a series of quantitative monetary easing measures by the Bank of Japan, or BOJ, and market recognition worldwide of deflationary risk. Subsequently, however, the yield on newly issued 10-year JGBs increased rapidly, topping 1.6% at one point in September 2003, on heightened expectations of a global economic recovery and rising share prices. JGB yields have been anchored in the 1.2-1.6% zone since then, reflecting the Bank of Japan s commitment to monetary easing even as the economic recovery takes clearer shape. In June 2004, however, yields moved out of this range and since then have been around 1.9%.

Since 2002, the prevailing trend in foreign exchange markets has been the depreciation of the U.S. dollar, with the yen/dollar rate going from US$1=¥130-135 in early 2002 to as far as US$1=¥105-110 at the start of 2004, and the dollar/euro rate moving in a similar direction, from EUR1=$0.85-0.90 to EUR1=$1.25-1.30 over the same period. In 2002, the defining factor pushing down the dollar was the issue of corporate accounting scandals in the United States, while in 2003, it was the so-called twin deficits (current account and fiscal). Since April 2004, however, the dollar has regained ground, with employment figures in the United States improving and increased expectations of the Federal Reserve Board raising interest rates.

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Overseas

Coming out of a prolonged slowdown beginning in the latter half of 2002, the leading industrialized nations economies have gained considerable ground since the second half of 2003. Of particular note has been the sustained uptrend in the Chinese economy, and the US economy s resurgence. Global commodity prices continued to rise, supported by demand growth in China. The war in Iraq that began in March 2003 was over by May 2003, although the situation there remains unstable.

Powered by an increase in personal spending and housing investment which was fueled in turn by falling interest rates and tax cuts the U.S. economy turned upward from 2002, with real GDP growth rate rising from 0.5% in 2001 to 2.2%. In 2003, real GDP growth rate in the United States reached 3.1%, as improved earnings led companies to increase capital investment, which gave a further boost to the economy. Even employment figures, the only indicator to show little sign of improvement in 2003, have been gaining momentum since March 2004.

Concerned about the risk of inflation becoming undesirably low, the Federal Open Market Committee, or FOMC, lowered the Federal funds rate to 1.00% in June 2003. Just prior to the FOMC action, the yield on 10-year U.S. Treasury notes briefly approached 3%. Subsequently, however, the yield on 10-year notes rose sharply, and for a while was moving between 3.5% and 4.5%. Sharply improved employment figures in the United States during the spring of 2004 have led to heightened expectations of an interest rate hike, which would drive up bond yields. The Dow Jones Industrial Average, which from the second half of 2002 through the first half of 2003 languished in the 7,500-9,000 range, recovered to the 10,000 level in December 2003, reflecting the resurgent economy. For a while, the Dow was moving around the 10,500 mark, but amid rising expectations of an interest rate hike, it dropped back to roughly 10,000 in May 2004.

The European economies, too, faltered in the second half of 2002, before bouncing back in the latter half of 2003. In comparison with the U.S. and Japanese economies, however, the rate of recovery has been moderate. The European Central Bank lowered its benchmark interest rate to 2% in June 2003, around which time share prices started moving upward. Since the beginning of 2004, however, they remained range bound.

Asian economies, particularly China, have remained robust since 2003. We anticipate a slowing effect, however, from the Chinese government s monetary tightening policies, geared toward cooling the overheated national economy.

Executive Summary

Against a background of recovering domestic and global economies, with especially strong growth in China and a recovery in domestic capital investment, the economic recovery in Japan remained solid throughout the year ended March 31, 2004. In 2003, Japan s real GDP grew in excess of 2% in all four quarters, and a recovery trend emerged, driven by demand from the United States and China and rising capital spending in the private sector. Individual investors showed signs of gradually moving their financial assets into securities, as evidenced by their strong interest in Japanese government bonds and investment trusts. The percentage of stocks owned by individual investors, which had fallen steadily since the 1980s, bottomed out in March 2000 and has been rising for the past three years. Reflecting this favorable environment, the average daily trading volume on the First Section of the Tokyo Stock Exchange in 2003 set a new record of more than 1.2 billion shares, exceeding the previous high of 1 billion shares in a day in 1988. In this environment, we were able to expand our business by offering our customers a variety of creative financial solutions or investment opportunities through the capital markets and by diversifying our revenue sources. As a result, income before income taxes increased by 496% from ¥47.4 billion for the year ended March 31, 2003 to ¥282.7 billion for the year ended March 31, 2004. Net income increased by 44% from ¥119.9 billion for the year ended March 31, 2003 to ¥172.3 billion for the year ended March 31, 2004. This allowed us to improve our return on equity (ROE) from 7.4% to 10.1%.

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In Domestic Retail, net revenue for the year ended March 31, 2004 was ¥305.8 billion, up 23% from the previous year, and income before income taxes was ¥79.5 billion, up 123% from the previous year, as we responded to customers investment needs by offering stocks, investment trusts, foreign currency bonds, Japanese government bonds for individuals, and a variety of other financial products. These results reflect our efforts to create a service delivery structure that is focused on core values, or the values that customers regard as the most important, and that enables us to provide high-quality financial services appropriate for each of our customers. Client assets (including those of financial institutions) in Domestic Retail totaled a record ¥40.8 trillion, and we are exerting our utmost efforts to further expand our customer base.

In Global Wholesale, net revenue for the year ended March 31, 2004 was ¥365.7 billion, up 23% from the previous year, and income before income taxes was ¥138.5 billion, up 52% from the previous year. In Fixed Income, underwritings and distributions of foreign bonds were strong due to our efforts to match top-tier overseas bond issuers, which were drawn by the amount of individual financial assets in Japan, with individual investors looking for attractive investments. Trading profits in Equity rose substantially as a result of our successful efforts to generate customer order flow. In Investment Banking, underwritings of initial, primary, and secondary equity offerings were strong.

In Asset Management, net revenue for the year ended March 31, 2004 was ¥36.0 billion, down 3% from the previous year, due to a decline in asset management fees stemming from a reduction in assets in bond investment trusts. Loss before income taxes was ¥1.0 billion as a result of an increase in non-interest expenses, such as special premiums paid in conjunction with Nomura Asset Management s withdrawal from the Japan Securities Dealers Employees Pension Fund. The balance of assets in bond investment trusts continued to fall. The outstanding balance of Long-term Bond Investment Trusts (Nomura Bond Fund) fell to ¥2.6 trillion as of March 31, 2004, from ¥6.3 trillion as of March 2002, 31. However, Nomura Asset Management s total assets under management turned around due primarily to growth in investment advisory assets, increasing to ¥15.7 trillion as of March 31, 2004, from ¥14.2 trillion as of March 31, 2003.

Over the past five years, we have increased the size of our balance sheet, while ensuring high liquidity and maintaining sufficient equity capital. The primary drivers of the increase in the balance sheet are the growth of trading activities, mainly highly liquid government bonds, notes and bills. This growth has been mainly funded through secured financing, long-term debt, and equity. Total equity capital is ¥1,785.7 billion as of March 31, 2004. We monitor the size, composition and growth of our balance sheet, diversify funding sources, and review equity capital base, its allocation and business mix to ensure it delivers return on equity commensurate to risk profile, the market circumstances, and our peer group. Liquidity is of critical importance, and we have created a robust set of liquidity policies to withstand market shocks for periods lasting over one year without raising additional unsecured financing or forcing the liquidation of assets.

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Results of Operations

Overview

The following table provides selected consolidated income statement information for the years indicated.

	Year Ended March 31,	
	2003	2004
	(in millions)	
Non-interest revenues:		
Commissions	¥ 141,640	¥ 210,216
Fees from investment banking	81,847	86,994
Asset management and portfolio service fees	79,290	66,193
Net gain on trading	172,308	229,042
(Loss) gain on investments in equity securities	(41,288)	55,888
Gain (loss) on private equity investments	(14,391)	13,138
Other	19,589	41,205
Total Non-interest revenues	¥ 438,995	¥ 702,676
Net interest revenue	127,279	100,427
Net revenue	566,274	803,103
Non-interest expenses	518,865	520,427
Income before income taxes	47,409	282,676
Income tax expense	37,295	110,347
Cumulative effect of accounting change[1]	109,799	
Net income	¥ 119,913	¥ 172,329
Return on equity	7.4%	10.1%

(1) Cumulative effect of accounting change of ¥109,799 million represents the write-off of the remaining unamortized negative goodwill associated with the acquisition of additional shares of Nomura Asset Management Co., Ltd.

Net revenue increased by 42% from ¥566.3 billion for the year ended March 31, 2003 to ¥803.1 billion for the year ended March 31, 2004. The increase in net revenue was primarily due to three factors: an increase in commissions, higher net gains from trading, and an increase in the valuation of our investments in equity securities. Commissions increased by 48% as Domestic Retail boosted their products and services to take advantage of increased demand. Net gain from equity trading increased by 109% from the previous year, given stronger equity markets. Net gain from fixed income and other trading grew by 14% as investor demand for fixed income products remained high. We recorded gains on our investments in equity securities given the improvement in the Japanese stock market, compared to losses in the previous financial year, when stock markets were declining.

Net interest revenue was ¥127.3 billion and ¥100.4 billion for the years ended March 31, 2003 and 2004, respectively. Net interest revenue is a function of the level and mix of total assets and liabilities, which includes trading assets and financing and lending transactions, and the level, term structure and volatility of interest rates. Net interest revenue is an integral component of trading activity. In assessing the profitability of our overall business and of our Global Wholesale business in particular, we view net interest revenue and non-interest revenues in aggregate.

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Net revenue was ¥566.3 billion for the year ended March 31, 2003. We began to account for our investments in the Principal Finance Group entities at fair value on March 27, 2002 and, accordingly, they were not consolidated with our results of operations for the year ended March 31, 2003.

In our consolidated income statement, we include under Revenue gain (loss) on investments in equity securities. We recorded losses on such investments in the amount of ¥41.3 billion for the years ended 2003, and gains on such investments in the amounts of ¥55.9 billion for the year ended March 31, 2004. This line item includes unrealized gains and losses on operating investments, and gains and losses realized upon disposition of operating investments. Operating investments refer to our investments in unaffiliated companies, which we hold on a long-term basis in order to promote existing and potential business relationships. In our consolidated financial statements, operating investments are recorded at market value, with unrealized gains and losses on these investments recognized currently in income.

Non-interest expenses increased by 0.3% from ¥518.9 billion for the year ended March 31, 2003 to ¥520.4 billion for the year ended March 31, 2004. Compensation and benefits costs increased by 6%, but this was largely offset by cost reductions relating to commissions and floor brokerage, occupancy and business development.

Non-interest expenses was ¥518.9 billion for the year ended March 31, 2003. This was partially offset by an impairment loss in the amount of ¥21.2 billion on our investment in JAFCO, one of our affiliates, as discussed below.

Income before income taxes was ¥47.4 billion for the year ended March 31, 2003 and ¥282.7 billion for the year ended March 31, 2004.

We are subject to a number of different taxes in Japan. For the year ended March 31, 2003, we adopted a consolidation tax system as permitted under the Japanese tax law. In addition to the basic corporate tax rate, a 2% surtax was imposed until the year ended March 31, 2004. Our foreign subsidiaries are subject to income taxes of the countries in which they operate. Reflecting the surtax, the tax rate was approximately 44% for the year ended March 31, 2003 and 2004.

Income tax expense for the year ended March 31, 2004 was ¥110.3 billion, representing an effective tax rate of 39.0%. The effective tax rate was below our statutory tax rate of 44% mainly due to two reasons. First, in reviewing our capital base and our business mix in each of our three overseas regions (Americas, Europe, Asia and Oceania) as part of our strategy to establish ourselves firmly as a globally competitive Japanese financial institution, we determined that we would not repatriate undistributed earnings of our three regional holding companies (Nomura Holding America Inc., Nomura Europe Holdings plc and Nomura Asia Holding N.V.) within the foreseeable future. As a result, we have reversed ¥ 8.5 billion of previously provided deferred tax liabilities. This decreased the effective tax rate for the year ended March 31, 2004 by approximately 3%. The second reason was the different tax rate applicable to income (loss) of foreign subsidiaries. This decreased the effective tax rate for the year ended March 31, 2004 by approximately 1.6%.

Income tax expense for the year ended March 31, 2003 was ¥37.3 billion, representing an effective tax rate of 78.7%. The effective tax rate was significantly above the statutory tax rate of 44% mainly due to two reasons. First, new Japanese tax legislation was issued in March 2003, reducing the standard enterprise tax rate and creating new taxes on capital and certain expenses defined in the law. This legislation became effective on April 1, 2004, and resulted in a domestic statutory tax rate of approximately 40%. As a result of the future lower statutory tax rate, deferred tax assets were reduced and, accordingly, this increased the effective tax rate for the year ended March 31, 2003 by approximately 16%. Second, deferred tax assets were decreased with respect to the movement of valuation allowances related to the operating loss carry forwards for tax purposes of certain foreign subsidiaries and, accordingly, this increased the effective tax rate for the year ended March 31, 2003 by approximately 12%.

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We wrote off negative goodwill arising with respect to Nomura Asset Management Co., Ltd. from a previous business combination upon adoption of SFAS No. 142 and recorded, as a cumulative effect of accounting change, a gain of ¥109.8 billion for the year ended March 31, 2003. For further information on this gain, see Note 3 to our consolidated financial statements included in this annual report.

Net income was ¥119.9 billion for the year ended March 31, 2003 and ¥172.3 billion for the year ended March 31, 2004. Our return on equity was 7.4% for the year ended March 31, 2003 and 10.1% for the year ended March 31, 2004.

Results by Business Segment

As discussed in Overview under Item 4.B of this annual report, we operate three business segments: Domestic Retail, Global Wholesale and Asset Management. Gain (loss) on investment securities, corporate items and other financial adjustments are included as Other operating results outside these business segments in our segment information. Unrealized gain (loss) on investments in equity securities held for relationship purposes and the effects of consolidation and deconsolidation of private equity investee companies are classified as reconciling items outside our segment information. You should read the following segment information in conjunction with Item 4.B of this annual report and Note 18 to our consolidated financial statements included in this annual report. Reconciliation of our segment results of operations and consolidated financial statements is set forth in Note 18.

Domestic Retail

In Domestic Retail, we receive commissions and fees from investment consultation services which we provide mainly to individual customers in Japan. Additionally, we receive operational fees from asset management companies in connection with the administration services of investment trust certificates that we distribute. We also receive agent commissions from insurance companies for the insurance products we sell as an agent.

Operating Results of Domestic Retail

	Year Ended March 31,	
	2003	**2004**
	(in millions)	
Non-interest revenues	¥ 246,938	¥ 304,035
Net interest revenue	2,313	1,722
Net revenue	249,251	305,757
Non-interest expenses	213,562	226,213
Income before income taxes	¥ 35,689	¥ 79,544

Net revenue for the year ended March 31, 2004 reached ¥305.8 billion, increasing 23% from ¥249.3 billion for the year ended March 31, 2003. This was due to the fact that commissions and fees in securities brokerage and investment trusts distribution increased, while asset management fees decreased. The decrease in asset management fees was caused by decreases in trust fees primarily related to a change of the appraisal method for composite bonds for Long-Term Bond Investment Trusts. These decreases in asset management fees were offset by an increase in revenue reflecting the increase in commissions and fees in stock brokerage and sales of investment trusts due to the favorable conditions in the Japanese securities markets.

Net revenue for the year ended March 31, 2003 reached ¥249.3 billion. This was due to the fact that the placements and sales of bonds increased, while commissions and fees in stock brokerage and asset management fees decreased. The decrease in commissions and fees in stock brokerage was caused by the decline in sales amounts mainly due to the downturn in the stock market. Additionally, the reduction in asset management fees was caused by decreases in the balances for Long-Term Bond Investment Trusts, decreases in trust fees due to a drop in distribution ratios for Long-Term Bond Investment Trusts and a decline in the balances for stock investment trusts due to the downturn in the stock market. These decreases in commissions and fees were offset by an increase in revenue reflecting the increase in the placements and sales of foreign bonds.

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Non-interest expenses for the year ended March 31, 2004 were ¥226.2 billion, increasing 6% from ¥213.6 billion for the year ended March 31, 2003 mainly due to increases in compensation and benefits. Non-interest expenses for the year ended March 31, 2003 were ¥213.6 billion, mainly due to increases in compensation and benefits.

Income before income taxes were ¥35.7 billion for the year ended March 31, 2003 and ¥79.5 billion for the year ended March 31, 2004.

The graph below shows the revenue breakdown by instrument in terms of Domestic Retail non-interest revenues for the years ended March 31, 2003, and 2004.

As described above, asset management fees and the commissions for variable annuity insurance decreased for the year ended March 31, 2004. This was offset by increased revenue from equities, bonds and investment trusts. Revenue from bonds represented 40% of total Domestic Retail non-interest revenue for the year ended March 31, 2003. However, this figure declined to 34% for the year ended March 31, 2004. On the other hand, revenue from equities increased from 28% for the year ended March 31, 2003 to 40% for the year ended March 31, 2004, due to the stronger performance of the Japanese equity markets. Revenue from investment trusts slightly increased to 16% from 15%, due primarily to increased investment trust distribution.

The increase in revenues in Domestic Retail resulted primarily from the increases in client assets as our strategy of providing value-added investment consultation services and diversification of products progressed.

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Client assets

The following graph shows amounts and details regarding client assets relating to Domestic Retail at March 31, 2003, and 2004. Our client assets consist of customers assets, excluding assets of financial institutions, held in our custody, and assets relating to the variable annuity insurance products.

Client Assets

(Note) For each of the two years shown in the above graph, an insignificant portion of client assets was attributable to other instruments. Because of its insignificant size, this portion is not shown in the above graph. The amount for this portion was ¥0.22 trillion and ¥0.33 trillion for the years ended March 31, 2003 and 2004, respectively.

Client assets increased by ¥8.1 trillion from ¥27.1 trillion at March 31, 2003 to ¥35.2 trillion at March 31, 2004, due to the increase in the balances of equity securities and bonds.

Due to a recovery in the domestic stock markets (47% rise in the Nikkei Stock Average) and the incentive created by revisions to the Japanese tax system for taxpayers to place equity positions in the custody of securities companies, equity assets increased by ¥6.5 trillion to ¥16.0 trillion at March 31, 2004 from ¥9.5 trillion at March 31, 2003.

Also due to continuing extremely low interest rates, growing needs for asset diversification and the start of distribution of Japanese Government bonds for individuals, the needs regarding domestic and foreign bonds have been high, for both individuals and corporations. This has caused a steady expansion of bond assets held in custody. Bond assets held in custody increased by ¥1.4 trillion and reached ¥9.8 trillion at March 31, 2004, from ¥8.4 trillion at March 31, 2003.

Global Wholesale

In Global Wholesale, we earn fees, commissions and other revenues by providing sales and trading services, and investment banking services mainly to global institutional customers. In our sales and trading activities, we facilitate customer transactions and trade for our own account by market-making and trading fixed income and equity securities. We also provide a broad range of investment banking services, including underwriting and financial advisory services. Also, we conduct proprietary transactions, including arbitrage and principal finance transactions.

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Operating Results of Global Wholesale

	Year Ended March 31,	
	2003	2004
	(in millions)	
Non-interest revenues	¥ 196,675	¥ 290,845
Net interest revenue	101,794	74,891
Net revenue	298,469	365,736
Non-interest expenses	207,436	227,227
Income before income taxes	¥ 91,033	¥ 138,509

Net revenue was ¥298.5 billion and ¥365.7 billion for the years ended March 31, 2003 and 2004, respectively. Non-interest expenses were ¥207.4 billion and ¥227.2 billion for the years ended March 31, 2003 and 2004, respectively.

Our Global Wholesale consists of four business lines as of March 31, 2004: Fixed Income, Equity, Investment Banking and Merchant Banking.

Fixed Income

We cover fixed income related products, including government securities, agency securities, municipal securities, credit products, money market products, foreign exchange, asset backed securities and various derivatives products. Our strategy is to enhance customer-driven transactions and focus on maintaining our presence as a market leader in yen bond markets globally. We have enhanced our execution capabilities for trading in structured medium-term notes to meet strong demand from our high-net-worth clients and regional institutions in Domestic Retail.

The table below shows our market share of Japanese Government bond auctions and secondary bond trading, in terms of the principal amounts of bonds purchased, for the years indicated. Secondary bond trading refers to the trading of bonds originally issued in Japan in the over-the-counter market and on exchanges in Japan, but excludes *gensaki* and inter-dealer transactions.

	Year Ended March 31,	
	2003	2004
Nomura s Share in Japanese Government bond auctions	15%	16%
Nomura s Share in secondary bond trading	14%	16%

Operating Results of Fixed Income

	Year Ended March 31,	
	2003	2004
	(in millions)	
Net revenue	¥ 153,966	¥ 173,994
Non-interest expenses	76,759	91,810
Income before income taxes	¥ 77,207	¥ 82,184

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Net revenue increased by 13% from ¥154.0 billion for the year ended March 31, 2003 to ¥174.0 billion for the year ended March 31, 2004, mainly due to the steady increase in demand for foreign currency bonds from high-net-worth clients in Domestic Retail and an increase in net gain on trading related to medium-term notes.

Net revenue was ¥154.0 billion for the year ended March 31, 2003, mainly due to an increase in net gain on trading related to medium-term notes and foreign currency bonds.

Non-interest expenses increased by 20% from ¥76.8 billion for the year ended March 31, 2003 to ¥91.8 billion for the year ended March 31, 2004, mainly due to performance related compensation and benefit costs.

Non-interest expenses was ¥76.8 billion for the year ended March 31, 2003, mainly due to increases in performance related compensation and benefit costs.

Income before income taxes was ¥77.2 billion for the year ended March 31, 2003 and ¥82.2 billion for the year ended March 31, 2004.

Equity

We focus on generating customer order flow as well as arbitrage trading for our own account. In recent years, many Japanese corporations, which needed to restructure their balance sheets have accelerated their liquidation of cross-shareholdings of other Japanese corporations. Utilizing our strong client base, solution providing services and execution capabilities, we have been handling large block orders resulting from such liquidations.

Furthermore, through our global sales network we often handle orders for baskets of various stocks from large domestic and foreign corporations and public pension funds. In the year ended March 31, 2004, we continued to strengthen our sales network into a global organization, which enables us to meet the 24-hour demand from large global customers through the Tokyo, London and New York offices.

The following table sets forth the closing level of the TOPIX and the Nikkei 225, which are both stock market indices in Japan, as of the dates indicated, and the percentage changes from the closing level at the date one year before:

Stock Market Index	**March 31,**	
	2003	**2004**
TOPIX	788.00	1,179.23
	-25.7%	49.6%
Nikkei 225 (Nikkei Stock Average)	7,972.71	11,715.39

	-27.7%	46.9%

In the Japanese stock market, share prices continued to fall in 2002, as the market suffered from adverse supply-demand conditions. From the latter half of 2003 until March 31, 2004, share prices recovered and experienced large gains. The key TOPIX index, for example, had surged upward by 50% from 788.00 points as of the end of March 2003, to 1,179.23 points as pf the end of March 31, 2004. Similarly, the Nikkei Stock Average had surged upward by 47% from 7,972.71 points as of the end of March 2003, to 11,715.39 points as of the end of March 2004. The following table shows our market share of Japanese equity trading for the years indicated.

	Year Ended March 31,	
Nomura s Share in	**2003**	**2004**
Total equity trading market in Japan	9%	8%
Off-floor/off-exchange equity trading market in Japan	20%	16%

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Operating Results of Equity

	Year Ended March 31,	
	2003	2004
	(in millions)	
Net revenue	¥ 82,025	¥ 110,153
Non-interest expenses	65,675	71,494
Income before income taxes	¥ 16,350	¥ 38,659

Net revenue increased by 34% from ¥82.0 billion for the year ended March 31, 2003 to ¥110.2 billion for the year ended March 31, 2004, mainly due to an increase in customers order flow, such as block trading, resulting from a favorable Japanese equity market.

Net revenue was ¥82.0 billion for the year ended March 31, 2003, mainly due to a decrease in customers order flow, such as block trading, resulting from a stagnant Japanese equity market.

Non-interest expenses increased by 9% from ¥65.7 billion for the year ended March 31, 2003 to ¥71.5 billion for the year ended March 31, 2004, mainly due to increases in compensation and benefits.

Non-interest expenses was ¥65.7 billion for the year ended March 31, 2003 mainly due to decreases in compensation and benefits in line with lower revenues.

Income before income taxes was ¥16.4 billion for the year ended March 31, 2003 and ¥38.7 billion for the year ended March 31, 2004.

Investment Banking

We offer various investment banking services, such as underwriting and advisory activities. We underwrite offerings of bonds, stocks, and other instruments in the major global markets of Japan, Europe, and the U.S. The following table shows changes in our market share in the underwriting market for bonds and stocks in Japan.

Year Ended March 31,	
2003	2004

Nomura s Share in Japanese IPOs	49%	25%
Nomura s Share in Japanese Public Offerings	44%	35%
Nomura s Share in Japanese Straight Bonds	23%	19%
Nomura s Share in Japanese Samurai Bonds	14%	16%

We have been enhancing our M&A and financial advisory capabilities for cross border deals as well as Japanese deals. According to Thomson Financial, the amounts of announced M&A deals which involved Japanese parties was $87.3 billion and our share was 20.6% for the year ended December 31, 2003.

Operating Results of Investment Banking

	Year Ended March 31,	
	2003	2004
	(in millions)	
Net revenue	¥ 69,125	¥ 70,869
Non-interest expenses	56,374	53,703
Income before income taxes	¥ 12,751	¥ 17,166

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Net revenue increased by 3% from ¥69.1 billion for the year ended March 31, 2003 to ¥70.9 billion for the year ended March 31, 2004, due primarily to an increase in fees we earned underwriting public stock offerings.

Net revenue was ¥69.1 billion for the year ended March 31, 2003, partly due to a decrease in order flow relating to the Japanese equity market. Public offering activities were stagnant during the year ended March 31, 2003 in the Japanese capital market, although the number of M&A deals increased.

Non-interest expenses decreased by 5% from ¥56.4 billion for the year ended March 31, 2003 to ¥53.7 billion for the year ended March 31, 2004, due primarily to decrease in commissions and floor brokerage.

Non-interest expenses was ¥56.3 billion for the year ended March 31, 2003.

Income before income taxes was ¥12.8 billion for the year ended March 31, 2003 and ¥17.2 billion for the year ended March 31, 2004.

Merchant Banking

In October 2001, we established the Merchant Banking division within Global Wholesale, which combines our principal finance business in Japan and Europe, and other private equity businesses in Japan and Europe.

In Japan, Nomura Principal Finance Co., Ltd. has been active in the field of buy-outs and corporate revitalization, targeting investment opportunities that offer scope for capital appreciation and attractive returns to us. The Japanese private equity business has also been developed through investments in funds managed by the Nomura Research & Advisory Co., Ltd. Since March 27, 2002, our principal finance investments in Europe have been managed by Terra Firma, as explained in Private Equity Investments below.

Operating Results of Merchant Banking

	Year Ended March 31,	
	2003	**2004**
	(in millions)	
Net revenue	¥ (6,647)	¥ 10,720
Non-interest expenses	8,628	10,220
Income before income taxes	¥ (15,275)	¥ 500

Net revenue increased from (¥6.6) billion for the year ended March 31, 2003 to ¥10.7 billion for the year ended March 31, 2004, due primarily to realized gains from investments in Japan from which we exited and a rise in the fair value of the Terra Firma investment in Europe.

Net revenue was (¥6.6) billion for the year ended March 31, 2003, due primarily to the impact of the worldwide recession, which depressed asset values and limited exit opportunities.

Non-interest expenses increased by 18% from ¥8.6 billion for the year ended March 31, 2003 to ¥10.2 billion for the year ended March 31, 2004, mainly due to increases in compensation and benefits.

Non-interest expenses ¥8.6 billion for the year ended March 31, 2003, mainly due to decreases in compensation and benefits.

Loss before income taxes was ¥15.3 billion for the year ended March 31, 2003 and income before income taxes was ¥0.5 billion for the year ended March 31, 2004.

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Asset Management

In Asset Management, principally conducted through Nomura Asset Management, we develop and manage investment trusts, which we and other financial institutions distribute, and earn management fees for the portfolio management of investment trusts. We also provide investment advisory services for pension funds and other institutional customers. Net revenues mainly consist of asset management and portfolio service fees. Additionally, in the defined contribution pension business, we receive commissions as a defined contribution pension plan administrator.

Operating Results of Asset Management

	Year Ended March 31,	
	2003	**2004**
	(in millions)	
Non-interest revenues	¥ 34,828	¥ 34,300
Net interest revenue	2,232	1,657
Net revenue	37,060	35,957
Non-interest expenses	33,866	37,004
Income before income taxes	¥ 3,194	¥ (1,047)

Net revenue decreased by 3% from ¥37.1 billion for the year ended March 31, 2003 to ¥36.0 billion for the year ended March 31, 2004, due primarily to decreases in asset management and portfolio service fees reflecting declines in the outstanding balance of bond investment trusts.

Net revenue was ¥37.1 billion for the year ended March 31, 2003, due primarily to decreases in asset management and portfolio service fees reflecting declines in the outstanding balance of our Long-term Bond Investment Trusts.

Non-interest expenses increased by 9% from ¥33.9 billion for the year ended March 31, 2003 to ¥37.0 billion for the year ended March 31, 2004, due primarily to a special withdrawal charge paid to the Japan Securities Dealers Employees Pension Fund by Nomura Asset Management in September 2003.

Non-interest expenses was ¥33.9 billion for the year ended March 31, 2003, partly due to a decrease in compensation and benefits.

Income before income taxes was ¥3.2 billion for the year ended March 31, 2003, and loss before income taxes was ¥1.0 billion for the year ended March 31, 2004.

Nomura Asset Management s assets under management

	As of March 31,	
	2003	**2004**
	(in billions)	
Publicly offered stock investment trusts	¥ 3,168	¥ 4,484
Publicly offered bond investment trusts	7,253	6,345
Privately placed investment trusts	238	428
Investment advisory	3,578	4,423
Total	¥ 14,237	¥ 15,681

(Note) There are some assets that are calculated in a partially overlapping manner, due to funds of funds.

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Asset Management Business of Nomura Asset Management

The assets under management of Nomura Asset Management was ¥15.7 trillion as of the year ended March 31, 2004, reflecting a decrease of ¥2.5 trillion from the year ended March 31, 2002, and an increase of ¥1.4 trillion from the year ended March 31, 2003. As of March 31, 2004, the assets under management of Nomura Asset Management included publicly offered stock investment trusts in the aggregate principle amount of ¥4.5 trillion, publicly offered bond investment trusts in the aggregate principal amount of ¥6.3 trillion, privately placed investment trusts in the aggregate principal amount of ¥0.4 trillion, and investment advisory activities covering assets in the amount of ¥4.4 trillion.

With respect to publicly offered stock investment trusts, in a trend that started in the year ended March 31, 2003 and continued through the year ended March 31, 2004, a number of Exchange Traded Funds, to which Japanese financial institutions contributed stocks, as a means to unwind their cross-shareholdings, were established. During the year ended March 31, 2004, the Nikkei Stock Average had surged to 11,715.39 points as of the end of March 2004 from 7,972.71 points as of the end of March 2003, representing an appreciation of 47%. As a result, the total net assets of stock investment trusts managed by Nomura Asset Management as of March 31, 2004 increased by ¥1.3 trillion, or 42% compared with March 31, 2003. Investment advisory assets of Nomura Asset Management increased to ¥4.4 trillion as of March 31, 2004 from ¥3.6 trillion as of March 31, 2003, due primarily to an increase of assets from overseas investors.

With respect to publicly offered bond investment trusts, net assets declined in each of the years ended March 31, 2003 and 2004. For the year ended March 31, 2003, the aggregate principal amount of MMFs decreased by ¥0.5 trillion, representing a 26% change. Due to a change of the appraisal method for composite bonds and general declines in interest rates, the net assets for the publicly offered bond investment trusts, whose targeted distribution amounts dropped substantially, decreased by ¥2,269.5 billion from ¥6,299.5 billion at March 31, 2002 to ¥4,030.0 billion at March 31, 2003. At the same time, the net assets for publicly offered bond investment trusts decreased to ¥7.3 trillion as of March 31, 2003, compared with ¥10.4 trillion at March 31, 2002. The net assets for the publicly offered bond investment trusts also decreased by ¥1,389.8 billion from ¥4,030.0 billion at March 31, 2003 to ¥2,640.2 billion at March 31, 2004. At the same time, the net assets for publicly offered bond investment trusts decreased to ¥6.3 trillion as of March 31, 2004, compared with ¥7.3 trillion at March 31, 2003

The following table shows Nomura Asset Management s share, in terms of net asset value, in the Japanese asset management market as of the dates indicated. Nomura Asset Management s market share in publicly offered investment trusts declined to 28% as of March 31, 2004 because of an overall increase in the market size of publicly offered stock investment trusts.

The share of Nomura Asset Management in the fund market of Japan

	As of March 31,	
	2003	**2004**
Total of publicly offered investment trusts	30%	28%
Stock investment trusts	19%	19%
Bond investment trusts	40%	40%

Defined contribution pension plan business in Japan

In connection with the defined contribution pension plan business in Japan, we offer various services. Among other things, we provide consulting and support for plan implementation (plan design), product selection, provision of information to subscribers, trust services, product supply, and investor education. As of the end of March 2004, there were 59 plans with respect to which we, through Nomura Pension Support & Service Co., Ltd., were entrusted with the administration and management of defined contribution pension plans, and the total number of participants in those plans was about 185,000 persons, which was the largest in Japan.

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Other Operating Results

Other operating results include gain (loss) on investment securities, our share of equity in earnings (losses) of affiliates, impairment loss on long-lived assets, corporate items and other financial adjustments.

Loss before income taxes in other operating results was ¥40.7 billion for the years ended March 31, 2003, respectively, and income before income taxes in other operating results was ¥8.5 billion for the year ended March 31, 2004.

Among our listed affiliates that are accounted for under the equity method in our consolidated financial statements, JAFCO, which is in the business of investing in and enhancing the equity value of non-listed companies, currently comprises a substantial portion of the aggregate carrying amount of our equity investments. During the years ended March 31, 2002 and 2003, the overall decline in market conditions in Japan led to a decrease in revenues relating to JAFCO-backed initial public offerings, and this contributed to a substantial decline in JAFCO s share price. As a result, we determined that there was an other-than-temporary loss on our investment in JAFCO, and we recorded an impairment loss on that investment of ¥21.2 billion for the year ended March 31, 2003. This loss is included in Non-interest expenses Other in our consolidated income statement for these years. For further information on these losses, see Note 16 to our consolidated financial statements included in this annual report.

Cash flows

Cash and cash equivalents at March 31, 2004 increased by ¥146.1 billion compared with March 31, 2003. Net cash used in operating activities was ¥1,825.9 billion (¥34.1 billion was provided for the year ended March 31,2003), mainly due to an increase in net trading-related balances (net of assets and liabilities). Net cash provided by investing activities was ¥45.5 billion (¥134.1 billion was provided for the year ended March 31, 2003) mainly because of sales and redemptions of investments in equity securities and non-trading debt securities. Net cash provided by financing activities was ¥1,945.5 billion (¥24.6 billion was used for the year ended March 31, 2003) mainly due to an increase in borrowings.

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(2) Trading Activities

Assets and liabilities for trading purposes

The balances of assets and liabilities for trading purposes, including securities pledged as collateral at March 31, 2003 and 2004 are as follows.

	March 31, 2003 (Mil Yen)	March 31, 2004 (Mil Yen)
Trading assets and Private equity investments	9,286,507	13,838,396
Securities inventory	8,512,200	13,066,963
Equity securities and convertible bonds	1,669,100	2,091,565
Government and government agency bonds	3,840,167	7,702,731
Bank and corporate debt securities	1,382,211	1,153,693
Commercial paper and certificates of deposit	34,012	24,998
Options and warrants	38,033	41,900
Mortgage and mortgage-backed securities	1,007,928	773,083
Beneficiary certificates and other	540,749	1,278,993
Derivative contracts	503,417	479,659
Foreign exchange forwards	16,558	34,807
FRA[1] and other OTC[2] forwards	296	1,073
Swap agreements	410,912	293,883
Options other than securities options purchased	75,651	149,896
Private equity investments	270,890	291,774
Trading liabilities	3,888,720	5,976,966
Securities sold but not yet purchased	3,401,715	5,559,598
Equity securities and convertible bonds	907,635	1,301,983
Government and government agency bonds	2,260,809	3,957,335
Bank and corporate debt securities	204,231	223,983
Options and warrants	27,191	62,871
Mortgage and mortgage-backed securities	1,750	13,414
Beneficiary certificates and other	99	12
Derivative contracts	487,005	417,368
Foreign exchange forwards	16,999	29,629
FRA and other OTC forwards	8	1,324
Swap agreements	443,408	297,856
Options other than securities options written	26,590	88,559

(1) FRA is Forward Rate Agreements
(2) OTC is Over The Counter

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Risk management of trading activity

Value at Risk (VaR) is the tools we use to measure market risk of our trading related business.

1) Assumption on VaR

2.33 standard deviations 99% confidence level

Holding period: One day

Consider correlation of price movement among the products

2) Records of VaR.

	March 31, 2003 (Bil Yen)	March 31, 2004 (Bil Yen)
Equity	1.5	3.3
Interest rate	2.3	2.0
Foreign exchange	0.2	0.5
Sub-total	4.0	5.8
Diversification benefit	(0.9)	(1.9)
Value at Risk (VaR)	3.1	3.9

	Year ended March 31, 2004		
	Maximum (Bil Yen)	Minimum (Bil Yen)	Average (Bil Yen)
Value at Risk (VaR)	5.6	2.8	3.9

2. Current Challenges.

While Japan s economy and securities markets are recovering steadily, we are facing a more competitive environment than ever before. In this environment, we will analyze the markets and customers, deal with diverse customer needs promptly and flexibly, and expand its field to global markets so that we can provide creative solutions to customers both at home and abroad and maximize our opportunities.

With regards to Domestic Retail, we will provide various high-quality financial services based on the specific needs of each customer and expand client assets. In addition, we will continue our efforts to stimulate the securities markets that are becoming more important for the revitalization of Japan by investor education programs and so forth.

Regarding Global Wholesale, as the financial results of Japanese companies recover, we will flexibly respond to changes in customer and market needs such as financing business, globally increasing M&A business and continuously expanding our corporate rehabilitation business. In April 2004, we reorganized Global Wholesale segment. It now consists of three business lines: Global Markets which is composed of Fixed Income and Equity, Investment Banking, and Merchant Banking in order to enhance specialty services and strengthen its global structure.

In Asset Management, we continue to enhance performance by continuing to offer a variety of investment opportunities, and increasing assets under management by maintaining a strong sales support system and delivering new products to meet customer needs. In regards to the defined contribution pension plan business, we will enhance our offering of integrated services ranging from consulting for plan implementation and investment education to supply of products.

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We are committed to strengthening our base in the securities businesses and increasing our own corporate value utilizing our combined strengths and making quick decisions in challenging the above subjects, as well as actively contributing to the development of the Japanese economy and the securities market.

3. Risk Factors.

You should carefully consider the risks described below before making an investment decision. If any of the risks described below actually occurs, our business, financial condition or results of operations could be adversely affected. In that event, the trading prices of our shares and ADSs could decline, and you may lose all or part of your investment. Additional risks not currently known to us or that we now deem immaterial may also harm us and affect your investment.

Market fluctuations could harm our businesses

Our businesses are materially affected by conditions in the financial markets and economic conditions in Japan and elsewhere around the world. Market downturns can occur not only as a result of purely economic factors, but also as a result of war, act of terrorism, natural disasters or other similar events. A sustained market downturn can adversely affect our business and can result in substantial losses. Even in the absence of a prolonged market downturn, we may incur substantial losses due to market volatility.

Our brokerage and asset management revenues may decline

A market downturn could result in a decline in the revenues we receive from commissions because of a decline in the volume of brokered securities transactions that we execute for our customers. Also, in most cases, we charge fees for managing our clients portfolios that are based on the value of their portfolios. A market downturn that reduces the value of our clients portfolios, increases the amount of withdrawals or reduces the amount of new investments in these portfolios would reduce the revenue we receive from our asset management businesses.

Our investment banking revenues may decline

Unfavorable financial or economic conditions would likely reduce the number and size of transactions for which we provide securities underwriting, financial advisory and other investment banking services. Our investment banking revenues, which include fees from these services, are directly related to the number and size of the transactions in which we participate and would therefore decrease if there is a sustained market downturn.

We may incur significant losses from our trading and investment activities

We maintain large trading and investment positions in the fixed income and equity markets, both for our own account and for the purpose of facilitating our customers trades. Our positions consist of various types of asset, including financial derivatives transactions in the interest rate, credit, equity, currency, commodity, real estate and other markets. Market fluctuations can adversely affect the value of these assets. To the extent that we own assets, or have long positions, a market downturn could result in losses if the value of these long positions decreases. Furthermore, to the extent that we have sold assets we do not own, or have short positions, a market upturn could expose us to potentially unlimited losses as we attempt to cover our short positions by acquiring assets in a rising market. We utilize various hedging techniques to mitigate these position risks. We can incur losses if the markets move in a way we have not anticipated, as a result of specific events such as the terrorist attack on September 11, 2001 or the Russian economic crisis in 1998. Also, we face losses if the level of market volatility differs from our expectation, which may occur particularly in the emerging markets. In addition, we commit capital to take relatively large position for underwriting or warehousing assets to facilitate certain capital market transactions. We may incur significant losses from these activities.

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Holding large and concentrated positions of securities and other assets may expose us to large losses

Concentration of risk can expose us to large losses in our market-making, block trading and underwriting businesses. We have committed substantial amounts of capital to these businesses. This often requires us to take large positions in the securities of a particular issuer or issuers in a particular industry, country or region. For example, we previously held a large inventory for commercial mortgage-backed securities in our U.S. operations, the value of which seriously deteriorated after bond investors took flight from these investments in August 1998.

Extended market decline can reduce liquidity and lead to material losses

Extended market decline can reduce the level of market activity. If we cannot properly close out our associated positions, in particular over-the-counter derivatives, we may incur substantial losses due to the difficulty of monitoring prices in a less liquid market.

Our hedging strategies may not prevent losses

We use a variety of instruments and strategies to hedge our exposure to various types of risk. If our hedging strategies are not effective, we may incur losses. We base many of our hedging strategies on historical trading patterns and correlations. For example, if we hold a long position in an asset, we may hedge this position by taking a short position in an asset where the short position has, historically, moved in a direction that would offset a change in value in the long position. However, historical trading patterns and correlations may not continue, and these hedging strategies may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk.

Our risk management policies and procedures may not be fully effective in managing market risk

Our policies and procedures to identify, monitor and manage risks may not be fully effective. Some of our methods of managing risk are based upon observed historical market behavior. This historical market behavior may not continue in future periods. As a result, we may suffer losses by being unable to predict future risk exposures that could be significantly greater than the historical measures indicate. Other risk management methods that we use also rely on our evaluation of information regarding markets, clients or other matters, which information is publicly available or otherwise accessible by us. This information may not be accurate, complete, up-to-date or properly evaluated, in which case we may be unable to properly assess our risks.

Market risk may increase the other risks that we face

In addition to the potentially adverse effects on our businesses described above, market risk could exacerbate other risks that we face. For example, the risks associated with new products through financial engineering/innovation may be increased by market risk. Also, if we incur substantial trading losses, our need for liquidity could rise sharply while our access to cash may be impaired. Furthermore, if there is a market downturn, our customers and counterparties could incur substantial losses of their own, thereby weakening their financial condition and, as a result, increasing our credit risk exposure to them. Our liquidity risk and credit risk are described below.

Liquidity risk could impair our ability to fund operations and jeopardize our financial condition

Liquidity, or having ready access to cash, is essential to our businesses. In addition to maintaining a readily available cash position, we seek to enhance our liquidity through repurchase and securities lending transactions, access to long-term debt, diversification of our short-term funding sources such as commercial paper, and by holding a portfolio of highly liquid assets. We bear the risk that we may lose liquidity under certain circumstances, including the following:

We may be unable to access the debt capital markets

We depend on continuous access to the debt capital markets to finance our day-to-day operations. An inability to raise money in the long-term or short-term debt markets, or to engage in repurchase agreements and securities lending, could have a substantial negative effect on our liquidity. For example, lenders could refuse to extend the credit necessary for us to conduct our business because of their assessment of our long-term or short-term financial prospects:

- if we incur large trading losses,
- if the level of our business activity decreases due to a market downturn, or
- if regulatory authorities take significant action against us.

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Our ability to borrow in the debt markets also could be impaired by factors that are not specific to us, such as a severe disruption of the financial markets or negative views about the prospects for the investment banking, securities or financial services industries generally. For example, in 1998 and 1999, as a result of concerns regarding asset quality and the failure of several large Japanese financial institutions, some international lenders charged an additional risk premium to Japanese financial institutions for short-term borrowings in the interbank market and restricted the availability of credit they were willing to extend. As concern about banks and other financial institutions in Japan continues, this additional risk premium, commonly known as Japan premium , may be imposed again.

In particular, we may be unable to access the short-term debt markets

We depend primarily on the issuance of commercial paper and short-term bank loans as a principal source of unsecured short-term funding of our operations. Our liquidity depends largely on our ability to refinance these borrowings on a continuous basis. Investors who hold our outstanding commercial paper and other short-term debt instruments have no obligation to purchase new instruments when the outstanding instruments mature. We may be unable to obtain short-term financing from banks to make up any shortfall.

We may be unable to sell assets

If we are unable to borrow in the debt capital markets or if our cash balances decline significantly, we will need to liquidate our assets or take other actions in order to meet our maturing liabilities. In volatile or uncertain market environments, overall market liquidity may decline. In a time of reduced market liquidity, we may be unable to sell some of our assets, which could adversely affect our liquidity, or we may have to sell assets at depressed prices, which could adversely affect our results of operations and financial conditions. Our ability to sell our assets may be impaired by other market participants seeking to sell similar assets into the market at the same time. For example, after the Russian economic crisis in 1998, the liquidity of some of our assets, including Russian bonds and other assets, such as commercial mortgage-backed securities, was significantly reduced by simultaneous attempts by us and other market participants to sell similar assets.

Lowering of our credit ratings could increase our borrowing costs

Our borrowing costs and our access to the debt capital markets depend significantly on our credit ratings. Rating agencies may reduce or withdraw their ratings or place us on credit watch with negative implications. A reduction in our credit ratings, or being placed on credit watch with negative implications, could increase our borrowing costs and limit our access to the capital markets. This, in turn, could reduce our earnings and adversely affect our liquidity. For example, in 1998, after a series of credit rating downgrades, we experienced an increase in borrowing costs and reduced access to short-term funding sources particularly in connection with our operations in Europe and the United States.

Event risk may cause losses in our trading and investment assets as well as market and liquidity risk

Event risk refers to potential losses in value we may suffer through unpredictable events that cause large unexpected market price moves. These include not only the events such as the terrorist attack on September 11, 2001 and the Russian economic crisis in 1998 that resulted in losses to our business but also the following types of events that could cause losses on our trading and investment assets:

sudden and significant changes in credit ratings with regard to our trading and investment assets by rating agencies that have significant presence and influence on the market,

sudden changes in trading, tax, accounting and other related rules which may make our trading strategy obsolete or less competitive, or

the failure of corporate actions such as M&A with respect to our trading and investment assets.

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Losses caused by financial or other problems of third parties may expose us to credit risk

Our counterparties are from time to time indebted to us as a result of transactions or contracts, including loans, commitments to lend, other contingent liabilities, and derivatives transactions such as swaps and options.

We may incur material losses when our counterparties default on their obligations to us due to bankruptcy, deterioration in their creditworthiness, lack of liquidity, operational failure, an economic or political event, or other reasons. This risk may arise from:

- holding securities of third parties,
- entering into swap or other derivative contracts under which counterparties have obligations to make payments to us,
- executing securities, futures, currency or derivative trades that fail to settle at the required time due to non-delivery by the counterparty or systems failure by clearing agents, exchanges, clearing houses or other financial intermediaries, or
- extending credit to our clients through bridge or margin loans or other arrangements.

Problems related to third party credit risk may include the following:

Defaults by a large financial institution could adversely affect the financial markets generally and us specifically

The commercial soundness of many financial institutions is closely interrelated as a result of credit, trading, clearing or other relationships among the institutions. As a result, concern about, or a default by, one institution could lead to significant liquidity problems or losses in, or defaults by, other institutions. This may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which we interact on a daily basis. Actual defaults, increases in perceived default risk and other similar events could arise in the future and could have an adverse effect on the financial markets and on us. We may suffer financially if major Japanese financial institutions fail or experience severe liquidity or solvency problems.

There can be no assurance as to the accuracy of the information about, or the sufficiency of the collateral we use in managing, our credit risk

We regularly review our credit exposure to specific customers or counterparties and to specific countries and regions that we believe may present credit concerns. Default risk, however, may arise from events or circumstances that are difficult to detect, such as fraud. We may also fail to receive full information with respect to the risks of a counterparty. In addition, in cases where we have extended credit against collateral, we may find that we have insufficient value in the collateral. For example, if sudden declines in market values reduce the value of our collateral, we may become undersecured.

Our customers and counterparties may be unable to perform their obligations to us as a result of economic or political conditions

Country, regional and political risks are components of credit risk, as well as market risk. Economic or political pressures in a country or region, including those arising from local market disruptions or currency crises, may adversely affect the ability of clients or counterparties located in that country or region to obtain credit or foreign exchange, and therefore to perform their obligations owed to us.

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Operational risk may disrupt our businesses, result in regulatory action against us or limit our growth

We face the following types of operational risk, and if such risk materializes, we could suffer financial losses, disruption in our business, litigation from relevant parties, regulatory intervention or reputational damage:

- suffering damages due to failure to settle securities transactions,
- suffering damages due to failure by officers or employees to perform proper administrative activities prescribed in regular procedures,
- suffering damages due to suspension or malfunction of systems, most of which are developed and maintained by our affiliate, Nomura Research Institute, Ltd., or
- suffering as a result of the destruction of our facilities or systems due to large-scale disasters or criminal actions.

Our business is subject to substantial legal and regulatory risk and to regulatory changes

Substantial legal liability or a significant regulatory action against us could have a material financial effect or cause reputational harm to us, which in turn could seriously damage our business prospects. Also, material changes in regulations applicable to us or to our market could adversely affect our business.

Our exposure to legal liability is significant

We face significant legal risks in our businesses. These risks include liability under securities or other laws for materially false or misleading statements made in connection with securities underwriting and other transactions, potential liability for advice we provide in corporate transactions and disputes over the terms and conditions of complex trading arrangements. We also face the possibility that counterparties will claim that we failed to inform them of the risks or that they were not authorized or permitted to enter into a transaction with us and that their obligations to us are not enforceable. During a prolonged market downturn, we would expect claims against us to increase. We may also face significant litigation. The cost of defending such litigation may be substantial and our involvement in litigation may damage our reputation. These risks may be difficult to assess or quantify and their existence and magnitude may remain unknown for substantial periods of time.

Extensive regulation of our businesses limits our activities and may subject us to significant penalties

The financial services industry is subject to extensive regulation. We are subject to regulation by governmental and self-regulatory organizations in Japan and in virtually all other jurisdictions in which we operate. These regulations are designed to ensure the integrity of the financial markets and to protect customers and other third parties who deal with us. These regulations are not designed to protect our shareholders and often limit our activities, through net capital, customer protection and market conduct requirements. We face the risk that regulatory authorities may intervene in our businesses through extended investigation and surveillance activity, adoption of costly or restrictive new regulations or judicial or administrative proceedings that may result in substantial penalties. We could be fined, prohibited from engaging in some of our business activities, or be subject to the temporary or long-term suspension or revocation of our legal authorization to conduct business. Our reputation could also suffer from the adverse publicity that any administrative or judicial sanction against us may create. As a result of such sanction, we may lose business opportunities for a period of time, even after the sanction is lifted, if and to the extent that our customers, especially governmental institutions, decide not to engage us for their financial transactions.

Material changes in regulations applicable to us or to our market could adversely affect our business

If regulations that apply to our businesses are introduced, modified or removed, we could be adversely affected directly or through resulting changes in market conditions. For example, in September 2002, the Financial Services Agency of Japan abolished restrictions on sharing common office space between banks and their affiliated securities companies. Also, in accordance with the amendments to the Securities and Exchange Law which will become effective on December 1, 2004, banks and certain other financial institutions may be able to act as agents of securities companies in the securities brokerage business and therefore increasing competition. Furthermore, we may face additional regulations on trading or other activities that may lead to a reduction of the market liquidity, trading volume or market participants. Such regulatory action may damage the Japanese markets as our main revenue source.

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Misconduct by an employee, Director or Executive Officer could harm us and is difficult to detect and deter

We face the risk that misconduct by an employee, Director or Executive Officer could occur. Misconduct by an employee, Director or Executive Officer could bind us to transactions that exceed authorized limits or present unacceptable risks, or hide from us unauthorized or unsuccessful activities, which, in either case, may result in unknown and unmanaged risks or losses. Misconduct by an employee, Director or Executive Officer could also involve the improper use or disclosure of confidential information, which could result in regulatory sanctions, legal liability and serious reputational or financial damage to us. We may not always be able to deter misconduct by an employee, Director or Executive Officer and the precautions we take to prevent and detect misconduct may not be effective in all cases.

The financial services industry is intensely competitive and rapidly consolidating

The businesses we are in are intensely competitive, and we expect them to remain so. We compete on the basis of a number of factors, including transaction execution, our products and services, innovation, reputation and price. In recent years, we have experienced intense price competition in brokerage, underwriting and other businesses. There has also been increased competition in terms of delivery of value-added services to customers, such as corporate advisory services, especially from non-Japanese firms entering or expanding operations in the Japanese market.

Competition with on-line brokers and non-Japanese firms in Japan is increasing

Since the late 1990s, the financial services sector in Japan has been deregulated. Banks and other types of financial institutions can compete with us to a greater degree than they could before deregulation in the areas of financing and investment trusts. Moreover, since the full deregulation of stock brokerage commission rates in October 1999, competition in the domestic brokerage market has intensified. A number of securities companies in Japan, especially small and medium-sized firms, including those that specialize in on-line securities brokerage, are offering securities brokerage services at low commission rates. In response to commission deregulation, we also restructured our stock brokerage commissions to offer lower commissions depending on the trading amount and the type of customer account. We may continue to experience pricing pressures in the future.

Competition with non-Japanese firms in the Japanese market is increasing

Competition from non-Japanese firms has also increased through their presence in Japan, especially in the areas of securities underwriting and corporate advisory services.

Increased global consolidation in the financial services industry means increased competition for us

In recent years, there has been substantial consolidation and convergence among companies in the financial services industry. In particular, a number of large commercial banks, insurance companies and other broad-based financial services firms have established or acquired broker-dealers or have merged with other financial institutions in Japan and overseas. Many of these firms have the ability to offer a wide range of products, including loans, deposit-taking, insurance, brokerage, asset management and investment banking services. This diversity of services offered may enhance their competitive position. They also have the ability to supplement their investment banking and securities business with commercial banking, insurance and other financial services revenues in an effort to gain market share. We may lose our market share as these large, consolidated firms expand their business.

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Our ability to expand internationally will depend on our ability to compete successfully with financial institutions in international markets

We believe that significant challenges and opportunities will arise for us outside of Japan. In order to take advantage of these opportunities, we will have to compete successfully with financial institutions based in important non-Japanese markets, including the United States, Europe and Asia. Some of these financial institutions are larger, better capitalized and have a stronger local presence and a longer operating history in these markets.

We may not be able to realize gains we expect on our private equity investments

We hold substantial private equity investments in Europe, as discussed in Private Equity Investments under Item 5.A of this annual report. These investments are in the residential real estate, consumer finance, retail and service sectors. We hold these investments at fair value, which is typically based on projected future cash flows, discounted at a weighted average cost of capital. Projected future cash flows will reflect the business drivers specific to each investment, which in turn will be affected by market conditions, thus any deterioration in the market conditions of these sectors in Europe could have a material impact on our future financial statements. This is especially the case if market conditions deteriorate in the European residential real estate sector, given the overall weighting of risk to this sector. Furthermore, given their large size and illiquid nature, the general partner of the fund controlling these investments may not be able to realize the value of the underlying investments at a level, at the time or in a way the general partner may wish. Inability to dispose of the underlying investments could have a material impact on our future financial statements.

Also, we have a growing private equity business in Japan. As the size of this business increases, any deterioration in market conditions and/or our inability to dispose of our private equity investments in Japan at a level, at the time or in a way we may wish, could give rise to material losses which could have a material impact on our future financial statements.

We may not be able to dispose of our operating investments at the time or with the speed we would like

As discussed in more detail in Results of Operations under Item 5.A of this annual report, we hold substantial amounts of operating investments, which refer to investments in equity securities of companies not affiliated with us which we hold on a long-term basis in order to promote existing and potential business relationships. A substantial portion of these investments consists of equity securities of public companies in Japan. Under U.S. GAAP, depending on market conditions, we may record significant unrealized gains or losses on our operating investments, which would have a substantial impact on our income statement. Depending on the conditions of the Japanese equity markets, we may not be able to dispose of these equity securities when we would like to do so or as quickly as we may wish.

Our investments in publicly-traded shares of affiliates accounted for under the equity method in our consolidated financial statements may decline significantly over a period of time and result in our incurring an impairment loss

We have equity investments in affiliates accounted for under the equity method in our consolidated financial statements whose shares are publicly traded. Under U.S. GAAP, if there is a decline in the fair value, i.e., the market price, of the shares we hold in such affiliates over a period of time, and we determine, based on the guidance of Accounting Principles Board Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock , that the decline is other than temporary, then we must record an impairment loss for the applicable fiscal period. We discuss our investment in JAFCO Co., Ltd., one of our affiliates, in Results of Operations under Item 5.A of this annual report.

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We may face an outflow of customers assets due to losses of cash reserve funds or bonds we offered

We offer many types of product to meet various needs of our customers with different risk profiles. Cash reserve funds, such as money management funds and money reserve funds, and Long-term Bond Investment Trusts (Nomura Bond Fund) are categorized as low-risk products. Such cash reserve funds may fall below par value as a result of defaults on bonds contained in the portfolio. In addition, bonds that we offer may default or experience delays in their obligation to pay interest and/or principal. Such losses in the products we offer may result in the loss of customer confidence and lead to an outflow of customer assets from our custody.

4. Significant Contracts.

Not applicable.

6. Operating and Financial Analysis.

(1) Operating Results

Please refer to 1. Operating Results . See also 2. Current Challenges and 3. Risk Factors .

(2) Critical Accounting Policies and Estimates

Use of estimates

In presenting the consolidated financial statements, management makes estimates regarding certain financial instrument and investment valuations, the outcome of litigation, the recovery of the carrying value of goodwill, the allowance for loan losses, the realization of deferred tax assets and other matters that affect the reported amounts of assets and liabilities as well as the disclosure in the financial statements. Estimates, by their nature, are based on judgment and available information. Therefore, actual results may differ from estimates, which could have a material impact on the consolidated financial statements and, it is possible that such adjustments could occur in the near term.

Fair value for financial instruments

Fair value of financial instruments is based on quoted market prices, broker or dealer quotations or an estimation by management of the amounts expected to be realized upon settlement under current market conditions. Fair value of exchange-traded securities and certain exchange-traded derivative contracts are generally based on quoted market prices or broker/dealer quotations. Where quoted market prices or broker/dealer quotations are not available, prices for similar instruments or valuation pricing models are considered in the determination of fair value. Valuation pricing models consider time value, volatility and other statistical measurements for the relevant instruments or for instruments with similar characteristics. These models also incorporate adjustments relating to the administrative costs of servicing future cash flow and market liquidity adjustments. These adjustments are fundamental components of the fair value calculation process.

Trading assets and trading liabilities, including derivative contracts, are recorded at fair value, and unrealized gains and losses are reflected in trading revenues. Fair values are based on quoted market prices or broker/dealer quotations where possible. If quoted market prices or broker/dealer quotations are not available or if the liquidation of our positions would reasonably be expected to impact quoted market prices, fair value is determined based on valuation pricing models that take into consideration time value and volatility factors underlying the financial instrument.

Valuation pricing models and their underlying assumptions impact the amount and timing of unrealized gains and losses recognized, and the use of different valuation models or underlying assumptions could produce different financial results. Changes in the fixed income, equity, foreign exchange and commodity markets will impact our estimates of fair value in the future, potentially affecting trading revenues. To the extent financial contracts have extended maturity dates, our estimates of fair value may involve greater subjectivity due to the lack of transparent market data available upon which to base underlying modeling assumptions.

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In determining fair value, we set forth five categories of financial instruments as described below:

	Billions of yen	
	March 31, 2004	
	Assets	Liabilities
Trading securities, including securities pledged as collateral[1]	¥ 13,026	¥ 5,498
Non-trading debt securities	203	
Investments in equity securities	169	
Private equity investments	292	
Derivative contracts[1]	520	479

	Billions of yen	
	March 31, 2003	
	Assets	Liabilities
Trading securities, including securities pledged as collateral[1]	¥ 8,474	¥ 3,375
Non-trading debt securities	270	
Investments in equity securities	138	
Private equity investments	271	
Derivative contracts[1]	541	514

(1) Securities options are classified as derivative contracts.

The following table sets forth the valuation of trading securities, non-trading debt securities, investment in equity securities and private equity investments by level of price transparency:

	Billions of yen		
	March 31, 2004		
	With price transparency	With little or no price transparency	Total
Trading securities inventory	¥ 12,380	¥ 646	¥ 13,026
Trading securities sold but not yet purchased	5,493	5	5,498
Non-trading debt securities	183	20	203
Investments in equity securities	139	30	169
Private equity investments		292	292

Billions of yen

	March 31, 2003		
	With price transparency	With little or no price transparency	Total
Trading securities inventory	¥ 7,883	¥ 591	¥ 8,474
Trading securities sold but not yet purchased	3,366	9	3,375
Non-trading debt securities	94	176	270
Investments in equity securities	93	45	138
Private equity investments		271	271

The fair value of trading securities, non-trading debt securities, and investments in equity securities is generally obtained from quoted market prices or broker/dealer quotations with reasonable level of price transparency, or priced with reference to comparable financial instruments whose parameters can be directly observed.

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The types of instruments valued in this manner include listed equity, major sovereign government and agency bonds, supernational bonds, municipal bonds, corporates, liquid mortgage backed securities and money market instruments.

Certain trading and non-trading debt securities are less liquid and priced using management s best estimate of fair value. These type of instruments include non-investment grade and distressed corporates debt, emerging market debts, mortgage and commercial loans, mortgage derivatives, non-investment grade piece of structured notes, and notes with embedded exotic option.

Private equity investments

Please refer to Note 2 and 5 to consolidated financial statements included in Item 5. Financial Information.

Derivative contracts

Derivative contracts consist of listed derivatives and OTC derivatives. The fair values of listed derivatives are generally determined from quoted market prices. OTC derivatives are valued using valuation models. Listed derivative and OTC derivative assets and liabilities are shown below:

	Billions of yen	
	March 31, 2004	
	Assets	Liabilities
Listed derivatives	¥ 16	¥ 9
OTC derivatives	504	470
	¥ 520	¥ 479

	Billions of yen	
	March 31, 2003	
	Assets	Liabilities
Listed derivatives	¥ 21	¥ 14
OTC derivatives	520	500
	¥ 541	¥ 514

The fair values of OTC derivative assets and liabilities at March 31, 2003 and 2004 by remaining contractual maturity are shown below:

	Billions of yen						
	March 31, 2004						
	Years to Maturity						
	Less than 1 year	1 to 3 years	3 to 5 years	5 to 7 years	More than 7 years	Cross-maturity netting(1)	Total fair value
OTC derivative assets	¥ 135	¥ 159	¥ 112	¥ 117	¥ 225	¥ (244)	¥ 504
OTC derivative liabilities	78	117	118	67	122	(32)	470

	Billions of yen						
	March 31, 2003						
	Years to Maturity						
	Less than 1 year	1 to 3 years	3 to 5 years	5 to 7 years	More than 7 years	Cross-maturity netting(1)	Total fair value
OTC derivative assets	¥ 108	¥ 145	¥ 70	¥ 100	¥ 254	¥ (157)	¥ 520
OTC derivative liabilities	80	91	126	58	249	(104)	500

Note:

(1) This column shows the amount, which represents the netting of payable balances with receivable balances for the same counterparty across maturity band categories. Receivable and payable balances with the same counterparty in the same maturity category, however, are netted within the maturity category.

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Fair values for OTC derivatives are estimated using price models based on net present value of estimated future cash flows. Price transparency for OTC derivative varies depending on product type, maturity and the complexity of the contract. Foreign exchange forwards, interest rate swaps and cross currency swaps in major currencies are the types of derivative contracts with high degree of price transparency as they are valued with model with readily observable market parameters. Long dated foreign exchange options, credit basket default swaps, swaps with multiple call feature and other complex derivatives often valued with correlations and volatilities that needs some estimates and judgment, and they are less transparent in pricing.

Accounting Developments

Please refer to Note 2 to consolidated financial statements included in Item 5. Financial Information.

(3) Quantitative and Qualitative Disclosures about Market Risk

Risk Management

Our business is subject to various risks. These risks include market, credit, event, market liquidity, operational, system and legal risks. The process of managing those risks is an integral part of management s responsibilities. Financial innovation in global business activities can lead to complex interactions among risks. We recognize the importance of identifying, evaluating, monitoring and managing our risk profile.

We manage market, credit, event and market liquidity risks using a global risk management structure described below. We manage operational, system and legal risks primarily on a regional basis.

Global Risk Management Structure

We have an independent global risk management unit headquartered in Tokyo to support risk management which takes place at each level of our business. The global risk management unit also monitors and manages market, credit, event and market liquidity risks with regard to our trading and investment portfolios on a worldwide basis.

Our current global management structure places primary risk control responsibility with the Head of Global Wholesale together with the Head of each Global Business Line under Global Wholesale. This structure enhances the coordination of our global business while satisfying the regional-based requirements of each legal entity. Concurrently, our global risk management organization monitors, controls and supports our business segments. Our global risk manager who is based in Tokyo is the overall controller for global risk management, and coordinates the efforts of our regional risk managers.

Our Executive Management Board is responsible for establishing global risk policies, and monitoring and managing the various risks that we face in our business activities.

Our Board of Executive Officers and Executive Management Board also determine our strategic direction and allocate resources and capital to each of our businesses. Our Executive Management Board reviews our business plans, budgets and risk-adjusted performance to ensure proper diversification of risks and revenues. Our Board of Executive Officers is made up of all of our Executive Officers. Our Executive Management Board is made up of Representative Executive Officers and some of our Executive Officers appointed by our Board of Directors. Our President and Chief Executive Officer is the Chairman of both of the organizations.

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Our Board of Executive Officers and Executive Management Board set the overall risk limit that applies across business segments to all of our trading and investment portfolios for our global business. Our global risk manager monitors the extent of risk exposure at each of our trading units relative to the in-house risk limit assigned to that unit and reports it to senior management daily. In addition, our regional operations employs its own position limits and stop-loss limits, which may be stricter than the in-house risk limit.

In April 2004, in addition to the above structure, the Commitment Committee was set up in The Nomura Securities Co., Ltd. in order to control risks relating to the less liquid asset investments in Global Wholesale. Our Commitment Committee is made up of Representative Executive Officers and some of the Executive Officers appointed by our President and Chief Executive Officer. Our Executive Deputy President and Chief Operating Officer is the Chairman of the Commitment Committee.

Our global risk management headquartered in Tokyo provides risk information to our Executive Management Board and quantifies risk for each of our businesses.

The role of our global risk manager in Tokyo is to monitor risk, ensure compliance with risk limits and recommend action to management as market conditions and our portfolio changes. To this end, daily reports on the monitoring and management of our worldwide risks are produced by our global risk management unit. Reports from our global risk manager enable our senior management to identify and control risk across the entire organization.

Regional risk managers located in Europe, the United States, Asia outside Japan, and in Tokyo, report on a daily basis to both regional management and risk management headquarters.

We have made a significant commitment to the development and continuous enhancement of an appropriate risk management system and procedures. This system enables us to produce various analyses of global-based exposure to counterparties under the unified obligor identification, as well as to calculate risk amounts, including Value-at-Risk amounts discussed below, based upon our position and sensitivity data sets provided from our regional risk management. The system, which senior management, global risk manager and regional risk managers access, integrates global market data, counterparty, position, exposure and other risk information worldwide. This enables us to achieve more efficient risk monitoring and more effective risk control. Especially we can monitor and control concentration of credit exposure on a daily basis against any credit events, which we now experience in the markets worldwide.

We maintain standardized methodologies for all our global operations. With this standardized framework, we can evaluate and compare the risk-adjusted profitability of our existing businesses in a consistent manner. Senior management can use this information to enhance our performance by diversifying revenues and controlling exposures.

Our global risk management employs an in-house risk limit, which we have developed as a tool to comprehensively measure our market, credit, event and market liquidity risks. We group our traders based on the type of trading strategy they use and the type of financial instruments in which they trade, and we assign to each group a specific in-house risk limit. Our traders may execute their transactions until the aggregate risk value associated with the positions they have built reaches the assigned in-house risk limit.

Types of Risks Managed

The seven principal categories of risk that we face in our daily business operations are market, credit, event, market liquidity, operational, system and legal risks.

Market Risk

Market risk refers to the potential loss in the value of an asset resulting from changes in market prices, rates, indices, volatilities, correlations or other market factors. We are exposed to this type of risk primarily in connection with our trading activities. Effective monitoring and management of this risk requires an ability to analyze a complex and constantly changing capital market environment worldwide and to highlight any problematic trends quickly.

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VaR. The statistical technique known as Value-at-Risk, or VaR, is one of the tools we use to assess market risk exposure of our trading portfolio. VaR is the potential loss in the value of our trading positions due to adverse movements in markets over a defined time horizon with a specified confidence level.

For our VaR, which we report below, we use a one-day time horizon and a 99% confidence level. This means that, statistically, there is one day out of every 100 days on which the actual trading loss exceeds the VaR.

VaR Methodology, Assumptions and Limitations. We make a number of assumptions and approximations in connection with the modeling of the risk characteristics of our trading positions. Different assumptions, approximations or a combination of them could result in a materially different VaR. We believe that the assumptions and approximations we use are reasonable.

Market risks that are incorporated in the VaR model include equity prices, interest rates, foreign exchange rates, and associated volatilities and correlations. The historical data to calculate volatilities and correlations are weighted to give greater importance to more recent observations. Given our reliance on historical data, VaR is most effective in estimating risk exposures in markets in which there are no sudden changes in market environments. An inherent limitation of VaR is that past changes in market risk factors, even when weighted toward more recent observations, may not produce accurate predictions of future market risk. Also, VaR using a one-day time horizon may not capture the market risk of positions that cannot be liquidated or hedged within one day.

There are other limitations of VaR. For example, our VaR computation assumes normal distribution for the returns on trading portfolios, while non-linear risk exposures on options would likely produce a non-normal distribution for the returns on those portfolios. Different distributional assumptions could produce a materially different VaR.

Non-trading Risk

A major market risk in our non-trading portfolio relates to operating equity investments held for relationship purposes which we hold on a long-term basis. Our non-trading portfolio is exposed mainly to volatility in the Japanese stock market. One method that can estimate the market risk in the portfolio is to analyze market sensitivity based on changes in the Tokyo Stock Price Index, or TOPIX, which is a leading index of prices of stocks on the First Section of the Tokyo Stock Exchange.

We used regression analysis for the period of the past 90 days between fluctuation in TOPIX and the market value of our operating equity investments held for relationship purposes. Our simulation indicates that, for each 10% change in TOPIX, the market value of our operating equity investments held for relationship purposes can be expected to change by ¥9,098 million as of March 31, 2003 and ¥12,486 million as of March 31, 2004. The difference in simulated numbers between March 31, 2003 and March 31, 2004 is due mainly from market value increase in our operating equity investments held for relationship purposes, despite the fact that the number of shares for those investments has been decreased. On March 31, 2003, TOPIX closed at 788.00 points and on March 31, 2004, TOPIX closed at 1,179.23 points. This simulation analyzes data for our entire operating equity investments held for relationship purposes. Therefore, it is very important to note that the actual results differ from our expectations because of price fluctuations of individual equities.

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Credit Risk

Credit risk refers to the potential loss in the value of a transaction because of a counterparty or issuer failing to perform its contractual commitment. This type of risk is reduced through diversification, effective credit analysis of counterparties, enforcement of credit limits by country and by counterparty, management of credit exposure through netting arrangements, and the maintenance of adequate collateral to secure the commitments of counterparties. We also use credit derivatives to reduce our exposure or hedge our credit risk with respect to issuers. Our regional credit officers monitor on a daily basis all credit risk and limits, and communicate credit information and concerns to our global risk management headquarters in Tokyo.

We measure our credit risk to derivatives transaction counterparties as the sum of actual current exposure evaluated daily at its fair value, plus potential exposure until maturity of such transactions. All derivative credit lines are centrally controlled through our global risk management headquarters in Tokyo.

We enter into International Swaps and Derivatives Association, Inc. master agreements or equivalent agreements called master netting agreements with many of our derivative counterparties. Master netting agreements provide protection to reduce our risks of counterparty default and, in some cases, offset our consolidated balance sheet exposure with the same counterparty which provides a more meaningful presentation of our balance sheet credit exposure.

In addition, to reduce default risk, we require collateral, principally cash or highly liquid bonds, including U.S. government securities and Japanese government securities when necessary.

The credit quality of our trading-related derivatives as of March 31, 2004 is summarized in the table below, showing the fair value of the related assets by counterparty credit rating. The actual credit ratings are determined by our internally determined public rating agency equivalents.

Counterparty Credit Ratings for Replacement Cost (Net of Collateral) of Trading Derivatives in Gain Positions

	Years to Maturity								
Credit Rating	**Less than 1 Year**	**1 to 3 Years**	**3 to 5 Years**	**5 to 7 Years**	**More than 7 Years**	**Cross-Maturity Netting[1]**	**Total Fair Value**	**Collateral Obtained**	**Replacement Cost**
							(a)	**(b)**	**(a)-(b)**
					(in billions of Yen)				
AAA	¥ 10	¥ 25	¥ 17	¥ 4	¥ 38	¥ (27)	¥ 67	¥ 14	¥ 53
AA	53	84	54	46	91	(85)	243	107	136
A	50	34	34	42	36	(96)	100	27	73
BBB	17	10	7	24	8	(13)	53	2	51
BB	0	0	0			0	0		0

Other[2]	5	6		1	52	(23)	41	6	35
Sub-total	135	159	112	117	225	(244)	504	156	348
Listed	13	3				0	16		16
Total	¥ 148	¥ 162	¥ 112	¥ 117	¥ 225	¥ (244)	¥ 520	¥ 156	¥ 364

Notes:

(1) This item represents netting of payable balances with receivable balances for the same counterparty across maturity band categories. Receivable and payable balances with the same counterparty in the same maturity category, however, are net within the maturity category.

(2) Other does not necessarily indicate that the counterparties credit is below investment grade.

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Event Risk

Event risk refers to the potential loss in value that we may suffer through unpredictable events that cause large unexpected market price moves. Event risk can be caused by changes in political or economic factors. For example, our global risk management unit collects information on current developments in the political and economic situations in the emerging countries in which we conduct business and report them to our senior management on a weekly basis. We also monitor event risk associated with the possible failure of expected mergers and acquisitions and other corporate transactions with respect to which we have made strategic investments in parties involved in these transactions.

Through our Merchant Banking activities, we have significant exposure to private equity assets. Under our risk management framework, we treat them as private equity investments.

By their nature, these assets are less liquid than other trading assets, and as a result, valuation is more uncertain. In addition, our exposure is in some cases more concentrated than is the case for other trading assets. They also exhibit a high degree of asset-specific risk. Given these characteristics, the market risk approach which is derived from day-to-day movement of market variables cannot capture the risk of private equity, and therefore we believe it is appropriate to characterize private equity risk as event risk.

We have developed modeling techniques to help us quantify the scale of our private equity risk and to allow us to calibrate these risks to the same confidence level that we apply to other trading activities. These techniques allow us to reflect the high levels of specific risk attached to private equity.

Market Liquidity Risk

Market liquidity risk refers to the additional risk that we face when we have large positions which cannot be disposed of in the course of normal market trading turnover. The longer we are exposed to these large positions, the greater the risk we face from fluctuations in the market price and other volatile market conditions. Funding risk is discussed below in (4) Liquidity and Capital Resources .

Operational Risk

Operational risk refers to the potential cost associated with criminal or other improper actions taken by our executives and employees, or failure or malfunction of our system management, or the occurrence of external phenomena such as natural disasters. Due to the increased sophistication in security transactions and the outsourcing or systemization of our operations for efficiency purposes, reduction of operational risk has become increasingly essential. We manage our operational risk primarily by periodic evaluation and enhancement, as necessary, of our internal controls.

System Risk

System risk is a type of operational risk. It is defined as risk in which we suffer damages due to system defects, such as the shutdown or malfunction of computer systems. System risk also includes the risk that we may suffer damages due to unauthorized uses of computers.

In order to deal with system risk, Nomura Securities Co., Ltd. has internal regulations on information security management that set out our security policy. Nomura Securities Co., Ltd. makes it a first priority to make these regulations well known and understood by our employees, including the importance of compliance. Also, our users cooperate with system developers such as Nomura Research Institute in developing new systems since the early stage of the development, and we aim to structure these systems that operate in line with our actual business operations. Our users participate in comprehensive tests at the time of releasing important systems. We endeavor to mitigate system risk through appropriate inspections. Furthermore, for important systems, we have a surveillance system which operates 24 hours a day, 365 days a year, and we implement early inspection and recovery from failures.

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Legal Risk

Legal risk refers to the risk of non-compliance with applicable legal and regulatory requirements, and potential loss from the inability to recover payments due from a counterparty owing to the non-enforceability of a contract. Professional expertise in the applicable regulatory environment where we conduct business, and an ability to develop cross-border products and services that meet divergent and often conflicting requirements of various regulatory regimes, are essential for managing this type of risk. We manage our legal risk primarily at the level of our regional operations. We have an Internal Controls Committee which is charged with the task of promoting proper corporate behavior throughout our group and enhancing our internal controls and procedures. The members of this committee are the President and Chief Executive Officer, some of our Executive Officers and non-executive Directors including a member of the Audit Committee. In addition, for our Japanese securities operations, the Compliance Committee in Nomura Securities, which consists of the President and Chief Executive Officer and some of the Executive Officers of Nomura Securities as well as two outside lawyers, considers major compliance matters. As part of our efforts to address legal risks for our global business, global legal and compliance conferences are held regularly to discuss issues relating to cross-border business.

(4) Liquidity and Capital Resources.

Liquidity

Overview

Liquidity is of critical importance to companies in the financial services sector. We seek to withstand market shocks for periods lasting over one year without relying on additional unsecured financing or forcing the liquidation of trading assets. We achieve this primarily by maintaining sufficient long-term debt and equity to meet the cash capital requirements of all our assets and by maintaining a portfolio of cash and highly liquid securities that can be converted to cash through sale or pledge in order to meet our immediate liquidity requirements.

Cash Flow

Our cash flows are primarily related to the operating and financing activities undertaken in connection with our trading and market-making businesses. The following is the summary information on our consolidated cash flows for the years ended March 31, 2003 and 2004:

	Year ended March 31, 2003	Year ended March 31, 2004
	(in billions)	
Net cash provided by (used in) operating activities	¥ 34.1	¥ (1,825.9)
Net income	119.9	172.3
Trading assets and private equity investments	(1,167.7)	(2,836.9)
Trading liabilities	1,242.3	2,152.2
Other, net	(160.4)	(1,313.5)

Net cash provided by (used in) investing activities	134.1	45.5
Decrease in non-trading debt securities, net	152.2	61.7
Other, net	(18.1)	(16.2)
Net cash provided by (used in) financing activities	(24.6)	1,945.5
Long-term borrowings, net	330.2	160.7
Short-term borrowings, net	(290.8)	1,824.5
Other, net	(64.0)	(39.7)
Effect of exchange rate changes	(9.0)	(19.0)
Net increase in cash and cash equivalents	¥ 134.6	¥ 146.1

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In the year ended March 31, 2004, our cash and cash equivalents increased by ¥146.1 billion to ¥637.4 billion. We used ¥1,825.9 billion in net cash for operating activities. This was largely due to the increase of our trading assets, mainly highly liquid government bonds, notes and bills. We raised ¥1,945.5 billion in net cash from financing activities. Short-term borrowings include secured loan from the Bank of Japan, which we utilized as an alternative financing tool to repurchase agreements and explain most of the change in the category.

In the year ended March 2003, net cash of ¥34.1 billion was provided by operating activities. Although we have used ¥1,167.7 billion for trading assets, the cash usage was offset by ¥1,242.3 billion increase in trading liabilities. Net cash used in financing activities was ¥24.6 billion. We have increased ¥330.2 billion of long-term borrowings and reduced ¥290.8 billion of short-term borrowings.

Liquidity Objective

We maintain a highly liquid balance sheet comprised primarily of marketable securities matched with a liability structure which ensures that liquidity is available regardless of market conditions. We seek to withstand market shocks for periods lasting over one year without raising additional unsecured financing or forcing the liquidation of assets, although we may from time to time decide to sell assets in the course of normal business or for strategic purposes. Our management establishes our overall liquidity policies.

Liquidity Policies

In order to meet our liquidity objective described above, we have designed the following liquidity policies:

Diversify Funding Sources. We seek to reduce refinancing risk by maintaining diversified sources of unsecured funding. We diversify funding by product and market. We benefit by distributing a significant portion of our liabilities through our own sales force to a large diversified client base.

As of March 31, 2003 and 2004, our unsecured funding sources were as follows:

	March 31, 2003		March 31, 2004	
	(in billions, except percentages)			
Short-Term Unsecured Debt Total[(1)(2)]	¥ 914.0	20.3%	¥ 892.2	18.3%
Short-Term Bank Borrowing	117.1		126.4	
Other Loans	15.8		4.8	
Commercial Paper	251.2		283.0	
Deposit at Banking Entities	233.5		229.9	
Certificate of Deposits	22.7		25.8	
Bonds and Notes maturing within one year	273.7		222.3	
Long-Term Unsecured Debt Total	1,955.4	43.3%	2,186.1	45.0%
Long-Term Bank Borrowing	296.4		359.1	
Other Loans	155.4		149.5	

Bonds and Notes	1,503.6		1,677.5	
Shareholders Equity	1,642.3	36.4%	1,785.7	36.7%

(1) Short-Term Unsecured Debt does not include secured loan from the Bank of Japan and secured call loans.
(2) Includes the current portion of long-term unsecured debt.

Ensure Appropriate Funding Mix. We seek to maintain sufficient long-term debt and equity to meet the cash capital requirements of all our assets. Liquidity is measured by our ability in a stress condition to finance those assets using secured funding, including repurchase agreements and securities lending transactions. We finance the cash capital needs of our assets with long-term debt and equity, and we calculate such needs using conservative estimates of the assets secured borrowing power.

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Consistent with our aim of maintaining an appropriate funding mix, we have reduced our reliance on short-term unsecured financing, thereby reducing the effect of a potential liquidity event. As of March 31, 2004, our long-term unsecured financing totaled ¥2,186.1 billion, well over the short-term unsecured financing in the amount of ¥892.2 billion (which excludes secured loans from the Bank of Japan and secured call loans but includes the current portion of long-term unsecured debt). For the most part, our long-term debt is issued on a variable rate basis, or issued on a fixed rate basis and swapped into variable-rate debt, and is thus linked to short-term money market indices to avoid interest rate risk arising from a change in the shape or level of the yield curve. All of our structured notes are hedged with financial instruments in order to realize a scheduled cash flow.

Maintain a Liquidity Portfolio. We seek to maintain a portfolio of cash and highly liquid securities that can be converted to cash through sale or pledge so that we can satisfy our immediate liquidity requirements. As of March 31, 2004, we maintained a ¥1,775.1 billion liquidity portfolio that consisted of cash, cash equivalents and government securities, mostly denominated in Japanese yen and U.S. dollar, as shown below:

	March 31, 2003	March 31, 2004
	(in billions)	
Liquidity Portfolio	¥ 1,629.1	¥ 1,775.1
Cash, Cash Equivalent and Deposits	913.8	886.1
Overnight Call Loans	113.6	41.5
Government Securities	601.7	847.5

We have structured our liquidity portfolio under the assumption that, in some instances, legal and regulatory requirements can restrict the flow of funds between entities in our consolidated group, and that funds or securities might not be freely available from a subsidiary to the parent company. The cost and availability to a company of unsecured funding are generally dependent on credit ratings and could be adversely affected by a debt rating downgrade or deterioration in certain of the company s financial ratios or other measures of financial performance. For example, the cost of issuing commercial paper may rise due to a downgrade of our short-term debt ratings. Accordingly, the structure of our liquidity portfolio takes into consideration the following: