PRICE T ROWE GROUP INC
Form 10-Q
July 25, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
Commission File Number: 000-32191

T. ROWE PRICE GROUP, INC.
(Exact name of registrant as specified in its charter)

Maryland	52-2264646
(State of incorporation)	(I.R.S. Employer Identification No.)

100 East Pratt Street, Baltimore, Maryland 21202
(Address, including Zip Code, of principal executive offices)
(410) 345-2000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months. x Yes ¨ No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (do not check if smaller reporting company)	Smaller reporting company ¨ Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
¨ Yes x No
The number of shares outstanding of the issuer's common stock ($.20 par value), as of the latest practicable date, July 23, 2018, is 243,190,703.
The exhibit index is at Item 6 on page 46.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions, except share data)

	12/31/2017	6/30/2018
ASSETS		
Cash and cash equivalents	$ 1,902.7	$ 1,484.4
Accounts receivable and accrued revenue	565.3	564.4
Investments	1,477.3	2,459.5
Assets of consolidated T. Rowe Price investment products ($1,839.6 million at December 31, 2017 and $1,467.0 million at June 30, 2018, related to variable interest entities)	2,048.4	1,857.0
Property and equipment, net	652.0	655.2
Goodwill	665.7	665.7
Other assets	224.0	196.0
Total assets	$ 7,535.4	$ 7,882.2
LIABILITIES		
Accounts payable and accrued expenses	$ 216.2	$ 220.0
Liabilities of consolidated T. Rowe Price investment products ($39.5 million at December 31, 2017, and $51.6 million at June 30, 2018, related to variable interest entities)	55.9	114.6
Accrued compensation and related costs	108.5	349.6
Supplemental savings plan liability	269.3	287.8
Income taxes payable	68.3	56.4
Total liabilities	718.2	1,028.4
Commitments and contingent liabilities		
Redeemable non-controlling interests	992.8	739.2
STOCKHOLDERS’ EQUITY		
Preferred stock, undesignated, $.20 par value – authorized and unissued 20,000,000 shares	—	—
Common stock, $.20 par value—authorized 750,000,000; issued 245,111,000 shares at December 31, 2017, and 243,180,000 at June 30, 2018	49.0	48.6
Additional capital in excess of par value	846.1	654.6
Retained earnings	4,932.9	5,435.1
Accumulated other comprehensive loss	(3.6)	(23.7)
Total permanent stockholders’ equity	5,824.4	6,114.6
Total liabilities, redeemable non-controlling interests, and permanent stockholders’ equity	$ 7,535.4	$ 7,882.2

The accompanying notes are an integral part of these statements.
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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in millions, except per-share amounts)

	Three months ended		Six months ended	
	6/30/2017	6/30/2018	6/30/2017	6/30/2018
Revenues				
Investment advisory fees	$1,046.0	$1,214.4	$2,038.7	$2,403.6
Administrative, distribution, and servicing fees	140.0	130.6	279.9	269.4
Net revenues	1,186.0	1,345.0	2,318.6	2,673.0
Operating expenses				
Compensation and related costs	403.8	456.0	801.2	897.4
Distribution and servicing	64.8	71.6	124.6	141.9
Advertising and promotion	18.7	19.0	44.4	43.6
Product-related costs	34.4	37.1	73.0	79.2
Technology, occupancy, and facility costs	85.6	93.2	168.4	187.3
General, administrative, and other	71.1	73.4	127.7	145.1
Nonrecurring insurance recoveries related to Dell appraisal rights matter	—	—	(50.0)	—
Total operating expenses	678.4	750.3	1,289.3	1,494.5
Net operating income	507.6	594.7	1,029.3	1,178.5
Non-operating income				
Net gains on investments	71.4	17.4	136.2	31.8
Net gains on consolidated investment products	39.4	19.1	88.3	19.9
Other income (loss)	1.2	(2.4)	2.5	(1.5)
Total non-operating income	112.0	34.1	227.0	50.2
Income before income taxes	619.6	628.8	1,256.3	1,228.7
Provision for income taxes	229.6	169.2	465.9	313.6
Net income	390.0	459.6	790.4	915.1
Less: net income attributable to redeemable non-controlling interests	16.1	10.7	30.6	12.5
Net income attributable to T. Rowe Price Group	$373.9	$448.9	$759.8	$902.6
Earnings per share on common stock of T. Rowe Price Group				
Basic	$1.52	$1.81	$3.08	$3.62
Diluted	$1.50	$1.77	$3.04	$3.55
Dividends declared per share	$.57	$.70	$1.14	$1.40

The accompanying notes are an integral part of these statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions)

	Three months ended		Six months ended	
	6/30/2017	6/30/2018	6/30/2017	6/30/2018
Net income	$390.0	$459.6	$790.4	$915.1
Other comprehensive income (loss)				
Net unrealized holding gains on available-for-sale investments	13.9	—	32.2	—
Reclassification gains (losses) recognized in non-operating income upon dispositions, determined using average cost	(30.3)	—	(77.9)	—
Net unrealized gains (losses) recognized upon the transfer to trading investments	(23.6)	—	(23.6)	—
Total net unrealized holding gains (losses) recognized in other comprehensive income	(40.0)	—	(69.3)	—
Currency translation adjustments				
Consolidated T. Rowe Price investment products - variable interest entities	30.0	(40.0)	37.0	(23.8)
Reclassification gains (losses) recognized in non-operating income upon deconsolidation of certain T. Rowe Price investment products	—	(.5)	—	(3.6)
Consolidated T. Rowe Price investment products - variable interest entities, net	30.0	(40.5)	37.0	(27.4)
Equity method investments	6.7	(3.3)	3.5	.5
Total currency translation adjustments	36.7	(43.8)	40.5	(26.9)
Other comprehensive income (loss) before income taxes	(3.3)	(43.8)	(28.8)	(26.9)
Net deferred tax benefits (income taxes)	4.6	6.0	15.3	3.5
Total other comprehensive income (loss)	1.3	(37.8)	(13.5)	(23.4)
Total comprehensive income	391.3	421.8	776.9	891.7
Less: comprehensive income attributable to redeemable non-controlling interests	23.6	(9.8)	40.2	(1.0)
Comprehensive income attributable to T. Rowe Price Group	$367.7	$431.6	$736.7	$892.7

The accompanying notes are an integral part of these statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS[1]
(in millions)

	Six months ended	
	6/30/2017	6/30/2018
Cash flows from operating activities		
Net income	$790.4	$915.1
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation and amortization of property and equipment	71.9	74.7
Stock-based compensation expense	74.2	90.8
Realized gains on dispositions of available-for-sale T. Rowe Price investment products	(77.9)	—
Gains recognized upon transfer of an investment in a T. Rowe Price mutual fund from available-for-sale to held as trading	(23.6)	—
Net gains recognized on other investments	(23.9)	(5.4)
Net investments in T. Rowe Price investment products to economically hedge supplemental savings plan liability	(129.0)	(13.7)
Net change in securities held by consolidated T. Rowe Price investment products	(802.0)	(407.1)
Other changes in assets and liabilities	259.1	274.9
Net cash provided by (used in) operating activities	139.2	929.3
Cash flows from investing activities		
Purchases of T. Rowe Price investment products	(23.4)	(1,110.2)
Dispositions T. Rowe Price investment products	294.7	259.3
Net cash of T. Rowe Price investment products on consolidation (deconsolidation)	(45.9)	(21.7)
Additions to property and equipment	(82.6)	(78.6)
Other investing activity	(5.2)	7.2
Net cash provided by (used in) investing activities	137.6	(944.0)
Cash flows from financing activities		
Repurchases of common stock	(446.9)	(450.3)
Common share issuances under stock-based compensation plans	74.4	92.8
Dividends paid to common stockholders of T. Rowe Price Group	(280.4)	(348.7)
Net subscriptions received from redeemable non-controlling interest holders	717.7	318.0
Net cash provided by (used in) financing activities	64.8	(388.2)
Effect of exchange rate changes on cash and cash equivalents of consolidated T. Rowe Price investment products	3.8	(6.6)
Net change in cash and cash equivalents during period	345.4	(409.5)
Cash and cash equivalents at beginning of year	1,270.5	2,005.8
Cash and cash equivalents at end of period, including $73.7 million at June 30, 2017, and $111.9 million at June 30, 2018, held by consolidated T. Rowe Price investment products)	$1,615.9	$1,596.3

[1] See note 12 for supplementary consolidating cash flow statements.

The accompanying notes are an integral part of these statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(shares in thousands; dollars in millions)

	Common shares outstanding	Common stock	Additional capital in excess of par value	Retained earnings	Accumulated other comprehensive income (loss)	Total stockholders' equity	Redeemable non-controlling interests
Balances at December 31, 2017	245,111	$ 49.0	$ 846.1	$4,932.9	$ (3.6)	$ 5,824.4	$ 992.8
Cumulative effect adjustment upon adoption of new financial instruments and accumulated other comprehensive income guidance on January 1, 2018[(1)]	—	—	—	22.4	(7.9)	14.5	—
Reclassification adjustment of stranded tax benefits on currency translation adjustments upon adoption of new accumulated other comprehensive income guidance on January 1, 2018	—	—	—	2.3	(2.3)	—	—
Balances at January 1, 2018	245,111	49.0	846.1	4,957.6	(13.8)	5,838.9	992.8
Net income	—	—	—	902.6	—	902.6	12.5
Other comprehensive income (loss), net of tax	—	—	—	—	(9.9)	(9.9)	(13.5)
Dividends declared	—	—	—	(348.8)	—	(348.8)	—
Common stock-based compensation plans activity							
Shares issued upon option exercises	2,241	.4	91.7	—	—	92.1	—
Restricted shares issued, net of shares withheld for taxes	8	—	(.1)	—	—	(.1)	—
Shares issued upon vesting of restricted stock units, net of shares withheld for taxes	56	—	(.7)	—	—	(.7)	—
Forfeiture of restricted awards	(6)	—	—	—	—	—	—
Stock-based compensation expense	—	—	90.8	—	—	90.8	—
Restricted stock units issued as dividend equivalents	—	—	.1	(.1)	—	—	—
Common shares repurchased	(4,230)	(.8)	(373.3)	(76.2)	—	(450.3)	—
Net subscriptions into T. Rowe Price investment products	—	—	—	—	—	—	322.6
Net deconsolidations of T. Rowe Price investment products	—	—	—	—	—	—	(575.2)
Balances at June 30, 2018	243,180	$ 48.6	$ 654.6	$5,435.1	$ (23.7)	$ 6,114.6	$ 739.2

(1) Includes the reclassification of $1.7 million of stranded income taxes on available-for-sale investments resulting from U.S. tax law changes enacted on December 22, 2017, from accumulated other comprehensive income to retained earnings.

The accompanying notes are an integral part of these statements.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – THE COMPANY AND BASIS OF PREPARATION.

T. Rowe Price Group (Price Group) derives its consolidated revenues and net income primarily from investment advisory services that its subsidiaries provide to individual and institutional investors in the T. Rowe Price U.S. mutual funds (U.S. mutual funds) and other investment products, including separately managed accounts, subadvised funds, and other T. Rowe Price investment products. We also provide certain investment advisory clients with related administrative services, including distribution, mutual fund transfer agent, accounting, and shareholder services; participant recordkeeping and transfer agent services for defined contribution retirement plans; brokerage; and trust services.

Investment advisory revenues depend largely on the total value and composition of assets under our management. Accordingly, fluctuations in financial markets and in the composition of assets under management impact our revenues and results of operations.

These unaudited condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, which require the use of estimates and reflect all adjustments that are, in the opinion of management, necessary to a fair statement of our results for the interim periods presented. All such adjustments are of a normal recurring nature. Actual results may vary from our estimates.

In order to increase transparency of operating expenses and better align expenses that have similar cost drivers, we have changed, as of January 1, 2018, the presentation of certain line items of our income statement. In doing so, we have reclassified certain prior year amounts to conform to the 2018 presentation. These reclassifications are shown along with the impact of the new revenue recognition accounting standard adopted on January 1, 2018, in the New Accounting Guidance section below.

The unaudited interim financial information contained in these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements contained in our 2017 Annual Report.

NEW ACCOUNTING GUIDANCE.

We adopted Accounting Standards Codification Topic 606: Revenue from Contracts with Customers (ASC 606), on January 1, 2018, using the retrospective method which required adjustments to be reflected as of January 1, 2016. In connection with the adoption of this guidance, we reevaluated all of our revenue contracts and determined that the new guidance does not change the timing of when we recognize revenue. However, we did conclude that certain fees earned from the U.S. mutual funds associated with our mutual fund transfer agent, accounting, shareholder servicing, and participant recordkeeping activities could no longer be reported net of the expenses paid to third parties that perform such services as we are deemed, under the guidance, to have control over the services before they are transferred to the U.S. mutual funds. No transition-related practical expedients were applied. Certain immaterial balance sheet reclassifications were made to conform to the 2018 presentation and all related note disclosures have been recast. Updates to our revenue recognition disclosures are included in Note 2 - Information about Receivables, Revenues, and Services and our updated revenue recognition accounting policy is included in the Summary of Significant Accounting Policies section below.

The impact of ASC 606 and other income statement reclassifications, as described above, on the condensed consolidated statements of income for each quarter of 2017 follows:

	Three months ended 3/31/2017				Three months ended 6/30/2017			
(in millions)	As previously reported	Change in Presentation	Impact of ASC 606	Recast	As previously reported	Change in Presentation	Impact of ASC 606	As reported herein
Revenues								
Investment advisory fees	$991.1	$ —	$ 1.6	$992.7	$1,043.9	$ —	$ 2.1	$1,046.0
Administrative, distribution, and servicing fees[1]	122.5	—	17.4	139.9	127.7	—	12.3	140.0
Net revenues	1,113.6	—	19.0	1,132.6	1,171.6	—	14.4	1,186.0
Operating expenses								
Compensation and related costs	397.4	—	—	397.4	403.8	—	—	403.8
Distribution and servicing	35.2	22.9	1.7	59.8	36.4	26.4	2.0	64.8
Advertising and promotion	25.6	—	.1	25.7	18.6	—	.1	18.7
Product-related costs	—	21.4	17.2	38.6	—	22.4	12.0	34.4
Technology, occupancy, and facility costs[2]	81.0	1.8	—	82.8	83.1	2.5	—	85.6
General, administrative, and other	102.7	(46.1)	—	56.6	122.1	(51.3)	.3	71.1
Nonrecurring insurance recoveries related to Dell appraisal rights matter	(50.0)	—	—	(50.0)	—	—	—	—
Total operating expenses	591.9	—	19.0	610.9	664.0	—	14.4	678.4
Net operating income	$521.7	$ —	$ —	$521.7	$507.6	$ —	$ —	$507.6

	Three months ended 9/30/2017				Three months ended 12/31/2017			
(in millions)	As previously reported	Change in Presentation	Impact of ASC 606	Recast	As previously reported	Change in Presentation	Impact of ASC 606	Recast
Revenues								
Investment advisory fees	$1,096.7	$ —	$ 2.2	$1,098.9	$1,156.0	$ —	$ 2.2	$1,158.2
Administrative, distribution, and servicing fees[1]	125.0	—	14.8	139.8	130.1	—	9.3	139.4
Net revenues	1,221.7	—	17.0	1,238.7	1,286.1	—	11.5	1,297.6
Operating expenses								
Compensation and related costs	417.4	—	—	417.4	446.3	—	—	446.3
Distribution and servicing	37.4	27.9	2.1	67.4	38.0	30.2	2.4	70.6
Advertising and promotion	14.0	—	—	14.0	33.8	—	.2	34.0
Product-related costs	—	23.4	14.5	37.9	—	26.0	9.1	35.1
Technology, occupancy, and facility costs[2]	84.0	2.2	.1	86.3	90.4	5.5	(.1)	95.8
General, administrative, and other	120.4	(53.5)	.3	67.2	146.6	(61.7)	(.1)	84.8
Total operating expenses	673.2	—	17.0	690.2	755.1	—	11.5	766.6
Net operating income	$548.5	$ —	$ —	$548.5	$531.0	$ —	$ —	$531.0

[1] The previously reported column aggregates the administrative fees and distribution and servicing fees lines presented in the income statement in prior year.

(2) The previously reported column aggregates the depreciation and amortization of property and equipment and occupancy and facility costs lines presented in the income statement in prior year.

We adopted Accounting Standards Update No. 2016-01 — Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities on January 1, 2018. This standard update addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. After January 1, 2018, the guidance requires substantially all equity investments in non-consolidated entities to be measured at fair value with changes recognized in earnings, except for those accounted for using the equity method of accounting. As such, the guidance eliminated the available-for-sale investment category for equity securities, which required unrealized holding gains to be recognized in accumulated other comprehensive income. Upon adoption, we reclassified net unrealized holding gain of $7.9 million, net of taxes, related to our $597.1 million available-for-sale investment portfolio from accumulated other comprehensive income to retained earnings. Additionally, certain investments that do not have readily available market prices or quotations will be measured at fair value, under the new guidance, as we elected to use their calculated and reported net asset value (NAV) per share as a practical expedient for measuring their fair value in accordance with ASC 946. As such, we recognized a cumulative adjustment to retained earnings of $14.5 million to adjust investments previously accounted for as cost method investments to fair value on January 1, 2018. The corresponding increase in the investments' carrying value and related deferred taxes was $19.5 million and $5.0 million, respectively. Our updated investments policy is included in the Summary of Significant Accounting Policies section below.

We adopted Accounting Standards Update No. 2018-02 — Reclassification of certain tax effects from accumulated other comprehensive income on January 1, 2018. This guidance permits tax effects stranded in accumulated other comprehensive income primarily resulting from the enactment of U.S. tax reform bill originally known as the Tax Cuts and Jobs Act of 2017 to be reclassified to retained earnings either on January 1, 2018, or retrospectively. We elected to adopt the guidance on January 1, 2018, and reclassified $2.3 million of stranded tax benefits related to currency translation adjustments to retained earnings. The stranded income taxes related to our available-for-sale investment portfolio at December 31, 2017, were reclassified to retained earnings with the adoption of Accounting Standards Update No. 2016-01 on January 1, 2018. Our updated comprehensive income policy is included in the Summary of Significant Accounting Policies section below.

NEWLY ISSUED BUT NOT YET ADOPTED ACCOUNTING GUIDANCE.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 — Leases (Topic 842). The standard update seeks to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The standards update is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted, and certain practical expedients are available. While we continue evaluating the full impact this standard will have on our financial position and results of operations, we currently expect the most significant impact will be the recognition of a right of use asset and lease liability on our consolidated balance sheets for each real-estate operating lease. We plan to adopt the standard on its effective date, January 1, 2019.

We have considered all other newly issued accounting guidance that is applicable to our operations and the preparation of our condensed consolidated statements, including those we have not yet adopted. We do not believe that any such guidance has or will have a material effect on our financial position or results of operations.

U.S. TAX REFORM AND NEWLY ENACTED MARYLAND TAX LEGISLATION.

The income tax provision for the second quarter of 2018 includes an additional nonrecurring charge of $20.8 million related to the enactment of U.S. tax reform as the firm adjusted its deferred tax asset and liability re-measurement estimates recorded at December 31, 2017. We also recognized in the second quarter of 2018 a nonrecurring charge of $7.9 million for the re-measurement of our deferred tax assets and liabilities to reflect the effect of Maryland state tax legislation enacted on April 24, 2018. This new state tax legislation, effective in 2018, adopted a five-year phase-in of the single sales factor method of apportionment for calculating income tax for multi-state companies doing business in

Maryland and is expected to result in a net benefit over time. We continue to evaluate the impact of U.S. tax reform and the Maryland state tax legislation on our estimates and expectations due to changes in our interpretations of the law, assumptions used in applying the law, and additional guidance concerning the law that may be issued.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

Revenue recognition.

Our revenue is earned from investment advisory, administrative, and distribution services we provide to our clients. Each distinct service we promise in our agreements is considered a performance obligation and is the basis for determining when we recognize revenue. The fees are allocated to each distinct performance obligation and we recognize revenue when, or as, we satisfy our promises. The consideration for our services is generally variable and included in net revenues, when it is improbable that a significant reversal could occur in the future. For certain client agreements, we have the discretion to hire a third party to provide services to our clients. In these circumstances, we are generally deemed to control the services before transferring them to our clients, and accordingly present the revenues gross of the related third-party costs. The timing of when we bill our clients and related payment terms vary in accordance with agreed-upon contractual terms. For the majority of our agreements, billing occurs after we have recognized revenue which results in accounts receivable and accrued revenue. For an insignificant portion of our contracts, billing occurs in advance of providing services which results in deferred revenue within the accounts payable and accrued expenses line of our condensed consolidated balance sheets.

Taxes billed to our clients based on our fees for services rendered are not included in revenues.

Investment advisory fees.

The majority of our investment advisory agreements, including those with the U.S. mutual funds, have a single performance obligation as the promised services are not separately identifiable from other promises in the agreements and, therefore, are not distinct. Substantially all performance obligations for providing advisory services are satisfied over time and revenue is recognized as time passes.

Investment advisory agreements with T. Rowe Price investment products regulated outside the U.S. generally have two performance obligations; one for investment management and one for distribution. For these agreements, we allocate the management fee to each performance obligation using our best estimate of the standalone fee of each of these services. The performance obligation for providing investment management services, like our other advisory contracts, is satisfied over time and revenue is recognized as time passes. The performance obligation for distribution is satisfied at the point in time when an investor makes an investment into the product. Accordingly, a portion of the investment advisory fees earned from these products relate to distribution performance obligations that were satisfied during prior periods. These distribution fees are reported within the investment advisory fees line of our condensed consolidated statements of income.

The management fee for our investment advisory agreements are based on our assets under management, which change based on fluctuations in financial markets, and represent variable consideration. Therefore, investment advisory fees are generally constrained, and excluded from revenue, until the asset values on which our client is billed are no longer subject to financial market volatility. Investment advisory fees for investment products are presented net of fees waived pursuant to the contractual expense limitations of the product. Our assets under management are valued in accordance with valuation and pricing processes for each major type of investment. Fair values used in our processes are primarily determined from quoted market prices; prices furnished by dealers who make markets in such securities; or from data provided by an independent pricing service that considers yield or price of investments of comparable quality, coupon, maturity, and type. Investments for which market prices are not readily available are not a material portion of our total assets under management.

We provide all services to the U.S. mutual funds under contracts that are subject to periodic review and approval by the funds' Boards. Regulations require that the funds' shareholders also approve material changes to investment advisory contracts.

Administrative, distribution, and servicing fees.

Administrative fees.

The administrative services we provide include distribution, mutual fund transfer agent, accounting and shareholder services; participant recordkeeping and transfer agent services for defined contribution retirement plans; brokerage, and trust services.

The administrative service agreements with the U.S. mutual funds for accounting oversight, transfer agency, and recordkeeping services generally have one performance obligation as the promised services in each agreement are not separately identifiable from other promises in the agreement and, therefore, are not distinct. The fees for performing these services are generally equal to the costs incurred and represent variable consideration. The fees are generally constrained, and are recognized as revenue when costs are incurred to perform the services. These fees are generally offset by the costs incurred to provide such services.

Other administrative service agreements for participant recordkeeping and transfer agent services for defined contribution retirement plans; brokerage services, and trust services generally have one performance obligation as the promised services in each agreement are not separately identifiable from other performance obligations in the contract and, therefore, are not distinct. Our performance obligation in each agreement is satisfied over time and revenue is recognized as time passes. The fees for these services vary by contract and are both fixed and variable.

Distribution and servicing fees.
The agreements for distribution and servicing fees earned from 12b-1 plans of the Advisor Class, R Class, and Variable Annuity II Class shares of the U.S. mutual funds have one performance obligation, as distribution services are not separately identifiable from shareholder servicing promises in the agreements and, therefore, are not distinct. Our performance obligation is satisfied at the point in time when an investor makes an investment into these share classes of the U.S. mutual funds. The fees for these distribution and servicing agreements are based on the assets under management in these shares classes, which change based on fluctuations in financial markets, and represent variable consideration. These fees are generally constrained, and excluded from revenue, until the asset values on which our client is billed are not subject to financial market volatility. Accordingly, the majority of the distribution and servicing revenue disclosed in Note 2 - information about receivables, revenues and services relates to distribution and servicing obligations that were satisfied during prior periods. These fees are offset entirely by the distribution and servicing costs paid to third-party financial intermediaries that source the assets of these share classes.

Investments.

Investments held at fair value
Investments in T. Rowe Price investment products have been made for both general corporate investment purposes and to provide seed capital for newly formed products. Those investments that we do not consolidate are carried at fair value using the quoted closing NAV per share of each fund as of the balance sheet date. The underlying investments held by our consolidated T. Rowe Price investment products retain investment company specialized accounting in consolidation, are considered trading securities for cash flow reporting purposes, and are valued in accordance with the valuation and pricing policy used to value our assets under management which is further described in the Revenue Recognition policy above.

We elected to value our interest in investment partnerships for which market prices or quotations are not readily available, at fair value using the NAV per share as practical expedient for measuring fair value.

Changes in the fair values of all these investments are reflected in non-operating income in our condensed consolidated statements of income.

Equity method investments
Equity method investments consist of investments in entities, including T. Rowe Price investment products, for which we have the ability to exercise significant influence over the operating and financial policies of the investee. The carrying values of these investments are adjusted to reflect our proportionate share of the investee's net income or loss, any unrealized gain or loss resulting from the translation of foreign-denominated financial statements into U.S. dollars, and dividends received. Our proportionate share of income or loss is included in non-operating income in our consolidated statements of income. As permitted under existing accounting guidance, we adopted a policy by which we recognize our share of UTI Asset Management Company Limited’s (UTI) earnings on a quarter lag as current financial information is not available in a timely manner. The basis difference between our carrying value and our

proportionate share of UTI's book value is primarily related to consideration paid in excess of the stepped-up basis of assets and liabilities on the date of purchase.

Comprehensive income.

The components of comprehensive income are presented in a separate statement following our consolidated statements of income and include net income, the change in our currency translation adjustments, and prior to 2018, the change in net unrealized security holding gains (losses) on investments classified as available-for-sale.

The currency translation adjustments result from translating our proportionate share of the financial statements of UTI, our equity method investment, and certain consolidated T. Rowe Price investment products into U.S. dollars. Assets and liabilities are translated into U.S. dollars using year-end exchange rates, and revenues and expenses are translated using weighted-average exchange rates for the period.

The changes in accumulated balances of each component of other comprehensive income, the deferred tax impacts of each component, and information about significant items reclassified out of accumulated other comprehensive income are presented in the notes to the financial statements. The notes also indicate the line item of our consolidated statements of income to which the significant reclassifications were recognized.

We reclassify income tax effects relating to currency translation adjustments to tax expense when there is a reduction in our ownership interest in the related investment. The amount of the reclassification depends on the investment's accounting treatment before and after the change in ownership percentage. Prior to 2018, tax effects relating to each available-for-sale investment's unrealized holding gain or loss, were reclassified upon the sale of the investment.

NOTE 2 – INFORMATION ABOUT RECEIVABLES, REVENUES, AND SERVICES.

Revenues earned during the second quarter of 2017 and 2018 under agreements with clients include:

	Three months ended 6/30/2017				Three months ended 6/30/2018			
		Administrative, distribution, and servicing fees				Administrative, distribution, and servicing fees		
(in millions)	Investment advisory fees	Administrative fees	Distribution and servicing fees	Net revenues	Investment advisory fees	Administrative fees	Distribution and servicing fees	Net revenues
U.S. mutual funds	$756.4	$83.6	$ 36.4	$876.4	$846.9	$74.4	$ 35.5	$956.8
Subadvised and separate accounts and other investment products	289.6	—	—	289.6	367.5	—	—	367.5
Other	—	20.0	—	20.0	—	20.7	—	20.7
	$1,046.0	$103.6	$ 36.4	$1,186.0	$1,214.4	$95.1	$ 35.5	$1,345.0

	Six months ended 6/30/2017				Six months ended 6/30/2018			
		Administrative, distribution, and servicing fees				Administrative, distribution, and servicing fees		
(in millions)	Investment advisory fees	Administrative fees	Distribution and servicing fees	Net revenues	Investment advisory fees	Administrative fees	Distribution and servicing fees	Net revenues
U.S. mutual funds	$1,473.8	$169.9	$ 71.6	$1,715.3	$1,679.8	$156.2	$ 72.1	$1,908.1
Subadvised and separate accounts and other investment products	564.9	—	—	564.9	723.8	—	—	723.8
Other	—	38.4	—	38.4	—	41.1	—	41.1
	$2,038.7	$208.3	$ 71.6	$2,318.6	$2,403.6	$197.3	$ 72.1	$2,673.0

The following table details the investment advisory fees earned from clients by their underlying asset class.

	Three months ended		Six months ended	
(in millions)	6/30/2017	6/30/2018	6/30/2017	6/30/2018
U.S. mutual funds				
Equity and blended assets	$628.9	$718.0	$1,223.1	$1,423.5
Fixed income, including money market	127.5	128.9	250.7	256.3
	756.4	846.9	1,473.8	1,679.8
Subadvised and separate accounts and other investment products				
Equity and blended assets	240.3	308.0	468.2	605.0
Fixed income, including money market	49.3	59.5	96.7	118.8
	289.6	367.5	564.9	723.8
Total	$1,046.0	$1,214.4	$2,038.7	$2,403.6

The following table summarizes the investment portfolios and assets under management on which we earn investment advisory fees.

	Average during Three months ended		Average during Six months ended		As of	
(in billions)	6/30/2017	6/30/2018	6/30/2017	6/30/2018	12/31/2017	6/30/2018
U.S. mutual funds						
Equity and blended assets	$440.1	$496.1	$430.6	$495.4	$480.5	$497.5
Fixed income, including money market	120.1	128.5	117.8	127.9	125.8	128.6
	560.2	624.6	548.4	623.3	606.3	626.1
Subadvised and separate accounts and other investment products						
Equity and blended assets	244.7	314.9	238.0	311.6	291.9	320.1
Fixed income, including money market	81.0	97.0	79.2	96.1	92.9	97.9
	325.7	411.9	317.2	407.7	384.8	418.0
Total	$885.9	$1,036.5	$865.6	$1,031.0	$991.1	$1,044.1

Investors that we serve are primarily domiciled in the U.S.; investment advisory clients outside the U.S. account for 5.8% and 6.1% of our assets under management at December 31, 2017, and June 30, 2018, respectively.

Total net revenues earned from T. Rowe Price investment products aggregate $985.0 million and $1,114.8 for the second quarter of 2017 and 2018, respectively. Fees earned during the six months ended June 30, 2017 and 2018 total $1,930.0 million and $2,215.4 million respectively. Accounts receivable from these products aggregates $371.9 million at December 31, 2017, and $376.6 million at June 30, 2018.

NOTE 3 – INVESTMENTS.

The carrying values of investments we do not consolidate are as follows:

(in millions)	12/31/2017	6/30/2018
Investments held at fair value		
T. Rowe Price investment products [(1)]	$ 692.1	$ 1,398.2
T. Rowe Price investment products designated as an economic hedge of supplemental savings plan liability	268.2	288.3
Investment partnerships and other investments[(2)]	78.0	93.9
Equity method investments		
T. Rowe Price investment products	277.4	508.8
26% interest in UTI Asset Management Company Limited (India)	155.8	164.6
Investment partnerships and other investments	4.8	4.7
U.S. Treasury note	1.0	1.0
Total	$ 1,477.3	$ 2,459.5

[(1)] Includes $597.1 million of investments at December 31, 2017, that were previously reported as available-for sale investments prior to the adoption of the new financial instruments guidance on January 1, 2018. Refer to Note 1 for more information.
[(2)] These investments at December 31, 2017, were carried at cost. Upon adoption of new financial guidance on January 1, 2018, these investments are carried at fair value using NAV per share as a practical expedient. Refer to Note 1 for more information.

The investment partnerships are carried at fair value using NAV per share as a practical expedient. Our interests in these partnerships are generally not redeemable and are subject to significant restrictions on transferability. The underlying investments of these partnerships have contractual terms through 2029, though we may receive distributions of liquidating assets over a longer term. The investment strategies of these partnerships include growth equity, buyout, venture capital, and real estate.

Net gains on investments during the second quarter and first six months of 2018 includes $8.0 million and $6.1 million, respectively, of net unrealized gains recognized on investments held at fair value that were still held at June 30, 2018. For the second quarter and first six months of 2017, the majority of unrealized gains or losses on investments held at fair value are included and presented with other comprehensive income.

During the first six months of 2017 and 2018, certain T. Rowe Price investment products in which we provided initial seed capital at the time of formation were deconsolidated, as we no longer had a controlling interest. Depending on our ownership interest, we are now reporting our residual interests in these T. Rowe Price investment products as either an equity method investment or an investment held at fair value. Additionally, during the first six months of 2017 and 2018 certain T. Rowe Price investment products that were being accounted for as equity method investments were consolidated, as we regained a controlling interest. The net impact of these changes on our condensed consolidated balance sheets and income statements as of the dates the portfolios were deconsolidated or reconsolidated is detailed below.

	Three months ended		Six months ended	
(in millions)	6/30/2017	6/30/2018	6/30/2017	6/30/2018
Net increase (decrease) in assets of consolidated T. Rowe Price investment products	$ (38.1)	$ 97.1	$ (1,074.0)	$ (660.4)
Net increase (decrease) in liabilities of consolidated T. Rowe Price investment products	$ (.4)	$ 23.7	$ (133.6)	$ 18.5
Net increase (decrease) in redeemable non-controlling interests	$ (19.5)	$ 57.7	$ (787.2)	$ (575.2)

Gains (losses) recognized upon deconsolidation	$—	$ .5	$—	$ 3.6

The gains or losses recognized upon deconsolidation were the result of reclassifying currency translation adjustments accumulated on certain T. Rowe Price investment products with non-USD functional currencies from accumulated other comprehensive income to non-operating income.

On July 9, 2018, we signed a letter of intent to sell our 10% holding in Daiwa SB Investments Ltd. We expect the sale to close in the third-quarter of 2018 and will recognize the realized gain as part of non-operating income.

VARIABLE INTEREST ENTITIES.

Our investments at December 31, 2017 and June 30, 2018, include interests in variable interest entities that we do not consolidate as we are not deemed the primary beneficiary. Our maximum risk of loss related to our involvement with these entities is as follows:

(in millions)	12/31/2017	6/30/2018
Investment carrying values	$ 129.2	$ 175.9
Unfunded capital commitments	38.8	35.0
Uncollected investment advisory and administrative fees	7.7	10.8
	$ 175.7	$ 221.7

The unfunded capital commitments totaling $38.8 million and $35.0 million at December 31, 2017 and June 30, 2018, respectively, relate primarily to the investment partnerships in which we have an existing investment. In addition to such amounts, a percentage of prior distributions may be called under certain circumstances.

NOTE 4 – FAIR VALUE MEASUREMENTS.

We determine the fair value of our cash equivalents and certain investments using the following broad levels of inputs as defined by related accounting standards:

Level 1 – quoted prices in active markets for identical securities.
Level 2 – observable inputs other than Level 1 quoted prices including, but not limited to, quoted prices for similar securities, interest rates, prepayment speeds, and credit risk. These inputs are based on market data obtained from independent sources.
Level 3 – unobservable inputs reflecting our own assumptions based on the best information available. We do not value any investments using Level 3 inputs.

These levels are not necessarily an indication of the risk or liquidity associated with our investments. There have been no transfers between the levels. The following table summarizes our investments that are recognized in our condensed consolidated balance sheets using fair value measurements determined based on the differing levels of inputs. This table excludes investments held by consolidated T. Rowe Price investment products which are presented separately on our condensed consolidated balance sheets and are detailed in Note 5.

	12/31/17		6/30/18	
(in millions)	Level 1	Level 2	Level 1	Level 2
Cash equivalents held in T. Rowe Price money market funds	$ 1,726.4	$ —	$1,195.0	$ —
T. Rowe Price investment products[(1)]	942.9	17.4	1,668.9	17.6
Total	791.0			

861.1
Sales of JGBs
for individual investors (transaction base)
101.3
1,271.6
1,290.6
747.8
206.4
179.6
186.4
175.4
189.0

187.3
Retail foreign currency bond sales
2,284.7
1,990.0
1,154.4
1,119.2
304.8
340.7
268.6
205.1
166.4
195.9
FY2007.3
FY2006.3
FY2004.3
FY2005.3
FY2003.3
FY2006.3

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27
Domestic Retail Related Data (2)
Domestic Client Assets*
*Domestic Client Assets = Total of client assets in custody in Domestic Retail (including regional financial institutions) and Financial Management Division.
**Includes CBs and warrants
***Includes variable annuity insurance
Domestic Client Assets*
Mar. 31, 2003

Mar. 31, 2004
Mar. 31, 2005
Mar. 31, 2006
Jun. 30, 2006
Sep. 30, 2006
Equities
17.1
28.9
33.5
49.3
45.6
45.7
Foreign currency bonds
3.7
4.0
4.0
3.6
3.5
3.5
Domestic bonds**
8.5
10.0
11.8
13.1
13.4
13.6
Stock investment trusts
2.2
3.0
3.3
5.3
5.3
5.8
Bond investment trusts
6.5
5.5
4.9
4.5
4.3
4.3
Overseas mutual funds
1.1
1.6
1.9
2.3
2.2
2.2
Other***
1.6
1.7

1.9
2.3
2.5
2.4
Total
40.6
54.8
61.2
80.5
76.7
77.7
40.6
54.8
61.2
80.5
76.7
77.7
0
20
40
60
80
100
Other***
Overseas mutual funds
Bond investment trusts
Stock investment trusts
Domestic bonds**
Foreign currency bonds
Equities
(trillions of yen)

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28
1Q
2Q
FY2004.3
FY2005.3
FY2007.3
FY2006.3
FY2003.3
1,788
3,391
6,749

4,581
0
2,000
4,000
6,000
8,000
2,042
1,009
Domestic Retail Related Data (3)
Domestic Client Assets* Net Asset Inflow
*Domestic Client Assets excluding portion from regional financial institutions
Note: Net Asset Inflow = Asset Inflow
Asset Outflow
(billions of yen)
Domestic Client Assets Net Asset Inflow *
Full Year
Quarter

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29
Domestic Retail Related Data (4)
Number of Accounts*
*Total
of
Domestic
Retail
and
Financial
Management
Division
**IT
share

is
total
of
cash
stock
transaction
and
kabushiki-mini-toshi
(odd
lot
stock
investment)
(thousands of accounts)
Mar. 31, 2003
Mar. 31, 2004
Mar. 31, 2005
Mar. 31, 2006
Jun. 30, 2006
Sep. 30, 2006
Accounts with balance
3,418
3,460
3,678
3,780
3,815
3,859
Equity holding accounts
1,311
1,379
1,680
1,745
1,767
1,806
Nomura Home Trade (online trading accounts)
1,141
1,367
1,716
1,969
2,029
2,094
1Q
2Q
(thousands of accounts)
237
297
425
343
86
94
IT share**

No. of orders
41%
49%
52%
55%
54%
56%
Transaction value
14%
22%
24%
27%
28%
26%
New accounts (individual)
FY2006.3
FY2007.3
FY2003.3
FY2004.3
FY2005.3

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30
Global Merchant Banking Related Data
Business Exposure
Notes:
Amount
of
exposure
in
Japan

is
total
of
Nomura
Principal
Finance
(NPF),
Nomura
Financial
Partners
(NFP)
and
Nomura
Research
&
Advisory
(NR&A).
Amount
of
exposure
in
Europe
(excluding
Terra
Firma)
is
total
of
Private
Equity
Group
(PEG)
and
Nomura
Phase4
Ventures
(NPV).
(billions of yen)
Mar. 31, 2003
Mar. 31, 2004
Mar. 31, 2005
Mar. 31, 2006
Jun. 30, 2006
Sep. 30, 2006
Japan
20.1
68.9
108.4
59.9
62.7

174.7
Europe (excluding Terra Firma)
15.9
15.6
23.7
38.8
35.6
33.8
Sub Total
35.9
84.5
132.1
98.7
98.4
208.5
Terra Firma
265.7
291.2
325.5
340.4
271.4
294.9
Total
301.6
375.7
457.6
439.1
369.7
503.3
35.9
84.5
132.1
98.7
98.4
208.5
301.6
375.7
457.6
439.1
369.7
503.3
0
100
200
300
400
500
600
Terra Firma
Europe (excluding Terra Firma)

Japan

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31
Notes:
1.
Total
assets
under
management
of
Nomura
Asset
Management,

Nomura Corporate Research and Asset Management, Nomura Funds Research and Technologies, MAINTRUST (Germany), and Nomura Funds Research and Technologies America. Adjusted for asset overlap amongst group companies. Data till June 30, 2006, include Nomura BlackRock Asset Management.
2. Nomura Funds Research and Technologies America data as of end of August.

Asset Management Related Data (1)
Assets Under Management
(trillions of yen)
Mar. 31, 2003
Mar. 31, 2004
Mar. 31, 2005
Mar. 31, 2006
Jun. 30, 2006
Sep. 30, 2006
23.0
23.1
17.9
17.6
15.9
23.0
0
5
10
15
20
25
30
Total Assets Under Management

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32
Asset Management Related Data (2)
Assets Under Management
(trillions of yen)
Public stock investment trusts
Public bond investment trusts
Privately placed investment trusts
Domestic investment advisory
Overseas investment advisory
Mar. 31, 2003
Mar. 31, 2004
Mar. 31, 2005

Mar. 31, 2006
Jun. 30, 2006
Sep. 30, 2006
22.0
20.8
21.0
16.0
15.7
14.2
0
5
10
15
20
25
(trillions of yen)
Mar. 31, 2003
Mar. 31, 2004
Mar. 31, 2005
Mar. 31, 2006
Jun. 30, 2006
Sep. 30, 2006
10.7
11.3
10.8
14.0
14.1
14.9
Public stock investment trusts
3.2
4.5
4.4
6.9
7.3
7.7
Public bond investment trusts
7.3
6.3
5.6
5.6
5.3
5.3
Privately placed investment trusts
0.2
0.4
0.8
1.5
1.5
1.9
3.6

4.4
5.1
7.0
6.7
7.1
Domestic investment advisory
2.9
3.0
3.2
4.0
3.8
3.9
Overseas investment advisory
0.7
1.4
2.0
3.0
3.0
3.2
14.2
15.7
16.0
21.0
20.8
22.0
1Q
2Q
0.8
0.1
-0.1
1.0
0.9
0.2
Exclude ETF
0.2
-0.1
0.2
1.4
0.4
0.7
-3.1
-1.0
-0.7
-0.0
-0.3
0.0
0.1
0.1
0.3
0.5

0.1
0.3
-2.2
-0.7
-0.5
1.5
0.7
0.5
FY2007.3
Privately placed investment trusts
Net Asset Inflows
Public bond investment trusts
FY2006.3
FY2005.3
FY2003.3
<Assets Under Management>
<Investment trust Net Asset Inflows>
Public stock investment trusts
Investment advisory
Total
FY2004.3
Investment trusts
Nomura Asset Management Assets Under Management

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33
Asset Management Related Data (3)
Investment Trusts

(trillions of yen)	Mar. 31, 2003	Mar. 31, 2004	Mar. 31, 2005	Mar. 31, 2006	Jun. 30, 2006	Sep. 30, 2006
Stock investment trusts	3.2	4.5	4.4	6.9	7.3	7.7
Bond investment trusts	7.3	6.3	5.6	5.6	5.3	5.3
Public stock investment trusts, Nomura's share (%)	19%	19%	15%	15%	16%	16%
Public bond investment trusts, Nomura's share (%)	40%	40%	42%	42%	42%	42%
Stock investment trusts	16.3	23.3	28.9	45.0	46.1	49.8
Bond investment trusts	18.1	15.8	13.5	13.5	12.7	12.5

Source: Investment Trusts Association, Japan

Market Total
Nomura Asset
Management
(billions of yen)
Mar. 31, 2005
Mar. 31, 2006
Jun. 30, 2006
Sep. 30, 2006
Banks
339
801
891
1,317
Japan Post
0
90
167
247
My Story Profit Distribution-type Fund (6 Times/Year) B
0
454
651
922
Nomura Multi-currency Japan Stock Fund
0
384
417
464
Global REIT Open
18
307
377
450
Nomura Japan Stock Strategic Fund (Big Project - N)
353
441
392
383
Nomura Global REIT Fund
0
225
241
293
Nomura Fund Masters Global Bond B
165
317
294
281
Nomura US High Yield Bond Income
345

319
272
258
Nomura Japan Open
110
224
234
232
Nomura All-In-One Fund
0
0
0
213
Japan Attractive Dividend Stock Fund
0
296
217
207
Domestic Public
Investment Trust
Market and
Nomura Asset
Management
Market Share
AUM of Products
Supplied to Banks
and Japan Post
AUM in Key
Funds

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34
Second Quarter Achievements
Large International Bond Underwritings
Cassa Depositi e Prestiti:
2.0 billion euros (joint lead manager)
Loan-related
Business:

130
billion
yen
Equity
Derivatives:
Completed
20
fund
derivative
contracts
(total
amount:
175
million
euros)
Nomura Capital Investment: Loan commitment to tender offer by Oji Paper for Hokuetsu Paper Mills
Arranged finance for Yagi
Corporation MBO
Major Deals
IPO
Nomura
Real
Estate
Holdings:
164.5
billion
yen;
MID
REIT:
91.8
billion
yen;
Nippon
Accommodations
Fund:
43.7
billion
yen
PO
Elpida
Memory:
139.9
billion
yen;
Matsushita
Electric
Industrial:
96.9
billion
yen;

Sanei-International:
10.3
billion
yen
CB
CSK Holdings: 35 billion yen
MPO/HPO
Bank of the Ryukyus: 17 billion yen; total of 7 deals for 36 billion yen (based on date of resolution)
M&A
Marubeni purchase of Daiei shares from the Industrial Revitalization Corporation of Japan: 69.8 billion yen
Sale of Mitsuboshi
Belting Kaseihin
to International Automotive Components Group by Mitsuboshi
Belting: Undisclosed amount
Sale
of
Sankyo
Agro
to
Mitsui
Chemicals
and
Sankyo
Lifetech s
FDI
business
to
Mitsubishi-Kagaku
Foods:
Undisclosed
amount
Sales of New Investment Trusts
Nomura All-In-One Fund (launched
July 27, 2006)
213.1 billion yen (as of September 30, 2006)
Nomura Pictet Premium Brand Fund (launched Aug. 28,2006)
77.9 billion yen (as of September 30, 2006)
Kanto-Koshin
Index Fund (launched Sep. 22, 2006)
38.0 billion yen (as of September 30, 2006)
Nomura Mid-Small Cap Discover Fund (launched Sep. 25, 2006)
52.4 billion yen (closed-end)
May
June
July
August
September
Number of Accounts
21,400

40,156
47,408
54,927
61,554
Number of Margin Trading Account
0
1,224
1,718
2,240
3,182
Monthly Transaction Value (millions of yen)
1,377
54,919
109,415
176,027
177,096
Monthly Margin Transaction Value
0
19,472
59,308
93,176
100,698
2006
Domestic
Retail
Global
Markets
Global
Investment
Banking
Joinvest
Securities

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35
League Tables
Source: Thomson Financial
Proceeds
(USD m)
Mkt. Share
No. of
Issues
Rank Value

(USD m)
Mkt. Share
No. of
Deals
1
Nomura
13,153.0
28.0%
80
1
Nikko
Citigroup
25,538.6
26.0%
22
2
Daiwa Securities SMBC
8,409.9
17.9%
72
2
UBS
24,241.9
24.7%
24
3
Nikko
Citigroup
7,596.3
16.2%
42
3
Goldman Sachs
24,078.9
24.5%
14
4
Goldman Sachs
6,071.5
12.9%
10
4
Mizuho Financial Group
22,881.7
23.3%
93
5
Mizuho Financial Group
3,783.6
8.0%

36
5
Deutsche Bank
19,099.0
19.4%
7
6
Merrill Lynch
2,212.0
4.7%
10
6
Daiwa Securities SMBC
18,487.3
18.8%
95
7
UBS
2,043.8
4.3%
8
7
Nomura
17,780.6
18.1%
104
8
Morgan Stanley
1,275.0
2.7%
5
8
KPMG Corporate Finance
8,120.1
8.3%
23
9
Shinko Securities
649.3
1.4%
30
9
Mitsubishi UFJ Financial Group
7,020.6
7.1%
83
10
Mitsubishi UFJ Financial Group
636.8
1.4%

25
10
Morgan Stanley
5,945.9
6.0%
18
Proceeds
(JPY m)
Mkt. Share
No. of
Issues
Proceeds
(JPY m)
Mkt. Share
No. of
Issues
1
Nikko
Citigroup
430,616.5
20.5%
36
1
Mizuho Securities
896,415.5
28.1%
45
2
Daiwa Securities SMBC
253,109.3
12.1%
13
2
Daiwa Securities SMBC
675,386.5
21.2%
38
3
Nomura
246,072.2
11.7%
15
3
Mitsubishi UFJ Securities
594,763.7
18.7%
35
4
Merrill Lynch
223,935.2

10.7%
6
4
Nomura
433,279.0
13.6%
28
5
Mizuho Financial Group
220,613.5
10.5%
10
5
Nikko
Citigroup
307,457.0
9.7%
19
6
Mitsubishi UFJ Financial Group
174,861.0
8.3%
7
6
Goldman Sachs
149,957.5
4.7%
3
7
UBS
135,281.6
6.4%
11
7
Morgan Stanley
23,331.0
0.7%
1
8
Morgan Stanley
112,130.3
5.3%
7
8
Shinko Securities
22,000.0
0.7%
2
9
Barclays Capital

64,000.0
3.1%
11
9
Lehman Brothers
20,000.0
0.6%
1
10
Deutsche Bank
52,068.5
2.5%
4
9
BNP Paribas
20,000.0
0.6%
1
Global & Euro Yen Bonds
Domestic Straight Bonds (excluding self-funding)
R
a
n
k
Bookrunner
Jan. 1, 2006 -
Sep. 30, 2006
R
a
n
k
Bookrunner
Apr. 1, 2006 -
Sep. 30, 2006
Global Equity & Equity-related (Japan)
Any Japanese Involvement Financial Advisors
Announced deals, value base
R
a
n
k
Bookrunner
Jan. 1, 2006 -
Sep. 30, 2006
R
a
n
k
Advisor
Jan. 1, 2006 -

Sep. 30, 2006

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Market Share Data
Notes: 2Q Individual Equity Agency Transactions Share is
preliminary figure as of Oct. 25.
(Trillions of yen)
1Q
2Q
3Q
4Q
1Q
2Q

Individual Equity Agency Transactions Share
Market
52.0
105.9
144.7
308.3
38.8
64.3
104.3
100.9
74.2
58.7
Nomura's share
16%
10%
8%
7%
7%
7%
7%
6%
5%
4%
Off-floor/Off-exchange Equity Trading Share
Off-floor market
33.2
31.9
33.2
48.6
8.8
11.4
14.5
14.0
13.9
9.5
Off-exchange
14.1
19.3
21.1
30.5
4.9
6.6
9.3
9.7
9.6
9.8
Nomura's share
20%
16%
17%

21%
18%
19%
23%
22%
22%
18%
JGB Auction Share
Market
68.1
74.4
80.1
80.7
19.8
22.2
20.2
18.6
21.1
21.2
Nomura's share
15%
16%
18%
11%
11%
10%
9%
15%
12%
9%
Bond Secondary Trading Share
Market
1,129
1,235
1,361
1,296
365
326
292
312
355
329
Nomura's share
14%
16%
15%
13%
13%
13%
11%

13%
12%
10%
FY2007.3
1Q - 2Q
(accumulated
Global Equity and Equity-related Japan
Nomura's share
30%
30%
25%
26%
28%
Japanese IPO
Nomura's share
11%
27%
32%
20%
33%
Japanese PO
Nomura's share
50%
33%
25%
27%
33%
Convertible Bonds
Nomura's share
13%
28%
19%
34%
9%
Global and Euro Yen Bonds
Nomura's share
21%
31%
23%
23%
10%
Straight Bonds, Lead Manager (excl. self-funding)
Nomura's share
26%
19%
17%
18%
10%
Source: Thomson Financial (Value base)
FY2006.3

FY2003.3
FY2004.3
FY2005.3
FY2007.3
FY2003.3
FY2004.3
FY2006.3
FY2006.3
FY2005.3
Secondary Market
Share Data
Primary Market
Share Data
Full Year
Quarter

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37
Value at Risk (Consolidated)
Definition
99% confidence level
1-day time horizon for outstanding portfolio
Inter-product price fluctuations considered
From April 3, 2006 to September 29, 2006 (billions of yen)
Maximum:
9.4
Minimum:
5.8
Average:

7.3
(billions of yen)
Equity
1.5
3.3
3.0
3.9
6.0
5.4
6.0
Interest Rate
2.3
2.0
2.8
3.1
3.3
4.1
3.5
Foreign Exchange
0.2
0.5
0.7
1.0
1.4
1.5
1.3
Sub-total
4.0
5.8
6.5
8.0
10.7
11.0
10.9
Diversification Benefit
-0.9
-1.9
-2.4
-2.7
-3.7
-3.8
-3.5
VaR
3.1
3.9
4.1
5.3
7.0
7.1
7.3

End of quarter
Sep. 2005
Mar. 2003
Mar. 2004
Mar. 2005
Sep. 2006
Jun. 2006
Mar. 2006

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38
Number of Employees
*Excludes employees of private equity investee companies
Mar. 2003
Mar. 2004
Mar. 2005
Mar. 2006
Sep. 2006
+/- From
Mar. 2006
Japan (excluding FA, SA)*
9,258
9,148
9,190
9,354
9,927
+573
Japan (FA, SA)
1,986
1,915

1,875
1,948
2,132
+184
Europe
1,389
1,403
1,535
1,515
1,592
+77
Americas
797
866
1,026
1,073
1,021
-52
Asia/Oceania
616
655
718
778
796
+18
Total
14,046
13,987
14,344
14,668
15,468
+800

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Nomura Holdings, Inc.
www.nomura.com